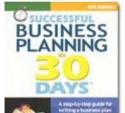
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- Alan Caruba
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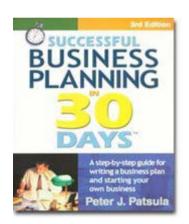
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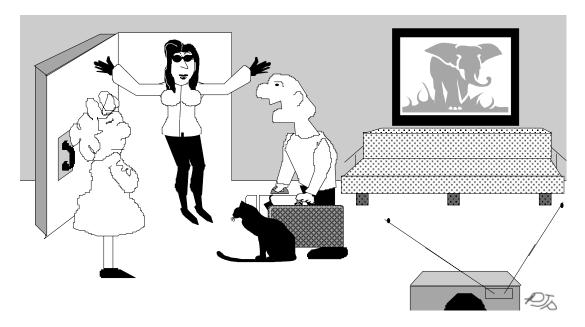
- Midwest Book Review, Oregon, WI Amazon.com review

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- Mike Milliken, BN.com Review.

This book has helped me a great deal in thinking about my business

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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 quidebook.

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.

NOTE Never forget that fundamen-

tally a business is an investment,

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

JOHN R. NOE

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

The moment you

open the doors to

your new business,

a certain amount of

income will come in.

come should not be

However, this in-

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 projected in your end of this guidebook is designed operating expenses. 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

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 in-

> come 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 ac**count.** 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 per-

sonal 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, lets 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 writeoff 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.

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.

You must spend money, if you wish to make money. **TITUS MACCIUS PLAUTUS**

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 captial. 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.



Calculating Your Start-up Costs

	INITIAL START-UP COSTS	17. Phone
1.	$ \begin{tabular}{ll} Equipment \& Machinery (include installation costs) \end{tabular} $	18. Rent or Lease Payments (include building, vehicles, computers or any other piece of
2.	Furniture & Fixtures (include shelves, wall	leased or rented equipment)
	brackets, racks, tables, chairs, cabinets etc., as well as installation costs)	19. Subscriptions (to business periodicals)
3.	Legal & Professional Fees (include money spent regarding incorporation, the writing up of partnership contracts, review of lease agreements or purchase contracts, and the setting up of an accounting system)	20. Wages of Owner (Personal living expenses are one of the most important and often overlooked expense items. Normally it is figured as the salary you pay yourself; don't forget withdrawals during prep-start-up time)
4.	Licenses & Permits (include payments made	VARIABLE OPERATING COSTS
	to federal, state, county or municipal levels of	21. Advertising
	government, as well as association membership fees)	22. Auto & Travel
5.	Office Supplies (include stationary costs)	23. Building & Equipment Maintenance
		24. Delivery & Shipping Costs
υ.	Opening Inventory (include any materials needed for the manufacturing of products)	25. Employee Wages
7.	Pre-Opening Promotion Costs (include yel-	26. Operating Inventory (includes inventory purchases required to meet supply demands)
	low pages listing, business cards, flyers, news-	27. Taxes
	paper ads, catalogues, brochures, newsletters,	28. Utilities (include power, water, gas and instal-
0	signage and any other advertising costs)	lation, and hookup charges)
ð.	Repairs, Remodeling & Decorating of Business Site (include electrical rewiring, ventila-	29. Other Supplies & Purchases (include pur-
	tion, air conditioning, partitioning, painting,	chases planned once business is underway)
	arpeting, and other expenditures which im- prove the operating site but are not considered emovable)	30. Other Expenses & Services (include all other expenses normally encountered when operating a business – see Step #94 for more)
9.	Security Deposits (include all advance money	31. Total Operating Costs \$
	required for rent, utilities, telephones, leased	
	or rented equipment etc.)	TOTAL START-UP COSTS
	Vehicles (include cars, trucks, vans etc.)	32. Total Estimated Start-up Costs (initial start-up costs plus operating costs for months)
11.	Other Costs & Services (include any miscellar any many arranged any arranged and arranged any arranged any arranged and arranged any arranged and arranged and arranged any arranged and arranged arranged and arranged a	up costs plus operating costs for months)
	laneous pre-opening expenditures entered no- where else, such as training of staff, travel to	33. Recommended Start-up Capital Re-
	suppliers, logo design etc.)	— quired (add 25%) Start-up costs can fluc-
12.	Total Initial Start-up Costs \$	tuate considerably depending on the size and
	OPERATING COSTS	scope of your business, the length of time it
	(For months: It is recommended that	will take to produce marketable products or services, competition pressures, and a great
	you include at least three months of operating	many other variable factors such as unforeseen
	expenses in your start-up capital projections)	expenses, delays, inflation, strikes, supplier
	FIXED OPERATING COSTS	bankruptcies, and even personal emergencies.
13.	Insurance (include home owner's, fire, life, theft, personal, & product liability coverage)	For this reason, it is recommended by many financial advisers that in addition to whatever
14	Membership Fees (include association dues)	calculation you have come up with, that you
	Office Supplies (include supplies used up and	add 25 percent to protect yourself from the un-
10.	in need of replacing)	expected. \$
16.	Operating Loan Payments (include monthly	

payments on outstanding loans)