WP SMITH & ASSOCIATES
Solutions For Your Business

How much money do you need when starting a business?

Many people underestimate start-up costs and start their business on the back foot financially. This can mean a long crawl up to your breakeven point and into profitability. Quite often it results in the business never making a profit at all.

What you need to do is prepare an estimate of capital costs you will incur on start up. These may include land, buildings, plant, machinery, general equipment, office equipment, furniture and signage. Do this conservatively (i.e., overstate rather than understate). At the end of the estimates, add 20% for costs you haven't thought of plus cost overruns. You will be surprised (and perhaps horrified) by how quickly unforeseen costs can add up.

You or your accountant should then prepare a cash flow projection for the first twelve months of trading. You will have to estimate sales based on the estimated demand for your product, and you will put in costs according to quotes you have received from your potential suppliers.

This cash flow projection will tell you how much working capital you will need in addition to the start-up capital required to purchase the assets of the business.

Working capital is used to cover early expenses such as rent and insurance premiums paid in advance, electricity and telephone bonds, stationery, advertising and promotion, wages for staff helping you set up, legal, accountancy and consultants' fees, etc. Many of these expenses will be incurred before you open your doors for trading. There has to be enough money in the kitty to cover them before you start producing an income.

Your cash flow projection will tell you how much money will be in the bank at the end of each month. You use it to determine how much working capital you will need at the outset so that you don't go into a negative balance at the end of any month. If you find you are going to need more money, don't just continue regardless and hope it works out. Investigate how you can access more funds, or restructure your business so that it can operate with less funds.

Lack of sufficient capital is one of the main reasons many small businesses fail. Preparing capital budgets and cash flow projections are established methods of making sure this doesn't happen to you.