Title:
5 Tips for Estimating Your Start-up Costs

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Summary:
Most business start-up stories say that you have to have a business plan. And you do. But that's not the beginning and end of figuring out your start-up costs.

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Article Body:
<h3>Before you take out a second mortgage, use these rules to figure out the realistic costs of setting up a business. </h3>

<B>Have a Solid Plan — Then Change It </B>
<p>Most business start-up stories say that you have to have a business plan. And you do. But that's not the beginning and end of figuring out your start-up costs. </p>
<p>Jeff Shuman, who directs entrepreneurial studies at Bentley College, says, "The conventional wisdom is that an entrepreneur sees an opportunity, comes up with a business plan to capitalise on it, determines the capital that needs to be raised, raises the capital and then applies it to building the business described in the business plan." </p>
<p>There's one major problem with that model, says Shuman. It all hinges on getting the business right the first time, and that doesn't often happen. "In reality, it's likely that some of your initial assumptions are pretty good and others aren't going to be worth the paper they're written on," he says. </p>
<p>Shuman and others say that figuring out your start-up costs means regularly reviewing your assumptions and changing your initial model. Writing a plan is good because it forces you to write down everything you are going to need to start your business. </p>
<p>But that initial plan is likely to change repeatedly as you learn new things and incorporate them into the plan. </p>
<B>Be Willing to Pull Back </B>
<p>It's tempting to add up everything you need for the full-fledged business you imagine, and decide it's what you need to start out. </p>
<p>But pulling back and looking for a smaller model can give you a way to get

started while also saving money. Shuman uses the example of someone who calculates the total cost of starting a retail business in a local shopping centre. </p>
<p>"You could start that way and write a business plan based on that amount," he says. "But maybe you'd be better off renting a stand and testing what the demand is for your products at that location." </p>
<p>This consumer testing reduces your initial start-up costs. The result is that the initial cycle of your business is dedicated not so much to generating profits as to generating information. "With this, you can fund your business on a cycle-by-cycle basis," Shuman says. "When you go for the second cycle and for expanding your business, the numbers are now based not on focus groups or surveys but on real-world experience." </p>
<B>Calculate Prices and Time Correctly </B>
<p>Calculating your initial cash flow is part of figuring out your start-up costs. It's an area where businesses are sometimes less optimistic than they should be. "Small business owners may under-price their product or service, thinking they have to come in at the lowest price point to compete," says Barbara Bird, who chairs the business management program at an American university. "They don't necessarily need to do that." </p>
<B>Correctly Estimate Your Start-up Time </B>
<p>Yes, when beginning a business, time can be money. Let's say you're going to have fixed costs such as a monthly lease. If you have to make improvements to a space before you can actually open for business, those fixed costs are going to be additional start-up costs until you can actually open for business. I've watched many entrepreneurs draw up a timeline for their ventures and get tripped up on the safety and inspection requirements imposed by local agencies. </p>
<p>For that reason, I think one of the first places a prospective new business owner should go is to the local government planning or license department. Construction permits and inspections can push a prospective opening date back by months. If you fail to take into account the cost of this time, you could be short of working capital right at the start. </p>
<B>Be Realistic About the Cost of Money </B>
<p>Many small business owners finance their ventures by running up big balances on their personal credit cards. Others tap the equity in their homes. </p>
<p>But self-financing isn't a practical option for larger ventures. Tom Emerson, who directs the entrepreneurship centre at Carnegie Mellon University in Pittsburgh, says start-ups should figure in the cost of capital when determining initial expenses and cash flow. "The cost is usually based on what the interest would be, were that cash invested in something with similar risk on the market" Emerson says. "It's usually a figure that is a few percentage points or more above the prime rate." </p>