

The Right Foot Workshop Series

Presented by:

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We exist to train, educate, and support entrepreneurs of both new (pre-venture) and established small businesses. Positioned within the nationwide network of SBDCs, we



The Right Foot Workshops

Session 1. Setting up a business

Session 2. Business Models & “Lean” Business Planning

Session 3. Financial Considerations

Session 4 Marketing

Session 5. Other Business Lessons





FINANCIAL CONSIDERATIONS



Start Up Costs

- Startup costs are the expense incurred during the process of creating a new business.
- Pre-opening startup costs includes: build-out, furniture and fixtures, research expenses, borrowing costs, and expenses for technology.
- Post-opening startup costs include advertising, promotion, and employee expenses.
- Different types of business structures - like sole proprietorships, partnerships, and corporations - have different startup costs, so be aware of the different costs associated with your new business, such as:

- Fees

- Insurance

- Licenses

- Permits



Operating Costs

Operating costs are expenses associated with the maintenance and administration of a business on a day-to-day basis. The total operating cost for a company includes the cost of goods sold, operating expenses as well as overhead expenses.

- Accounting and legal fees
- Bank charges
- Sales and marketing costs
- Travel expenses
- Entertainment costs
- Non-capitalized research & development expenses
- Office supply costs
- Rent
- Repair and maintenance costs
- Utility expenses
- Salary and wage expenses

Other operating costs might be cost of goods sold:

- Direct material costs
- Direct labor
- Rent of the plant or production facility
- Benefits and wages for the production workers
- Repair costs of equipment
- Utility costs and taxes of the production facilities



Fixed and Variable Costs

Fixed Costs

A *fixed costs* is one that does not change with an increase or decrease in sales or productivity and must be paid regardless of the company's activity or performance.

For example, a manufacturing company must pay rent for factory space, regardless of how much it is producing or earning. While it can downsize and reduce the cost of its rent payments, it cannot eliminate these costs, and so they are considered to be fixed. Fixed costs generally include overhead costs, insurance, security, and equipment.





Fixed and Variable Costs

Variable Costs

Variable costs, as the name implies, are comprised of costs that vary with production. Unlike fixed costs, variable costs increase as production increases and decrease as production decreases.

Examples of variable costs include raw material costs, payroll, and the cost of electricity. For example, in order for a fast-food restaurant chain that sells French fries to increase its fry sales, it will need to increase its purchase orders of potatoes from its supplier.





Assets and Liabilities

- Assets: What the company owns
- Liabilities: What the company owes
(Financial obligations)



Current Asset & Current Liabilities

Current Assets: cash and other assets that are expected to be converted to cash within a year. Examples are **cash**, **cash** equivalents, **accounts receivable**, stock **inventory**, marketable securities, pre-paid liabilities, and other liquid assets.

Current Liabilities: are a company's **short-term** financial obligations that are due within one year or within a normal operating cycle. ... Examples of **current liabilities** include accounts payable, **short-term** debt, dividends, and notes payable as well as income taxes owed.



Working Capital

Your working capital is used to pay short-term obligations such as your accounts payable and buying inventory. If your working capital dips too low, you risk running out of cash. Even very profitable businesses can run into trouble if they lose the ability to meet their short-term obligations .

It is the difference between a company's current assets, such as cash, accounts receivable (customers' unpaid bills) and inventories of raw materials and finished goods, and its current liabilities, such as accounts payable





How do you finance your business?

Finding a viable funding source can be important for getting your startup off the ground or for taking it to the next level. However, it is equally important to find a solution that allows you to maintain operations and focus on the profitability of your business. Some of the alternatives are:

Go Your Own Way:

- Personal Savings
- Credit Cards – might be too expensive
- Crowdfunding

Outside Sources:

- Friends and Family
- Lenders/SBA Guaranteed Loans
- Micro Lenders
- Angel Investors
- Venture Capital

Business Financing and Your Credit



When applying for financing, lenders are looking for the 5 C's of credit, which is a system to gauge the creditworthiness of potential borrowers.

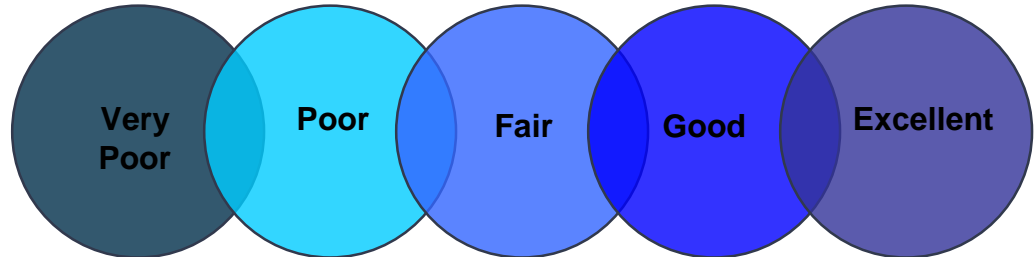
1. Character - reflected by the applicant's credit history
2. Capacity - the applicant's debt-to-income ratio- Is the business capable of paying back the loan?.
3. Capital – the amount of money an applicant has. Your skin in the game.
4. Collateral - an asset that can back or act as security for the loan
5. Conditions – the purpose of the loan, the amount involved. and prevailing interest rates

Startups do not have any track record, so lenders look at your credit and that of any person or partners that owns 25% or more of the business.

Determine Your Readiness



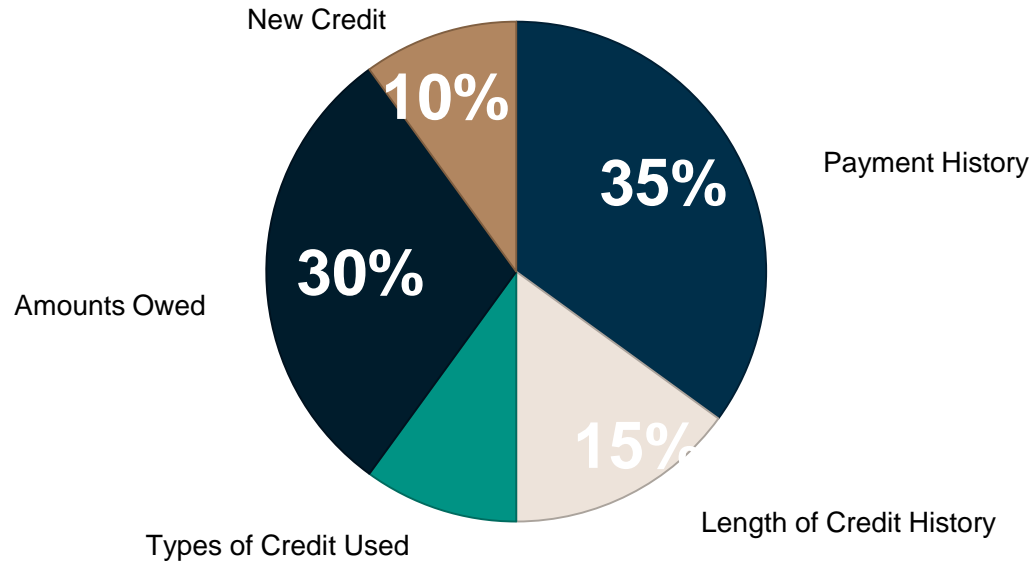
Credit



Source: www.truecredit.com

Determine Your Readiness

FICO Scoring Factors



Source: Accion USA



Determine Your Readiness

How your credit score affects what you pay:

ex. \$250,000 mortgage loan for 30 years

Credit Score	APR	Monthly Pmt	Total Interest
720-850	5.771%	\$1,462	\$276,417
700-719	5.894%	\$1,482	\$283,477
675-699	6.425%	\$1,568	\$314,429
620-674	7.561%	\$1,758	\$383,057
560-619	7.969%	\$1,829	\$408,444
500-599	7.893%	\$1,816	\$403,687

Source: Accion USA

Concluding

As we saw during this brief presentation, when starting a new business, from the financial point of view, you have to consider:

- Start up costs
- Operating costs
- Fixed and variable costs
- Build out costs
- Working capital needs
- Equipment purchases
- Financing needs and options
- Credit worthiness



Thank You

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Hello everyone and welcome to today's session of The Right Foot. My name is Manuel Batlle, I am the Providence Center Director for the Rhode Island SBDC.

Let's get started, I will now share my screen,