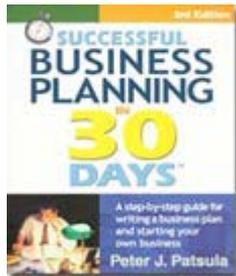


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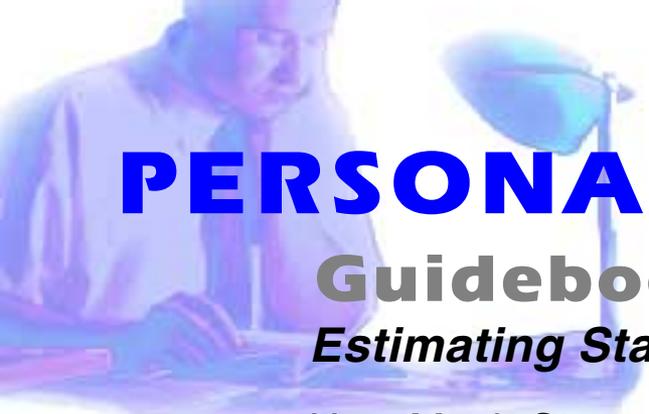
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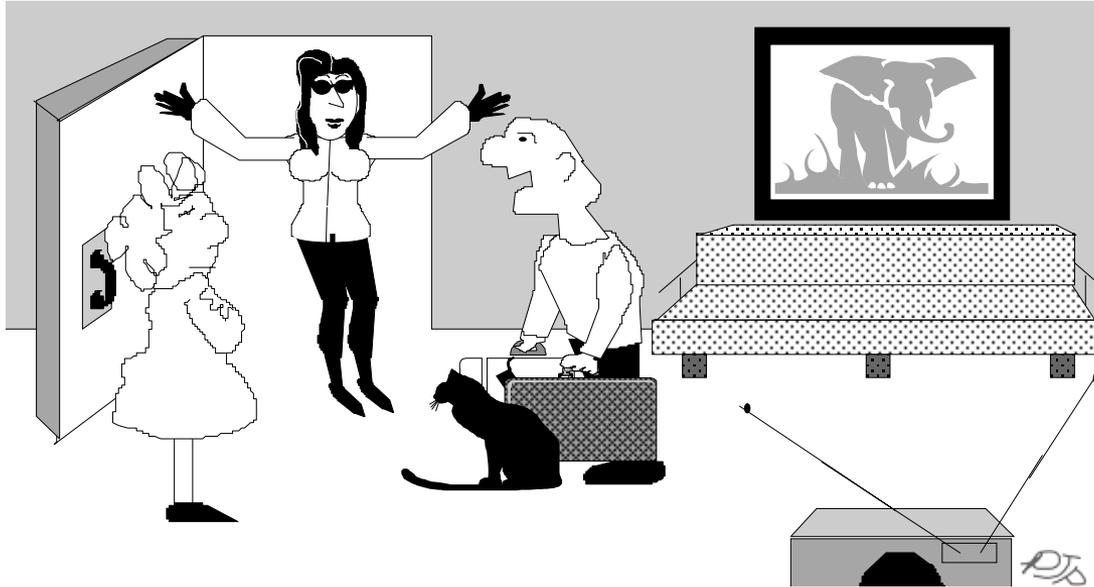
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PERSONAL PLANNING

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“Hi Mom! Sally and I, after doing a cost analysis and a three-year start-up projection, have decided to move in with you and Pop for a couple of years.”

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ESTIMATING START-UP COSTS

START-UP capital is the total of accumulated assets you have on hand or have access to, for the initial production of goods or acquisition of business related property. It also includes the amount of capital you need to operate your business for whatever length of time it takes to generate a positive cash flow from the sale of your goods and/or services (usually a minimum of three months).

Or more simply put, start-up capital is the amount of money you need to pay off all initial expenses until your business breaks even and is turning a profit.

When calculating your start-up capital requirements don't forget to figure into your total, whatever money you will need to live on until your business is profitable. This single requirement is the most overlooked and forgotten cost of starting a business and has left many a fledgling entrepreneur with serious cash flow problems.

HOW MUCH START-UP CAPITAL DO YOU NEED?

SOME EXPERTS argue that the more money you have to invest in your business, the better off you are. Other experts say that all you need is a good idea and sooner or later the money will come to you. Which advice is best?

Perhaps neither. Too much money can give you a false sense of security while not enough money is simply *not enough*.

To more realistically determine how much start-up capital you need:

The average investment in a new mail order enterprise is just a little over \$1,500. This low figure indicates that many kitchen-table and garage businesses are born annually and that a high percentage of small service enterprises require little or no outside capitalization.

FUNFACT

First, make a list of all your capital resources, including personal property, savings, securities and investments. Use a “Personal Net Worth Statement” like the one provided in [Guidebook #81](#), “Capitalizing Your Operations”).

Second, calculate your start-up capital needs using a “Start-up Costs Sheet” like the one provided at the end of this guidebook.

Third, compare your net worth with the total of your projected start-up capital requirements. If you fall short, you will need to borrow or find some other way of raising cash (see

Guidebook #81), or you will need to rethink your start-up strategies and requirements.

Fourth, if your personal net worth is greater than the amount you need to start your business, it is then necessary to decide how much you are *willing to risk*. Just because your start-up costs sheet says you need a certain amount of capital, doesn't mean you should risk that amount.

No entrepreneur should risk everything they own and no entrepreneur should be overly cautious as to risk next to nothing.

Whatever you decide, keep in mind that most business failures occur not from lack of money, but rather lack of money handling skills. In other words, businesses fail

not because they were under capitalized, but because to a large extent many of the expenditures up to that point were for items that did not really contribute to making a profit. Always look for ways to reduce your risk.

You can always get to where you want to go providing you are willing to start from where you are.

JOHN R. NOE

NOTE Never forget that fundamentally a business is an investment, and any money spent on its behalf is money that one day you hope will generate a return, just like a bank account does. Therefore, to answer the question posed in the heading of this section: your start-up capital needs depend more upon your vision, flexibility, amount of time willing to spend on planning, and how much money you are actually willing to invest, rather than how much money you actually have or would ideally require according to your

start-up capital calculations.

Calculating How Much Capital You Need Using a "Start-Up Costs Sheet"

To calculate your total start-up capital requirements, you need to first determine out how much you need to start your business, and then how much you need to stay in business until your venture begins to turn a profit.

The worksheet shown at the end of this guidebook is designed to help you figure out both these needs. Print it out or number a blank sheet of paper from 1 to 20 and fill in the corresponding totals. Plan to deposit this total in your business bank account and then

The moment you open the doors to your new business, a certain amount of income will come in. However, this income should not be projected in your operating expenses.

leave it there until you are ready to start your business.

NOTE The moment you open the doors to your new business, a certain amount of income will come in. However, this income should not be projected in your operating expenses.

Five Plans to Help You Figure Out How Much to Invest

Below are five plans designed to get you on the right track to figuring out your start-up capital needs.

PLAN A If you have absolutely no money to start your business, try and get a credit card with at least a thousand dollar limit. Starting out on a shoestring budget is not a bad idea, if you

can actually do it. However, lack of money severely limits your growth potential, and eventually you will have to invest the money you should have invested in the first place.

PLAN B If you have very little cash on hand, try to come up with at least \$1,500 to deposit into a business checking account. Set up the business checking account close to your place of business – so you don't want to waste time traveling back and forth to the bank. Next, look for ways to get extra money if an opportunity strikes and you need more cash. A good rule of thumb to follow is that if you have \$1,500 available to invest in starting a company

It is unusual for a beginning business to show a profit when first starting out. Thus, when calculating your start-up costs, is important to include not only your initial costs, but also operating and personal living costs for at least 3 to 6 months.

SUPERTIP

you should have access to at least \$15,000 or ten times your investment. This is the same strategy professional gamblers use to take advantage of winning streaks and to dig themselves out of losing streaks.

PLAN C If you plan to incorporate right away, try to have \$5,000 to \$10,000 available to start your business. If you are planning to incorporate your business right away, it is a good idea to give your company a loan out of your own personal funds. For example, let's say you have \$10,000 to start a company. Invest about one-quarter of that

loan as equity in your new company and three-quarters of it as a loan. If your new company goes broke, you can then write-

off the \$7,500 off your own personal income. Furthermore, the interest payments you then pay yourself will count as personal income, but will be tax deductible on your company income.

PLAN D If you don't have enough capital of your own (but know you have a great idea), **BORROW**.

To apply for a loan you will need to prepare a descriptive cover letter and a business plan, complete with financial projections, a pro-forma balance sheet, a projected cash flow statement, and a three-year projected income statement. You will also likely have to complete a lengthy loan application to meet the banks filing requirements. Furthermore, be prepared to sign personally for all bank loans even if you plan to start a corporation.

You must spend money, if you wish to make money.

**TITUS
MACCIUS
PLAUTUS**

NOTE Many people have the mistaken impression that financial institutions or government agencies will provide all or most of the basic capital required for a business venture. In fact, the entrepreneur must assume the bulk of the risk.

PLAN E If for some reason you are lucky enough to be already rich, then head on down to the bank and withdraw your required start-up capital. However, keep in mind the advice contained in the following axiom:

No amount of money is enough, if you don't know how to spend wisely.



