

## How much money do you need when starting a business?

The costs involved in starting a business add up very quickly and most small business owners make the mistake of underestimating the amount of money they will need to get their business up and running. You will need enough money to set up your business, and to be able to cover a portion (possibly even 100%) of the business's operational expenses until your business breaks even and starts to generate a profit.

This article outlines the different costs you're likely to incur and guides you through the process to work out how much capital you'll need to start your business.

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### Identify your set-up costs

Prepare an estimate of all the costs you're likely to incur in setting up your business. This will include capital expenses, such as land, buildings, machinery, IT equipment, and office furniture and fittings. You should also include other start-up expenses such as logo design, company business cards, stationery and signage. If you're renting, don't forget you'll need additional money to cover a bond, and you'll need to cover the costs of arranging new power and telephone services, and any professional fees you might need to set up and structure your business.

It's easy to overlook some expense items or underestimate the costs involved, so draw up a check-list of all the things you'll need in place and find out the current costs. It's also a good idea to mark which items on your list are essential and which fall into the "nice to have" category. This identifies which items you really need and ensures you don't waste limited start-up capital buying the spoiler and fancy hubcaps without leaving enough money to pay for the engine under the bonnet.

[Download this template for calculating your start-up costs to make this process even easier.](#)

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### List your fixed costs

The next step is to list all the costs you'll need to pay regardless of how productive your business is. These are known as your overheads or fixed costs – because the amount you need to pay is fixed regardless of whether you scale your business up or down. Your fixed costs are likely to include wages for full-time staff, rent or rates, telephone line costs, a minimum level of power or energy costs, annual subscriptions and membership fees, Internet-related costs, website hosting, interest and other finance charges, insurance costs, car repayments, other hire purchase payments or repayments and accounting fees.

[Download this template for calculating your fixed costs to make this process even easier.](#)

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### Detail your variable or operating costs

Next draw up a list of the costs you need to pay that vary depending on how busy your business is. These are known as your operating or variable costs, because they vary depending on your level of production or sales. This will include wages for temporary or additional workers, a

portion of electricity and telephone charges, input costs for producing goods or cost of sales for retailers. You should also include petrol and vehicle maintenance, packaging, postage and freight costs, sales commissions, production bonuses and any cost item that you can control by scaling your business up or down.

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## Work out your break-even point

Work out the number of items your business needs to sell, or the dollar-value of sales that your business needs to generate, in order to break even. You can work this out on an annual basis to find out how much revenue you need to generate to break even, or break it down into monthly targets to assess how well your business is performing (or not).

Bear in mind that you'll want to make a reasonable profit on the time and effort you invest in the business, so your overall aim is to do better than break even. However, in terms of calculating how much money you'll need to start up, you'll need to source enough money to fund your business until it reaches that critical break-even point, which takes the average business about two years to achieve.

Find out [how to calculate your break-even point](#) or download this [break-even calculator for products](#) to make it even simpler.

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## Work out your future sales projections

Based on your [market research](#), you'll know who your potential customers are and will have worked out a sales and marketing strategy to make the most of [your competitive advantage](#). Work out the volume or value of sales (in units or dollar-value) that you expect to make each month. This is likely to start off modestly low and increase each month as word gets out about your business and you establish a reputation and level of credibility with your customer base.

This will help you forecast the revenue your business is likely to earn each month. If you take the sum of your monthly fixed and variable costs and subtract the amount of revenue you expect to earn in a month, you'll arrive at the amount of cash you'll need to inject into the business each month to be able to continue operating (until you reach your break-even point).

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## Draw up cash flow forecasts

Use your lists of set-up, fixed and variable costs as well as your sales forecasts to generate a [cash flow forecast](#). Simply pop these figures into this cash flow template to work out how much money you'll need to take your business from concept to break-even. Alternatively, if you're using a computerized accounting package, you can use this package to crunch the numbers for you.

It's a good idea to work out a range of forecasts – using best-case and worst-case cost and revenue projections so you know how much you'll need if things don't go as well as you'd initially expected.

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## Be conservative in your projections

It is better to err on the side of caution. Overestimate your costs and underestimate your sales, rather than the other way around. You'd far rather have the pleasant surprise of breaking even earlier than you expected than struggling to find money to make ends meet because inflation or fluctuating exchange rates pushed costs up a significant percentage between the time you did your research and placed your orders.

It's also a good idea to add on a percentage for contingencies to cover the inevitable items you overlooked or other unexpected costs. The recommended rule of thumb is to add 20% to your start-up costs to cover contingencies.

You will also need enough money to support yourself and your family until your business is earning a profit and you can draw a salary or take money back out of the business. Don't forget to factor in that you will need money to live on into your planning.