

VACO Reference Material

BREAKING DOWN THE NUMBERS

NAVIGATING THE STARTUP COSTS OF
YOUR BUSINESS

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Starting a business can be an exciting and fulfilling experience, but it's important to have a clear understanding of the costs involved before taking the plunge. From legal fees to equipment and inventory, startup costs can quickly add up and impact your business's success. That's why our research team at VACO Middle East has created this guide to help entrepreneurs understand the common startup costs they may face and how to budget accordingly. Whether you're starting a small online business or a larger brick-and-mortar establishment, this guide will provide you with the knowledge and tools you need to effectively plan for and manage your startup costs, so you can focus on growing your business and achieving your goals.

THE BUSINESS PLAN

Essential to the startup effort is creating a business plan—a detailed map of the new business. A business plan forces consideration of the different startup costs. Underestimating expenses falsely increases expected net profit, a situation that does not bode well for any small business owner.

RESEARCH EXPENSES

Careful research of the industry and consumer makeup must be conducted before starting a business. Some business owners choose to hire market research firms to aid them in the assessment process. For business owners who choose to follow this route, the expense of hiring these experts must be included in the business plan.

BORROWING COSTS

Starting up any kind of business requires an infusion of capital. There are two ways to acquire capital for a business: equity financing and debt financing. Usually, equity financing entails the issuance of stock, but this does not apply to most small businesses, which are proprietorships.

For small business owners, the most likely source of financing is debt in the form of a small business loan. Business owners can often get loans from banks, savings institutions, and the U.S. Small Business Administration (SBA). Like any other loan, business loans are accompanied by interest payments. These payments must be planned for when starting a business, as the cost of default is very high.

Cont.

INSURANCE, LICENSE, AND PERMIT FEES

Many businesses are expected to submit to health inspections and authorizations to obtain certain business licenses and permits. Some businesses might require basic licenses while others need industry-specific permits. Carrying insurance to cover your employees, customers, business assets, and yourself can help protect your personal assets from any liabilities that may arise.

TECHNOLOGICAL EXPENSES

Technological expenses include the cost of a website, information systems, and software, including accounting and point of sale (POS) software, for a business. Some small business owners choose to outsource these functions to other companies to save on payroll and benefits.

EQUIPMENT AND SUPPLIES

Every business requires some form of equipment and basic supplies. Before adding equipment expenses to the list of startup costs, a decision has to be made to lease or buy.

The state of your finances will play a major part in this decision. Even if you have enough money to buy equipment, unavoidable expenses may make leasing, with the intention to buy at a later date, a viable option. However, it is important to remember that, regardless of the cash position, a lease may not always be best, depending upon the type of equipment and terms of the lease.

ADVERTISING AND PROMOTION

A new company or startup business is unlikely to succeed without promoting itself. However, promoting a business entails much more than placing ads in a local newspaper. It also includes marketing—everything a company does to attract clients to the business. Marketing has become such a science that any advantage is beneficial, so external dedicated marketing companies are most often hired.

EMPLOYEE EXPENSES

Businesses planning to hire employees must plan for wages, salaries, and benefits, also known as the cost of labor. Failure to compensate employees adequately can end in low morale, mutiny, and bad publicity, all of which can be disastrous to a company.

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ADDITIONAL STARTUP COST CONSIDERATIONS

Have some extra money set aside for any overlooked or unexpected expenses. Most companies fail because they lack the cash to deal with unexpected problems during the business season.

- It is important to note that the startup costs for a sole proprietorship differ from the startup costs for a partnership or corporation.
- Some additional costs a partnership might incur include the legal cost of drafting a partnership agreement and state registration fees.
- Other costs that may apply more to a corporation include fees for filing articles of incorporation, bylaws, and terms of original stock certificates.

Launching a new business can be invigorating. However, getting caught up in the excitement and neglecting the details can lead to failure. Above anything else, observe and consult with others who have traveled this road before—you never know where you might learn the business advice that helps your particular business succeed.



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VACO Middle East is a leading consulting firm that provides innovative and customized solutions to help businesses thrive in the dynamic global market. We specialize in a range of services, including strategic planning, human resource development, accreditations, and marketing strategy development, tailored to meet the unique needs of start-ups and established companies alike. With our expertise and collaborative approach, we can help you take your business to the next level and achieve your goals. Reach out to our team today and find out how you can grow your business.



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