

Calculating Your Startup Costs in the First Year

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When you're starting your business, passion and emotions run high, as well as optimism for how much money your venture will make, so you need to be sure you're not overestimating how much you will make or underestimating how much it will cost you to make it. Overestimate your costs wherever possible to give yourself enough margin for wiggle room. After you've settled on a given cost, round up and then increase it by at least 10 percent to leave room for unplanned expenses.

As far as what items are included in your costs, there is an available roadmap to follow for your costs called a profit and loss statement. These fairly standard documents are one of the best ways to make sure nothing gets missed as you assemble your first-year startup costs. **Following these steps should make your calculations work to support your success:**

1. After looking at a profit and loss statement template, decide which costs you will have, and add any costs you're aware of that aren't listed. Below you'll find a number of possible costs you might have, and short descriptions.
2. Decide on the total amount for each cost. Don't forget that you're working on a one-year calculation, and accommodate for the ongoing periodical costs like utilities.
3. While you won't have sales until you're up and running, you should be able to estimate how much you'll bring in throughout your first year by researching similar businesses in your area or in other locations.



Profit and Loss Statement: A Roadmap for Ongoing Expense Considerations

Cost of Goods Sold

"Cost of Goods Sold," accounts for everything directly related to creating your product or service. Some common examples include:

- Material costs
- Direct labor costs
- Packaging and shipping costs

For instance, if you are a manufacturer creating gizmos, the amount of money it costs to create those gizmos comes under "Cost of Goods Sold." To figure your startup cost of goods sold, you will need to include the cost to produce your gizmo, manufacture it and distribute it to get it in the customers' hands. This will be multiplied times the expected number of your gizmos you expect to sell.

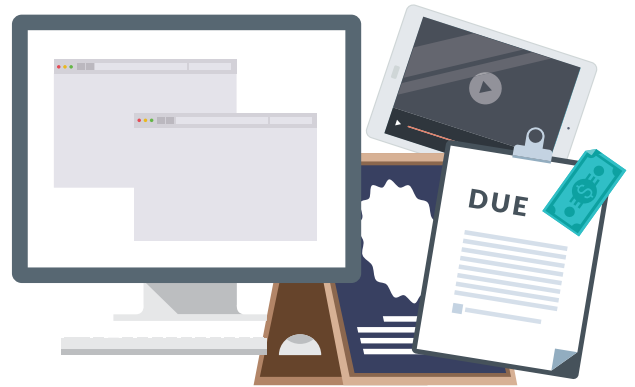
If you are a service company, such as a plumbing repair company with five technicians, labor will be your highest item under cost of goods sold. You might also see these same items in some profit and loss statements referred to as "cost of sales."

Expenses – Essential vs. Optional and One-Time vs. Ongoing

Creating your product or supplying a service is obviously not an optional cost, since without one or both, you don't have a business. But as you go through your expenses, you will want to decide for each one whether each is necessary in the first year or not, and these questions will help you estimate your costs for your first year of business.

One-Time Expenses

- **Fees and Licenses:** Do you need to pay city, county, state or federal fees to get your business going? These may be one-time fees, or may need to be renewed on a regular basis. Many governmental fees regard annual renewals.
- **Inventory:** If you are starting an inventory-based business, this will likely be your most substantial cost. The initial stock you need before your business is launched will require cash before you are even collecting any money.
- **Office Furniture:** Do you need desks, chairs, tables, etc.?
- **Leasehold Improvements:** If you rented space, does it need improvements, such as a built-in counter or other items? Are they vital to your success, or are they optional for the first year or two?
- **Technology:** What technology do you and/or your employees need? Include laptops as well as any specialized software, such as QuickBooks, and don't forget the cost for mobile phones.
- **Office Equipment:** What copiers, printers, scanners or other equipment is needed? These are separate from technology.
- **Other Materials and Equipment by Industry:** This would include anything from warehouse forklifts to meters for measurement. Which specialized equipment and materials (if any) does your business need to be successful?
- **Labor and/or Salaries/Wages:** Will you have employees, or will you be managing the day-to-day operations yourself? Which hires are essential during your first year of operations? What if any work could be subcontracted out the first year?



Ongoing – Monthly/Quarterly

Your Own Living Expenses: While you may not plan to draw a salary, that doesn't mean that you don't still have a mortgage to pay, and living expenses that are vital, including utilities, household supplies, health insurance, and food. This should be a draw on your part and should be a regular, expected part of your expenses, whether it's once a week, bi-weekly or monthly.

After you've sorted your own expense needs, it's time to see what else you need to pay out regularly in the upcoming year:

- **Rent/Utilities:** Do you need a storefront, office or storage space to house your new business? Remember to add in utility costs for offices, including electricity, water, etc.
- **Office Supplies:** Pens, printer paper, cartridges, copy toner, etc.
- **Web Design, Hosting and Maintenance:** What are your costs going to be for you to get your web domain and keep your web hosting up and running? Websites and other types of advertising are vital elements to getting your business in front of your customer base.

Search engine optimization, or SEO, has been around for a while, and an experienced SEO writer can help create a website that draws search engines. Having a website is no longer optional, it can be life or death for a small business. Hundreds of millions of U.S. citizens use the web to perform searches every month, and if they can't find you on Google, then they don't know you exist.

- **Advertising/Promotion/Marketing:** What type of marketing over and above the website will you need? Many small businesses see these as optional at the beginning, but they're key to a successful startup. Facebook and Google advertising can be pointed to the exact people who are most likely to use your product or services.

- **Insurance:** What insurances do you and your business need?

These can include, but aren't limited to:

- **Liability Insurance for You and/or Your Employees:**

Sometimes called E&O (errors and omissions) insurance or professional liability insurance, these kinds of policies vary widely from one type of business to another.

- **Liability Insurance for Your Products or Services:** If you create a product, it may be necessary to ensure you have financial recourse should someone file a lawsuit. Most people are also familiar with medical malpractice insurance, which is a type of liability insurance for medical professionals.

- **Vehicle Insurance:** If company vehicles are supplied to employees or you.

- **Property/Renter's Insurance**

- **Worker's Compensation Insurance:** If you have employees.

- **Catastrophe Insurance:** It's called by different names in different parts of the U.S., but catastrophe insurance will insulate your business from losses due to disasters.

- **Taxes:** Most businesses need to pay estimated tax on a quarterly basis.



What Else?

Once you've compiled the list of costs associated with the above questions about your business, go through a profit and loss statement under expenses to see if there are any other possible expenses:

- **Travel Expense:** Will you or any of your employees need to travel for your work? Will this include airfare or mileage?

- **Maintenance Expenses:** If you have heavy equipment or vehicles, will you need maintenance costs?

- **Professional Fees:** Do you need the services of a lawyer, an accountant, or a consultant to have a successful first year?

- **Training/Seminars:** Do you and/or your staff need training during your first year?

Every business is unique, and yours will have very specific requirements. The numbers you generate from the answers to these questions will help you decide where your break-even points are, what it's going to take to get you to profit. If you are requesting financial assistance, this due diligence will assure any lender that you know what it's going to take to get you to a successful operation. Make sure to leave yourself room for unexpected costs.

Editable Template on Page Four

Calculate Your Pre-Launch and First Year Expenses

Every new business needs to determine startup costs as part of its launch. Use the Budget column in the template to estimate one-time, pre-launch expenses as well as your first-year operating expenses. Categories may be edited to better fit your business needs. Consider adding 10% of the total projected expenses as a buffer to leave room for unplanned expenses.

As you incur expenses, enter the totals in the Actual column.

ONE-TIME EXPENSES

RENT & UTILITIES	Budget	Actual
Building Down Payment & Closing Costs		
Building & Leasehold Improvement		
Rent Deposits		
Utility Deposits		
Other		
SALARIES & WAGES		
Recruitment & Training		
Pre-Launch Salaries & Wages		
Other		
PROFESSIONAL SERVICES		
Legal		
Accounting		
Other		
SUPPLIES & EQUIPMENT		
Furniture & Fixtures		
Computers & Other Tech Devices		
Software (Including Accounting)		
Point of Sale & Credit Card Processing Setup		
Vehicle		
Other		
INVENTORY		
Starting Inventory		
MARKETING		
Pre-Launch Advertising & Promotions		
Website Development		
Signage		
Other		
MISCELLANEOUS		
Permits & Licenses		
Working Capital & Cash Reserve		
Other		
TOTAL ONE-TIME EXPENSES		

MONTHLY EXPENSES

RENT & UTILITIES	Budget	Actual
Rent		
Utilities		
Other		
SALARIES & WAGES		
Payroll		
Payroll Taxes		
PROFESSIONAL SERVICES		
Accounting		
Legal		
Consultants & Other		
SUPPLIES		
Office Supplies		
Operating Supplies		
Other		
MARKETING		
Advertising		
Promotional Materials		
Other		
MISCELLANEOUS		
Insurance		
Internet & Phone		
Maintenance		
Meeting Expense		
Travel		
Merchant Fees		
Packing & Shipping		
Taxes		
Technology Devices		
Software		
Training & Development		
Travel		
Web Maintenance & Hosting		
Other		
TOTAL MONTHLY EXPENSES		

STARTUP COST FOR THE FIRST YEAR OF BUSINESS

Total One-Time Costs + (Total Monthly Expenses X 12)

Total Plus 10% Contingency

Detailing your one-time expenses and multiplying your ongoing monthly expenses by 12 will give you a grand total of your pre-launch and first year expenses. Use this figure to help determine your financing needs.

Remember that you may be able to take IRS deductions for some of your startup costs from your first-year business taxes, so save all of your receipts.

Finally, please note business loan payments and any money drawn from your business to cover personal expenses are not included in this calculation.