

The Guide to Estimating Startup Costs



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small business

Understanding the costs you will face is critical to the success of any new business. What will it really cost to launch your great idea and turn it into an ongoing success?

Experts say a good rule of thumb is to be able to cover expenses for the first six months. That guidance tells you how much capital you'll need to raise or have in hand, to give your company's sales and revenue a chance to kick in.

But the value provided by knowing your startup expenses goes much further. It helps establish and manage your budget, estimate your profits, and know when you'll break even.

We've outlined typical startup costs here, but your exact startup expenses will vary depending on what your business is and where you are located.

The two types of startup expenses

Your expenses will fall into either of two broad categories: one-time, or recurring.

One-time costs (as you would guess from the name) will only hit your checking account once, as you first establish your business.

These costs illustrate how startup expenses can vary depending on choices you make as well as where your business operates.

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One-time expenses may include:

- **Licenses and permits.**
These expenses can include both the actual fee for, say, filing a Doing Business As, or DBA, certificate (roughly \$15 - \$100), and also the additional cost of using a service or lawyer, if that's your choice. State tax permits, liquor licenses, dump permits, and fire department permits and are other potential startup expenses.
- **Trademarks, copyrights, patents.**
Legal filings and registrations help protect your business from copycats. Trademarking a logo might cost \$50 - \$150 at the state level, or \$200 - \$600 through the U.S. Patent and Trademark Office, which provides more complete legal protection at the federal level.
- **Market research.**
How will you validate potential demand for your products or services? By conducting primary and secondary market research. (You can learn more about this in our companion guide [How to Write a Business Plan](#).)
- **Capital Equipment.**
What machinery, furniture, appliances, fixtures or other physical equipment will you need to operate your business or produce your goods? Over the course of future years, you can gradually write off many capital expenses, but that eventual tax relief won't reduce your immediate startup costs.
- Certain marketing or branding expenses such as the cost of developing a logo, setting up your website and getting your business email. You may eventually decide to re-do that logo, but that won't be a regular and predictable cost you're required to spend on an ongoing basis.

Recurring expenses, on the other hand, are ongoing payments like your monthly rent or annual business insurance fee.

These costs can include:

- **Rent.** The monthly cost per square foot could range from \$1 in some places to north of \$80 in cities like San Francisco or New York.
- **Utilities.** Expect roughly \$2 of monthly utility costs per square foot of office space; less for warehouse space and more for manufacturing.
- **Business insurance.**
- **Salaries and associated forms of compensation,** from commissions to healthcare benefits to 401k plans. Experts say payroll typically takes up between 25 percent and 50 percent of a small-business budget.
- **Product inventory** — both your own finished products, and the materials needed to make them.

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- **Marketing**, such as advertising and promotion, printing and re-printing business cards and collateral like sales sheets. Ten percent of total budget is a common benchmark for marketing expenses.
- **Website hosting, email and other IT support.**
- **Leased equipment**, which could include office furniture, computers, copiers, kitchen appliances, retail fixtures, and more. Choosing to lease certain items can help reduce your initial one-time startup costs, spreading those expenses over time.
- **Supplies**, from pens and printer paper to coffee, et cetera.
- **Services**, such as a weekly office or store cleaning.
- **Maintenance and repairs.**
- **Fees**, like monthly banking account fees and professional memberships.
- **Travel.** Depending on your business this line might be zero, or could include a one-time expense for an important conference, or regular recurring trips.

Calculating (and covering) your costs

In business, a good spreadsheet can be your best friend.

Your first step is to fill out your own expected expenses in each of the categories above. This is simply a draft. As with many things in the business world, you will learn and improve as you go along, so expect to refine your spreadsheet over time.

With this draft in hand, you can do several valuable things.

One is to calculate a weekly or monthly budget, setting spending boundaries for your business.

A second is to think of ways to economize. You will have to spend some money to launch a business, of course, but controlling or eliminating certain lines will stretch your startup capital further. For example, would you be able to operate out of your home for the first three months, or use a co-working space, instead of renting an office immediately?

And a third benefit is to get a very clear-eyed view of the capital you'll need to launch, keeping in mind that expert recommendation of having six months' expenses in hand, if possible.

This brings you to the question of how you will build that startup fund. Options for funding a business include:

- Self funding.
- Friends and family.
- Grants, loans and lines of credit.
- Professional investors.
- Crowdsourcing.

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- Creative funding sources, such as trading or bartering equity in your business in exchange for services, or joining an incubator that provides capital in addition to access to shared services and/or expertise.

No matter how you plan to fund your work, calculate your estimated startup costs before approaching outside funding sources. That way you'll have a sense of what you need, and how long it will take to start paying off investors or loans.

Because costs can vary significantly depending on your location and industry, your startup expense calculations — like so many aspects of planning a business — probably won't be perfect.

That doesn't mean these numbers aren't useful. On the contrary, the work you do identifying startup costs will provide a great foundation for success: Reliable funding requirements, a solid working budget, and a plan for reaching profitability.

Get started so you can get your business rolling!