

Initial costs of starting in business

No business is the same as another even if the product or service is similar.

If you are starting in business it is important to avoid the pitfall of underestimating your start up costs.

Startup costs are limited to expenditure incurred before you are ready for business on the first day. They don't include the running costs, the cost of owners' remuneration or any initial costs not incurred before trading commences. For this the business will need to calculate the 'working capital requirement.

The business should have a cashflow plan (a money map) prepared in order to identify how much working capital funding the business requires. It is a fact that customers don't always pay when they should and suppliers to new businesses press hard for prompt payment.

Did you know? It is possible to make a profit and still go out of business because of lack of cash. The initial costs will be factored into your cashflow plan as will the repayment of the funding incurred in starting the business.

Typical costs for a new business:

- Business constitution costs, such as company formation costs or partnership agreement
- A shareholder agreement (if necessary)
- Advertising, marketing and promotion
- Online product or service launch costs
- Business plan
- Communications infrastructure
- Cost of raising finance and financing
- Fixtures and equipment
- Insurance
- Office supplies
- Premises redecoration and remodelling
- Professional fees and costs associated with the business structure formation
- Product development and initial stock
- Research and development
- Transport
- Website and technology platform. Online shop?
- Unexpected costs (always include a margin; the unexpected should be expected).

Advertising, marketing and promotion. Online product/service launch costs?

What needs to be done to promote the business even before it has started? Will you run a pre-launch campaign? Will you have a launch event? What marketing materials will you require? Where will you advertise? What will this cost? Do you have a product or service that you wish to launch and market online?

Business plan

If you are preparing this yourself then maybe it is only your time that will be involved. Preparing a business plan is an investment that will describe how the business is to get going and develop. However, many entrepreneurs need assistance in the writing of their plan as the plan is often used to secure finance. If that is you, then you will need to estimate the cost. Please contact us as we will be pleased to provide an estimate.

Communications infrastructure

What are the costs for your I.T. and communication system requirements? In addition to hardware what software programs do you require? Should you use a cloud-based application? If you will hold personal data, how much will data protection cost to ensure that data is secure?

Cost of financing

Dependent on your startup funding requirement, you will need to factor in the initial cost of securing finance.

It is often possible to roll initial costs into the repayment plan, but that might not be advisable as you are then likely to pay interest on these initial costs.

Beware the trap of using credit cards as 'easy finance', as interest rates are usually very much higher than other forms of business funding.

Fixtures and equipment

A broad heading that covers all those items of one-off capital expenditure, such as plant and equipment, fixtures, fittings and office equipment. Specific items will vary dependent on the type of business.

It may be appropriate to look at the options as to how best to finance these assets. Leasing may be an option that is offered, but again, there are different types of leases available, at varying rates and over different time periods.

What costs will be incurred on installation? A minefield awaits, so please be sure to seek our advice.

Insurance

You will need to seek advice on the insurance cover you and the business require. Examples of insurance available include employers' liability (if you are an employer), business interruption insurance, trade credit insurance, professional indemnity cover, public liability as well as vehicle insurance and possibly 'key people' insurance.

How will this be paid? What will be required 'upfront'?

Office supplies

Setting up with minor items can be expensive by the time you have added up the cost of stationery set up and printing and the initial stock of office supplies.

Premises redecoration and remodelling

If you are trading from business premises, do you need to redecorate? What changes do you need to make to the premises? Cost of a shop or office refit? Cost of changes to offices, factory, storage, security systems? Cost of signage? The changes you plan may combine cosmetic or physical improvements. Make sure you obtain more than quote for this work, even if you decide to do some of the work after the business has started.

Professional fees and costs associated with the business structure formation

An area where business owners like to minimise the cost. This however, can be a false economy. As accountants we have a wealth of experience in advising new business owners and have found that clients regard fees as an investment from which they are able to identify a tangible return, peace of mind and reassurance regarding decisions to be taken.

You may need the services of a legal advisor to draw up an agreement, including such important documents as partnership agreements, shareholders' agreements and lease agreements.

Product development and initial stock

This could be a significant cost. If you are developing product, what costs will you incur? Will you have to launch a prototype? How long will it take you to develop your first products?

Your investment in initial stock - how much will you require? What is your 'stock turnover'? How much will you need net of trade credit and how long will your customers take to pay?

We recommend that you discuss this with us as these are questions that relate to your working capital requirement, not your start up capital.

Research and development

Often this type of expenditure is incurred in the lead up to the launch. Should you hire a market research company? How much more do you need to know about your market? What will that cost? Will you be able to claim research and development tax reliefs?

Transport

This includes cars, vans, lorries. What do you need to invest in meeting the transport needs for you and your business?

Website development and technology platform

Would your business benefit from an online shop? If so, make sure you secure a secure socket layer (SSL) certificate so that your site is seen to be secure for your customers.

Dependent on the type of business, its geographic reach and its aspirations, consider the initial design and functional requirements for your website.

You will see that our site has many different features, areas and functionalities designed to assist our clients. What do you and your business require? Online ordering and payment? How interactive a site do you require? Again, seek advice and obtain alternative quotes.

Unexpected costs

What haven't you considered? It is tempting to think you can budget for everything up front and include every cost you can conceive you will incur. However, experience shows that you should expect the unexpected, so you may choose to add in a percentage or a fixed sum. The advantage of including a provision is that you will have the funds available if something unexpected arises while if all goes according to plan, you will have surplus funds which is always an advantage in the early days of the development of the business.

Calculator

What will it cost to start your business? How much funding will you require? You should not include your ongoing running costs as these will feature in your business plan and cash flow forecast. Please contact us to discuss how we can help you identify the most appropriate source of funding for your business.

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