

# How much do you need to start?

Before you start a business it's best to know how much money it will cost so you can double check it's feasible for you to raise this amount of capital.

It's important to be realistic with all your figures, and to estimate as accurately as possible so you can work out how much you need, not how much you'd like to borrow.

## How much do you need?

Estimating your start-up costs falls into two categories:

- ★ Set-up costs (how much money you need before you start operating)
- ★ Initial working capital (the money you need after you've started until you start making a profit).

### Set-up costs

These are one-off costs that are required for you to launch, and which you probably won't have to pay for again.

Every business will have different start-up costs to consider depending on the industry. For example:

- ★ A web designer would have low costs: a computer, software, possibly liability insurance and any legal costs setting up a company.
- ★ A builder would have higher costs: tools, vehicle, and equipment for any specialized work.

Other start-up costs might include:

- ★ Rent deposits and any building renovations before you start
- ★ Licences and permits

- ★ Employee recruitment and training
- ★ Initial inventory or raw materials
- ★ Marketing materials and advertising

If you're buying a business (including a franchise), the purchase price becomes your 'set-up costs' figure, as usually all these costs are included in the asking price.

### Working capital

Most businesses need a number of months trading before they start covering all the overhead (and make a profit). Until this happens you'll ideally have spare cash in the bank (also called 'working capital'), to pay for all your expenses until this day comes.

Work this out:

- ★ Begin by estimating your monthly costs (wages, utilities, internet, advertising, rent, everything). This will give you a monthly amount you need as a minimum to stay in business.
- ★ Transfer these totals to a [cash-flow template](#).
- ★ Now add your sales estimates for the first few months (being realistic and remember some businesses don't have any sales initially). Each month you'll see how much 'working capital' you are short.
- ★ If you have customers on credit or account, they rarely pay on time. Factor into your calculations that you may need to wait 30, 60 or 90 days for payment.

## Where to get the money you need

Now that you have figured out how much money you need, you should make some decisions about where that money will come from.

### Your own money

Having some of your own money to invest in your business makes sense. It shows you have 'skin in the game' and are prepared to back your business with your hard-earned cash.

Common sources include any savings or using any equity you have in any property you own (residential or commercial). Your own money is almost always the cheapest.

### Friends and family

Money from friends and family is often a way of accessing the cash you need. But it's not always the 'best' money as if the business fails, it can be difficult at the next family gathering. If you can make this short term and pay them back as fast as you can, it's a good option.

## Borrowing from the bank

Chances are you will need to borrow money (either a loan to pay back over time, or an overdraft facility that lets you dip in and out of debt when you need it).

Before you apply for business financing, it's important to have all your financial information at hand, including:

- ★ Purpose – exactly what you will do with the cash.
- ★ Sources of funding – how much you think you'll need to borrow, and how much you're contributing yourself.
- ★ Loan security – what you'll use to secure the loan if anything.
- ★ Repayment plans – how you intend to repay the loan and the schedule of repayments in your cash flow.
- ★ Existing debt – if you've got any other debt that may impact on your ability to repay.

We have a number of [business loans and lines of credit](#) to help with all of your finance needs, from start-up costs and on-going cash needs. For example, our [Royal Business OperatingLine®](#) offers a credit line that's ideal if your business is brand new and doesn't have a business credit history.

## Other sources

There are other ways to fund your business, such as:

### Outside investors

You may find people you know who want to invest in your business. These are often called 'Angel' investors who are usually successful business owners in search of investment opportunities with promising businesses. In return, they usually expect a share in your business, possibly a percentage return on the money they've given you, maybe both. Search for possible angels in the [National Angel Capital Organization](#) member directory.

### Crowdfunding

Described as 'democratic finance', crowdfunding allows you to profile your business and attract investment (or loans) from a range of different people who wouldn't normally be eligible to invest in new businesses without a prospectus. To work, crowdfunding needs to be exempt from security laws. You receive investment in your business through a crowdfunding platform hosted online, usually in return for shareholding. [The National Crowdfunding Association of Canada](#) is a good place to start.

### Government grants and subsidies

The Government of Canada can provide funds for businesses if you qualify. This includes loans, grants, loan guarantees, and other initiatives. Most are targeted at specific industries or opportunities that will benefit Canada overall. View the Canada.ca site on [business grants and financing](#) for more.

## Summary

Unless you're lucky enough to have all the cash you need for starting a business, you will need to carefully consider all the options available in order to secure start-up funds. There are several options to review, and whether you choose one, or a combination, depends on what kind of business you're starting and how much you'll need. Give us a call on 1-800-769-2520 so we can help you determine which options suit your needs best.



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