

Section 8.1

Start a Small Business

Lesson 3:

Start-up and Operating Costs

When you start a small business, you have to take into account all of the **start-up costs**. That is, you have to calculate what amount you will have to invest or spend before you can open for business. If you do not have enough money saved, you may have to take out a loan or adjust your spending.

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Start-up costs are often one-time costs, such as buying a cash register for a store. In addition to these expenses, you will also need to consider **operating expenses**. These are expenses that are paid to keep the business running, and are often recurring, such as paying a monthly phone bill.

start-up costs: the goods and services you may need to purchase before you begin operating your business

operating expenses: the ongoing cost of space, equipment, supplies, and other items required to run a business

Example 3

Hazel completed a hairdressing program five years ago at the College of the Rockies in Cranbrook, BC, and has been working in a salon ever since. She has decided that she would like to open her own salon. She already has many of the items that she will need because she had to supply her own scissors and razors, curling irons and straighteners, brushes, perm curlers, and combs for her current job. List other items she is likely to need to start her own salon.

SOLUTION

Hazel will still need many other items. Some of the basics will include:

- a venue from which to work
- professional styling chairs
- hair washing sink and chair
- desk, mirrors, and cabinets
- cash register
- business licence
- telephone, computer
- laundry facilities
- professional hair dryers
- hair dyes and foils
- towels and capes
- advertisement

These are start-up costs that are not specific to her profession.

Example 4

In the above example, you listed start-up costs for Hazel's hair salon. Hazel has considered the items, and has calculated the following costs:

<i>Item</i>	<i>Cost</i>
First month's rent	\$1000.00
Two professional styling chairs	\$300.00 each
Two hair washing sinks and chairs	\$700.00/set
Desk, mirrors, and cabinets	\$1000.00
Towels and capes	\$600.00
Washer and dryer (used)	\$1000.00
Cash register	\$75.00
Business licence	\$200.00/year

a) What are her total start-up costs?

Item	Cost
First month's rent	\$1000.00
Two professional styling chairs	\$300.00 each
Two hair washing sinks and chairs	\$700.00/set
Desk, mirrors, and cabinets	\$1000.00
Towels and capes	\$600.00
Washer and dryer (used)	\$1000.00
Cash register	\$75.00
Business licence	\$200.00/year

\$1550.50

600.50

1450.50

1550.50

600.50

1550.50

75.50

200.00

\$5875.50

start-up costs

a) What are her total start-up costs?

<i>Item</i>	<i>Cost</i>
First month's rent	\$1000.00
Two professional styling chairs	\$300.00 each
Two hair washing sinks and chairs	\$700.00/set
Desk, mirrors, and cabinets	\$1000.00
Towels and capes	\$600.00
Washer and dryer (used)	\$1000.00
Cash register	\$75.00
Business licence	\$200.00/year

SOLUTION

a) Calculate Hazel's total start-up costs.

$$\begin{aligned} & \$1000.00 + 2(\$300.00) + 2(\$700.00) + \$1000.00 + \$600.00 + \$1000.00 + \\ & \$75.00 + \$200.00 = \$5875.00 \end{aligned}$$

Hazel's total start-up costs are \$5875.00.

b) If Hazel has \$5000.00 saved, does she have enough money to cover her expenses? If not, Hazel does not want to take out a loan. Suggest two ways she could adjust her start-up costs.

She is short \$875.00.

- get one chair instead of 2
- get sink/chair combo instead of 2
- not buy laundry equipment

- b) If Hazel has \$5000.00 saved, does she have enough money to cover her expenses? If not, Hazel does not want to take out a loan. Suggest two ways she could adjust her start-up costs.

Hazel does not have enough money to cover her start-up costs.

$$\$5875.00 - \$5000.00 = \$875.00$$

She has a shortfall of \$875.00.

b) If Hazel has \$5000.00 saved, does she have enough money to cover her expenses? If not, Hazel does not want to take out a loan. Suggest two ways she could adjust her start-up costs.

Hazel does not have enough money to cover her start-up costs.

$$\$5875.00 - \$5000.00 = \$875.00$$

She has a shortfall of \$875.00.

Hazel might do one of the following to adjust her start-up costs:

- She could install just one hair washing sink and chair.
- She could consider renting a chair in an existing salon, rather than opening a new location.
- She could take the laundry to a laundromat, instead of installing a washer and dryer.

Example 5

Irina has worked for several years in a flower shop. The current owner has decided to retire, and Irina is considering buying the business. Since the business is already operating and successful, the start-up costs are minimal other than the purchase price. However, Irina has to consider the business's monthly operating expenses. What expenses will she have to consider?

SOLUTION

Irina has to consider many operating expenses to keep the flower shop running. Some such items include:

- the flowers
- other floral supplies, such as ribbon, vases, flower pots, and so on
- mortgage payments
- utilities
- telephone and internet bills
- employees' wages
- bank account fees
- advertising costs (including website maintenance)
- delivery costs (including cost of vehicle maintenance, gas, insurance)
- insurance
- annual business licence
- property taxes

*Non-specific costs.

Homework:

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Practise Your New Skills

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