Information Booklet

Business Startup

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STARTUP COSTING OF BUSINESS

for SMEs

SMEDA

National Business Development Program for SMEs

Introduction

Small and Medium Enterprises Development Authority (SMEDA) works under the Ministry of Industries and Production, Government of Pakistan and was established in 1998 with the objective to propel economic growth through development of SMEs. SMEDA serves as an SME strategy-advisory body for the Government of Pakistan and facilitates partners in meeting their SME development agendas.

SMEDA envisions growth of a globally competitive SME sector (in Pakistan), through creating an enabling environment and support services for increase in the national economy. SMEDA strives to achieve this vision by providing assistance in employment generation and value addition to the national income, through development of the SME Sector, by helping increase the number, scale and competitiveness of SMEs.

National Business Development Program for SMEs (NBDP) is a project of SMEDA which intends to provide hands-on support services to SMEs. The aim of this business development support provided by NBDP is to advance new businesses and improve efficiencies in existing SME value chains to empower them to contend in global market. NBDP expects to facilitate around 314,000 SME beneficiaries over the period of five years.

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Objective

- To elaborate the importance, advantages and techniques of estimating and acquiring initial cost for starting a small business.

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a An Overview of Business Startup and Costing

There is more to a business than infrastructure and office space. Especially in the early stages, startup costs require careful planning and management. Many new businesses neglect the important consideration as well as making adequate funding arrangements for business startup process, relying instead on increasing customers to keep the operation afloat, usually with poor results.

It is important to assess all the costs of a startup and make arrangements beforehand but as new entrepreneurs and even some experienced business owners express, it is difficult to calculate their costs accurately.

Startup costs are the expenses incurred during the process of creating a new business. All businesses are different, so they require different types of startup costs. Online businesses have different needs than a physical business e.g., coffee shops have different requirements than bookstores. However, a few expenses are common to most business types, for instance research and business plan costs, office costs, management costs, overhead costs and advertising and promotion costs, while some costs are not common to all businesses but are still common to all manufacturing or trading business such as cost of goods sold etc.

b Categories of Startup Costs

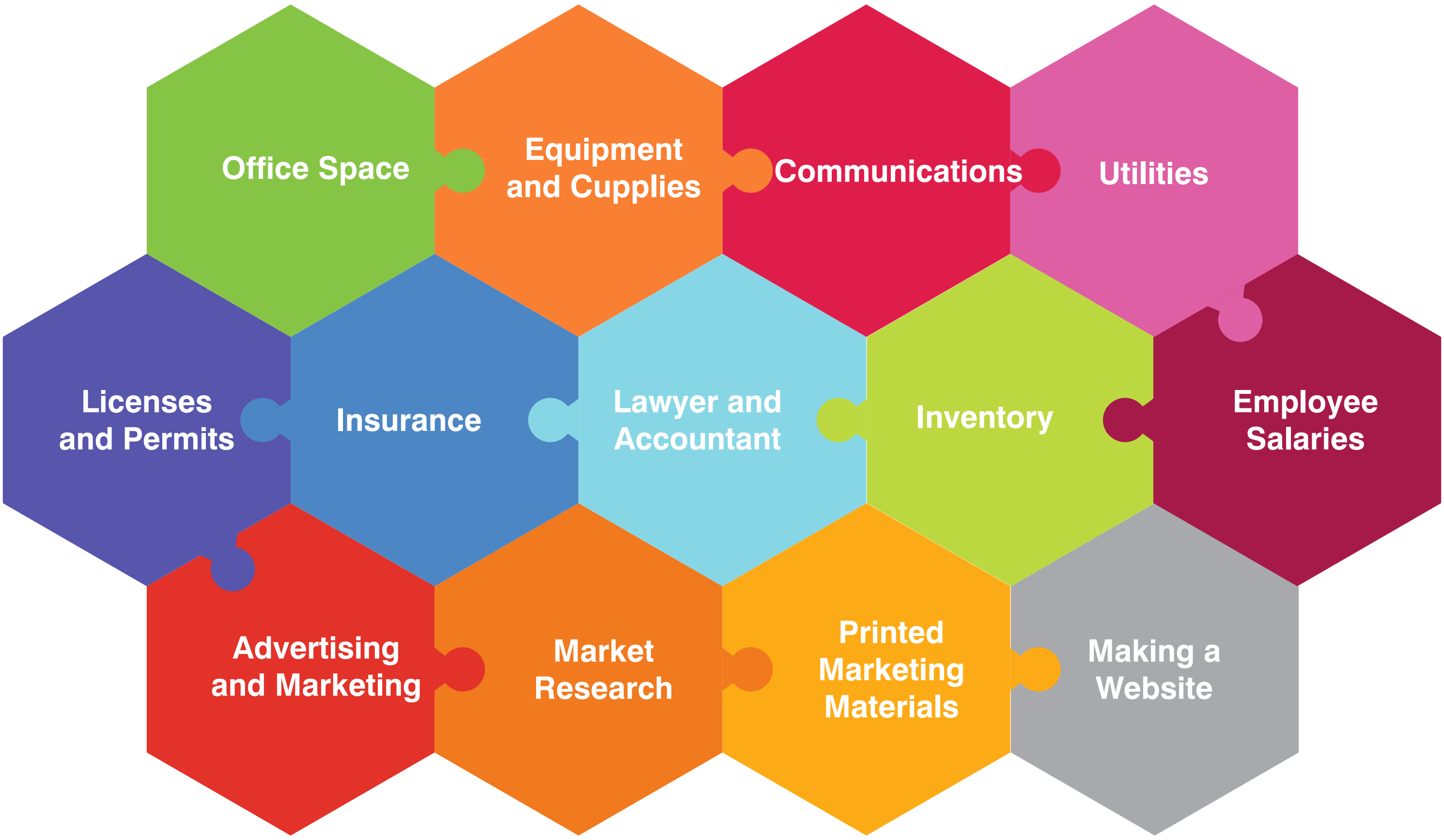
Startup costs are the expenses incurred before and during the process of creating a new business.

Before setting up a startup business, costs include a business plan, research expenses, borrowing costs, and expenses for provision of infrastructure, operations and technology.

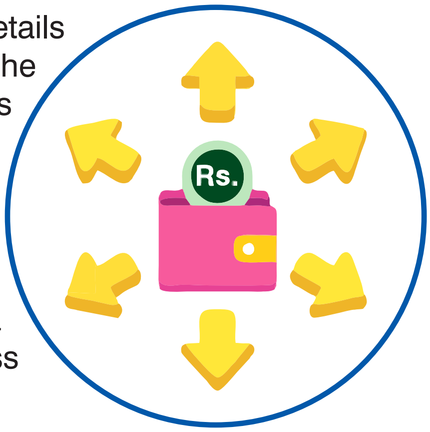
After setting up a startup business costs include merchandising/ work in process, advertising, promotion, and employee expenses.

Different types of business structures-like sole proprietorships, partnerships, and corporations-have different startup costs, so be aware of the different costs associated with new business.

Here is the list of some of the costs that a startup business might incur.



C Calculation of the Cost Before Launching a Business



Once the idea for startup is finalized, a business should start working on its details including the kind of product or services to offer and how much will the business be producing and selling to whom at what price. While the business model is being shaped, one also needs to assess the costs involved in setting up the new venture and managing it to the desired level of operations.

Doing this exercise in detail helps to clarify number of ambiguities regarding the business and prepares for managing the difficult task of establishing a new business. Documenting this exercise is called developing a "Business Plan".

A business plan not only provides a business guideline to the entrepreneur, it also helps in developing cost estimates, which helps in making adequate financial arrangements for the startup and reducing the unwanted surprises in terms of financial shortfalls during the startup process.

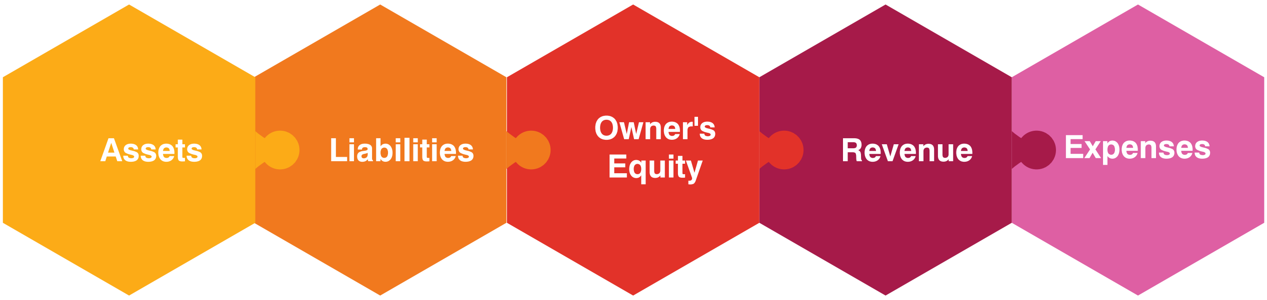
Estimate How Much the Expenses will Cost

When starting a new business, one of the first steps is to estimate costs in establishing the startup. Once the product or service outline is developed, including the type, size and quantities; estimate the costs involved in developing these products or services.

Start with preparing lists of heads of the pre-opening expenses, post-opening and operating expenses and legal and registration expenses.

Calculate an estimate of how much these expenses will actually cost. This process will be different for each expense incurred.

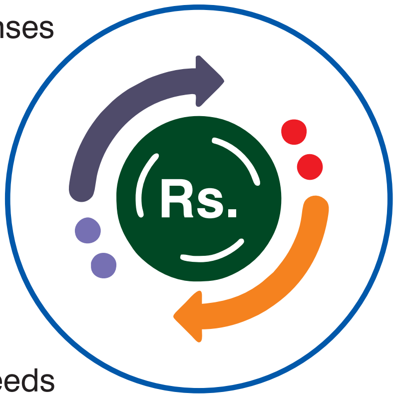
A business needs to set up the chart of accounts. All small businesses do not all have the same chart of accounts, but generally setting up the “Chart of Accounts” requires a business to identify costs in the following heads;



For estimating the startup costs, the most important elements are estimating costs of assets and expenses. While assets are straight forward costs, expenses are little difficult to assess. Particularly in terms of differentiating between the one time and recurring ones.

Some expenses will have well-defined costs-permits and licenses tend to have clear, published costs. A business might have to estimate other costs that are less certain, e.g., employee salaries. One can search online and talk directly to mentors, vendors, and service providers to see what similar companies pay for expenses. The employee salaries, utilities and rents etc. before commercial operations start are to be amortized as a pre-operating cost.

Add up the Expenses for a Full Financial Picture

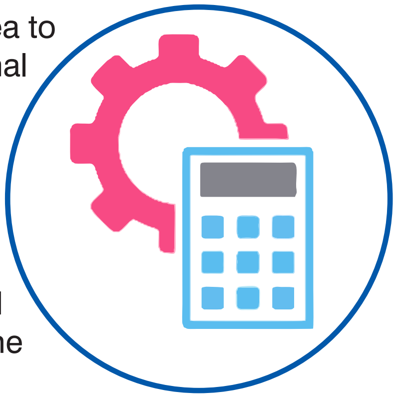


Once the business expenses and their costs are identified, organize the expenses into one-time expenses and monthly expenses.

One-time expenses are some of the initial costs needed to start the business, in addition to some portion of the monthly expenses. Buying major equipment, hiring a logo designer, and paying for permits, licenses, and fees are generally considered to be one-time expenses. A business can typically deduct one-time expenses for tax purposes, which can save money on the amount of taxes it will owe. It is important to keep track of the expenses and file the taxes in time.

Monthly expenses typically include salaries, rent, and utility bills. A business needs to count at least one year of monthly expenses towards the startup cost, which is also called sunk cost, but then treating them as regular expenses for next five years is ideal. Add up one-time and monthly expenses to get a good picture of how much capital will be needed.

Use the Startup Cost Calculations to get Startup Funding



In addition to reflecting the startup costs in the business plan, it is a good idea to create a formal request of the expected startup costs net of the personal investment.

If a startup requires PKR 5 Million and the owner’s initial investment is upto PKR 1 Million, then the business needs to have investment of PKR 1 Million to make a formal financing/ request of PKR 3 Million.

It should be in a format that is clear and easy to understand. Investors and lenders compare expected costs to projected revenue and determine the potential for the business to profit.

d Financial Plan for the Business

Knowing the estimated costs of starting a business is essential to plan a good startup. However, it is advised to do more research and firm up the financial plan. Any business plan is usually complimented with proforma income statement, balance sheet and cashflow statement. Adding these statements provide confidence to the banker and investors. A business's own requirement for the cash flow statement is also highly desirable as it will indicate the cash requirements for future.

The first statement any banker and or investor wants to look at is the balance sheet. A balance sheet is a business statement that shows what the business owns, what it owes, and the value of the owner's investment in the business. The balance sheet is calculated at specific points in time, such as at business startup, at the end of each month, quarter, or year, and at the end of the business.

Simple Startup Balance Sheet

Assets	Amount
Cash	300,000
Equipment	3,000,000
Prepaid Insurance	25,000
Prepaid Rent	400,000
Business Plan	500,000
Furniture & Fixtures	800,000
Total Assets	5,025,000
Liabilities & Owner's Equity	
Current Liabilities (convertible Inv)	1,000,000
Loans & Long-Term Liabilities	3,000,000
Owner's equity	1,025,000
Total Liabilities & Owner's Equity	**5,025,000**

In order to make these statements, it is better to engage a financial consultant or accountant. One can also try it by themselves using accounting software e.g., Peachtree, Xero or QuickBooks, which are some of the most popular small business accounting solutions on the market – and pick of the SMEs as the best overall business accounting software programs. These are easy to use and loaded with features.

(Business Name)

Business Startup Costs

FUNDING	ESTIMATED	ACTUAL	UNDER/(OVER)
Investor Funding			
Owner 1	10,000	9,600	400
Owner 2	5,000	5,500	(500)
Owner 3			
Total Investment	**15,000**	**15,100**	**(100)**
Loans			
Bank Loan 1			
Bank Loan 2			
Non Bank Loan 3			
Total Loans	**-**	**-**	**-**
Other Funding			
Grant 1			
Other			
Total Other Funding	**-**	**-**	**-**
Total Funding	**15,000**	**15,100**	**(100)**

COSTS	ESTIMATED	ACTUAL	UNDER/(OVER)
Fixed Costs			
Advertising for Opening			
Basic Website			
Brand Development			
Building Down Payment			
Building Improvements/Remodeling			
Business Cards/Stationery			
Business Entity			
Business Licenses/Permits			
Computer Hardware/Software			
Decorating			
Franchise Start Up Fees			
Internet Setup Deposit			
Lease Security Deposit			
Legal/Professional Fee			
Machines & Equipment			
office Furniture/Fixtures			
Operating Cash (Working Capital)			
Point of Sale Hardware/Software			
Prepaid Insurance			
Public Utilities Deposits			
Reserve for Contingencies			
Security System Installation			
Setup, Installation and Consulting Fee			
Signage			
Starting Inventory			
Telephone			
Tools & Supplies			
Travel			
Truck & Vehicle			

Conclusion

Developing a startup budget works as a road map for establishing any type of business. Setting a realistic budget is a game changer for any startup. It helps entrepreneurs stay on track and keep their eyes on the ultimate goal. Every startup should adhere to the following key points:

1. The budget can be tweaked but following the original plan is better.
2. Avoid a half-built business. Stay focused to complete the tasks and achieve the goals.
3. Avoid getting into the debt by restricting unnecessary borrowing of funds.

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