

## **Cash for a New Business**

**It takes money to make money.... How much will you need?**

By Laurie Christiansen, Score Accredited Business Counselor

During these uncertain economic times when the jobless rates continue to increase, as some doors close others will open. If you have ever considered starting your own business, this may be the time and opportunity to change your life's direction and travel down a new path. You have a good idea for a business but you're not sure how to decide if you should try it or not. One of the reasons people often don't start a business is that they cannot figure out how much money they will need to be successful. And one of the main reasons start ups fail is because they underestimated what it will cost to make the start up profitable.

Here is a quick exercise to test your idea for a new business. Do this with a friend or relative, someone who knows what you want to do or has been in business himself/herself. All you need is some paper, a calculator and an Internet connection.

### **1. Determine what your approximate start-up costs would be.**

Once you determine what business you would like to go into, start developing what your one-time start-up costs would be. Determine the location of your business and begin building your first worksheet (this is where Google will be helpful). Include rental space deposits (first, last), security, initial stocking of inventory, deposits for utilities, vehicle purchase or lease cost, supplies needed, insurance binders, build out of the rental space, if planned, furniture and equipment, initial advertising and marketing costs, licenses and anything additional that might be required to be purchased and in place before you can open for business. Total the start-up costs.

### **2. Make a similar list with estimates for your recurring monthly expenses.**

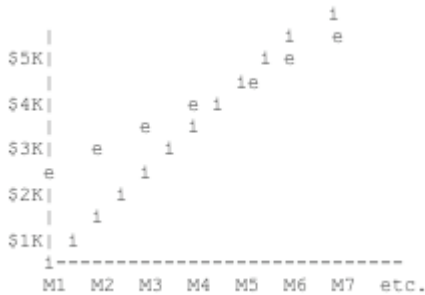
A good guide for this is the list of expenses on a 1040 Schedule C (Profit and Loss from Business). You can print out a blank form from IRS.gov. Estimate your monthly rent, vehicle operational and maintenance costs, payroll, insurance, heat and utilities, advertising and marketing expense, replenishment of supplies and inventory, and any additional recurring costs that need to be paid on a monthly basis. Total your monthly expenses. Don't forget to pay yourself.

### **3. Do an income projection, month by month, starting with month1, month2, etc. for the first year.**

This is tricky to do and will require that you put on your marketing hat. How are you going to get customers? How will you get your business known in the community? What will you do to increase your revenue steadily until you are established and in the black? Advertising is expensive; direct mail is also expensive and produces minimal returns, so how will you get the word out? This is where creativity and working with a friend or relative can help because there are innovative ideas to promote a new business that don't cost a lot of money. If you have more than one source of income, total your income projections (i) by month.

**4. Graph information from 2 & 3 onto a blank piece of paper.**

This is a critical step, but it can be hard. Draw a rough graph, as below, where you track your total cumulated recurring expenses (e) amount by month. Then track your total projected cumulated income amount by month in the same way. The importance of this step is to determine – granted it is just an estimate – the point in time when your income will surpass your expenses. In the example below, this will occur in month6. In order to stay in business until month6 you need to have enough operating capital to cover the difference between your income and expenses for the first 6 months.



**5. The answer from #4 combined with your one-time start up costs in #1 will tell you what cash you will need to get started.**

This can be a daunting figure but is just the starting point. Go back and see if reductions in start-up costs and expenses can be made. Retest your income assumptions. Make what adjustments you can. When projecting your income try several income scenarios; conservative, best guess, or optimistic, for example. That way, if you have funds for the conservative projections and you do better, life just gets easier and your chances to succeed better.

If you are comfortable with the numbers and you are ready to take the next step, make an appointment and come to the SCORE office nearest you (you can find it on [www.scorenemass.org](http://www.scorenemass.org) ) for free and confidential business counseling to help you refine your plans, to help you with your business planning and to help you get started.

If you would like FREE business counseling, please contact the Lynn Area Chamber of Commerce at 781-592-2900 or [info@LynnAreaChamber.com](mailto:info@LynnAreaChamber.com)