

Business Feasibility Part 1 of 7: Overview

Do you want to start a business?

Do you want to see if your business idea will be profitable?

Do you want to know if your business idea will meet your personal objectives?

Do you want to get financing to start your business?

If your answer is "YES," then this business feasibility workbook is for you.

Starting a business is something that many Arkansans dream of--it's one of the distinguishing characteristics of our nation's free enterprise system. Turning this dream into reality, however, is not an easy task. People are free to start businesses, but they are also free to fail.

The decision to start a business is an intensely personal one; no one can make it for you. To make the right decision (the best one for you), you need to consider many elements about yourself and your prospective business.

In general, a successful business has three parts: Market, Management, and Money.

Market: "Is there a market for my product or service?" You need to determine if you have a market for your product. Without customers that will buy your product or service in sufficient numbers and at a high enough price to provide a profit, the business will fail.

Management: "Can I bring this product to market?" Products or services, however inherently attractive, do not sell themselves or manage businesses. You must be able to demonstrate to yourself and others that you have sufficient skill and experience to manage your business and bring the product to market profitably.

Money: If the answers to the Market and Management questions are both "yes," then (and only then) should you think about money. Too many people ignore the market and management issues and focus only on money, but the survival of the business depends on the market and the management. To overlook those issues will assure business failure and an inability to secure financing.

The purpose of this workbook is to help you think about your business idea and perform an initial business feasibility analysis. It will guide you through consideration of market, management, and money questions. To analyze these areas adequately will take significant time and effort, but your work will pay off many times over. Guided by this workbook, you can collect information necessary for business success and the acquisition of financing.

This workbook is not a guide to writing a business plan. That is an extensive process that varies from business to business. Before you proceed with a business plan, you should have already completed the basic business feasibility analysis.

Business Feasibility Part 2 of 7: Personal Factors

Step 1. Identify Your Personal Objectives

When evaluating your business idea, one of the elements to consider is its ability to satisfy your wants and needs. If it cannot, you will most likely be unhappy with the business, and an unhappy owner usually makes a poor manager. Poor management is a leading cause of business failure.

Stating the risks you are willing to take for the potential rewards will help you decide whether the business is right for you. Take a few minutes to identify the financial and personal needs objectives that are important to you. Be honest with yourself!

NOTE: Objectives are very personal; each person's will be different. The importance of these lists is to make you think about the real reasons you are considering starting your own business.

Yes No Annual vacations are important to my family and me. We never miss them.

Yes No I like to leave my work at the office at the end of each day. I think about it only when I return the next morning.

Yes No I am willing, and able, to concentrate on the business to the exclusion of family and friends.

Yes No I am in good health and have no family members with health problems.

Yes No I am comfortable with uncertainty, even if it means not being guaranteed a regular paycheck.

Yes No I enjoy working with people, even disagreeable ones.

Yes No I want to be my own boss.

Yes No I want to become well-known in my community.

Yes No I want to be the sole owner of my business.

Yes No I am willing to take a partner/investor into my business.

Yes No I must have a regular paycheck.

I want to work _____ hours per day, _____ days per week.

I like to spend _____ hours per week engaged in my hobbies or other leisure-time activities.

I want to employ _____ people.

I want to employ _____ members of my family or friends.

I want to make \$ _____ per year.

I must earn at least \$ _____ annually.

I am willing to invest \$ _____ to start my business.

Write a description to complete the following sentences:

The skills I have and want to use in running my business are:

The jobs I want someone else to handle are:

The assets that I own and am willing to use as collateral on a business loan are:

Step 2. Identify Your Personal Skills and Experience

Your business idea may be a very viable one, but without good management skills to execute it, your chances for success are poor.

This does not mean that you must yourself possess all the necessary management skills. It does mean that you must know your weak points, so that you can either acquire skills in those areas or hire someone who has them. Be aware, though, that an overdependence on others may expose you and your business to significant risk.

Your chances for success are usually much better if you have direct work experience in the type of business you plan to start. Past experience provides key contacts in the industry or community that can help as you establish your own operation. Past experience provides first-hand knowledge that cannot be learned from a book. It gives you credibility.

The Management Skills Checklist on the next page identifies some of the skills that business owners need in order to ensure that they can adequately control their businesses. Evaluate how well prepared you are to manage your business by checking the appropriate category under each skill.

Use the space below the checklist to list the name of the person who will provide any skill that you do not have and will not obtain through training. For those skills you intend to learn, identify where and when you plan to get training.

Management Skills Checklist

SKILLS I Know How I Need Training Someone Else Will Do

Establish & maintain financial records
Prepare operating budgets
Put together a loan proposal
Compile financial statements
Meet payroll & sales tax requirements
Analyze financial performance
Project & control cash flow
Purchase & manage inventory and/or supplies
Determine credit worthiness of customers
Collect past-due accounts
Price my product/service
Promote my product/service/business
Hire & train employees
Monitor employee performance
Motivate employees; build a team environment
Manage my time
Delegate work to others
Negotiate agreements/contracts with suppliers, customers, etc.
Schedule production work, including labor, machinery, & material needs
Install quality control methods & conduct follow-up measurement
Meet basic legal requirements, including those related to employment, zoning, safety/health, waste disposal, etc.
Identify & make changes necessary to maintain the business's success

Complete the following statements:

Names of people or places who will satisfy "I Need Training" requirements:

Names of people or places who will satisfy "Someone Else Will Do" requirements:

Step 3. Identify Your Personal Financial Resources

A critical element in the analysis of your business idea's feasibility is evaluating how much of the business's financial needs you can meet from your personal resources.

It is unrealistic to assume that you will be able to borrow all of the money you need to start your venture. Virtually every lender — aside from family and friends — will require you to put in some money of your own, either in the form of cash or assets. In order to determine whether you have an adequate amount of money to put into the business, you need to summarize your personal financial resources. Use the Personal Financial Statement on the following pages to identify your current financial condition.

Instructions for completing the Personal Financial Statement:

1. Specify the date for which information is given.

NOTE: You always need a personal balance sheet when you are attempting to borrow money. Lenders require that your information be recent, so prepare your statement as of the latest month for which you have information but not more than two months old.

2. List the dollar value of each of the Assets you own. State market values for stocks and bonds, real estate, automobiles, other personal property, and other assets.

3. Add the Assets column and show the amount in the Total Assets blank. This is the value of all your properties and possessions.

4. List the dollar amount of each of the Liabilities you owe. Be sure to include credit card debts.

5. Add the Liabilities column and show the amount in the Total Liabilities blank. This is the total amount you owe others.

6. Now, subtract the Total Liabilities amount from the Total Assets figure. The difference is your Net Worth, the portion of your assets that exceeds the debt you owe others. Write this amount in the Net Worth blank. Write the sum of the Total Liabilities and Net Worth amounts in the Total Liabilities and Net Worth blank — this should equal the amount shown as Total Assets.

NOTE: If your total liabilities amount is more than the value of your total assets, you have a negative net worth. In other words, you owe more than you have. It is unlikely you can borrow money from conventional financing sources if this is the case.

7. Section 1: List all income amounts that you receive and describe their source. Also, identify any contingent liabilities for which you may be liable. For example, if you have co-signed a note payable or personally guaranteed a business debt, your dollar liability should be shown.

8. Section 2: List all notes payable to banks and others, including automobile notes.

9. Section 3: List all stocks and bonds you own.

10. Section 4: List all real estate that you own. Identify the type of property, e.g., residence, rental house, timber land, etc.

11. Section 5: List other personal property you own. Examples include antiques, paintings, jewelry, boats, farm or lawn equipment, and household furnishings.

Also in Section 5, list other assets that you have. If you own another business, list the value of your equity in the business.

12. Sections 6 and 7: Describe any unpaid taxes or other liabilities you owe.

13. Section 8: Identify all life insurance policies that you or your spouse have. Complete this form for: (1) each proprietor, or (2) each limited partner who owns 20% or more interest and each general partner, or (3) each stockholder owning 20% or more of voting stock and each corporate officer and director, or (4) any other person or entity providing a guarantee on the loan.

Name Business Phone ()
Residence Address Residence Phone ()
City, State, & Zip Code
Business Name of Applicant/Borrower

* Alimony or child support payments need not be disclosed in "Other Income" unless it is desired to have such payments counted toward total income.

Business Feasibility Part 3 of 7: Market

Step 4. Describe Your Product Or Service

It is important that you know, in your own mind, precisely what business you are going to engage in. You may say "That's obvious!" but in taking the time to collect your thoughts and write your idea down, you may discover problems you had not anticipated and advantages you had not considered. While there are hundreds of types of businesses, most can be classified into one of four main categories: service, retail, wholesale, or manufacturing.

Service businesses are currently the most frequently established operations. They are similar to retail businesses, though location is often less important and advertising is often more important than in retail. Service operations usually sell a specialty or skill, so credibility is very important. Start-up costs are often low, and many service businesses can be operated from the owner's home.

Retail stores are a common type of business start-up. Their main advantage is that they can be owned and operated by one person with minimal assistance. Compared to manufacturing operations, they are relatively easy to start, both financially and operationally. However, they have a high failure rate due to undercapitalization, poor site location, and poor market analysis.

Wholesale operations serve as the link between the manufacturer of goods and the retail merchant, industrial customer or end user. They take title to the products they sell and, thus, often have a larger dollar investment in inventory. Location is important even though they often serve a large geographic market.

Manufacturing start-up costs are higher and the set-up times are longer than with the other three business types. Cash may become a problem as the time span between purchase of raw materials and payment for finished goods can be weeks and often months during which many fixed expenses must still be paid. Also, manufacturing operations require more people, both for production and management, than all but the largest of the other three types.

Most government and industry information for all lines of business is collected and reported by Standard Industrial Classification (SIC) code. This code is a four-digit number assigned by the U. S. government. Identify your SIC code in the Standard Industrial Classification Manual (4.1 in Reference List at end of this document) so that you will be able to access information available in reference materials and sources.

Write out your responses to the following questions.

What type of business am I planning to start? (service; retail; wholesale; manufacturing; etc.)

The SIC code for my business is:

What will my business's image be? (quality and price of my products or services; the location and appearance of my facilities; level of employee assistance to customers; types of customers I will sell to)

What specific products/services will I offer?

Are these products/services already available in the marketplace? If so, how and where? If not, why not?

Will my products/services be different from what is already available? In what way? (e.g., convenience, quality, service, price)

How will I deliver my product or service to the marketplace?

What type of labor skills will I need to run my business? How will I be able to find them in my area?

What kinds of equipment or raw materials will I need to run my business or produce my product? How available are these?

Can my equipment be used to manufacture other products or produce other services?

Are there other services or products I could offer to increase my lines of business?

Step 5. Describe Your Customer

Without customers, you will not have a business. Yet it is amazing how many companies know next to nothing about the people or businesses who purchase their products or services. You have to know who your potential customers are before you can determine how to sell to them.

When it comes to your potential customers, you need to know two things: what they are like and how many of them exist in your target area. You must determine the characteristics that your customers have in common. For consumers, these include things like age, occupation, marital status, income, number of children, etc. For business customers, some characteristics to consider are dollar sales volume, type of business, markets served, authority to make the buying decision, and location. Trade journals for specific industries may include subscriber characteristics in their "media kits."

Unless you can find a competitor or industry association that has already gathered this information, you will have to do it yourself. While there are a number of ways to go about characterizing potential customers, they are too involved to cover in this workbook. There are excellent publications available that explain how to do your own market research. Do-It-Yourself Marketing Research (5.1) takes the mystery out of gathering market data and using it to make sound decisions. The Insider's Guide to Demographic Know-How (5.2) tells you how to find, analyze, and use information about your customers.

Once you have determined what your customer "looks like," you need to approximate how many of him or her there are in your target area. Census data is an excellent source for this kind of information.

The Census State Data Center (CSDC), operated by the University of Arkansas at Little Rock, is the official depository for federal census data. A telephone call is often all that is necessary to obtain census information from this office. The CSDC can provide a more detailed analysis of the market for a reasonable fee. The market analysis can include any of the population and housing characteristics available from the 1990 Census and can be provided for a designated radius around a specific site or for a user-defined geographic area. For additional information, contact the CSDC at 501-569-8530.

Use a map to identify geographic markets. Based on your knowledge of who your primary customer groups are, mark their location(s) on your map. You can use this visual aid later in evaluating possible locations for your business.

Answer the following questions about your customers.

Describe my customers in detail. (What will be their age? sex? income level? education? occupation? marital status? location? etc. If customers will be other businesses, what types? sizes? location? etc.)

Why will customers buy my products/services? (Possibilities include need, luxury, impulse, replacement, improvement, status, pleasure, quality, price, guarantee, durability.)

When will my customers buy my products/services? (Particular times of the year, month, week, day.)

How often will customers buy my products/services? In what quantity?

Where are my potential customers located?

How many potential customers are in my market area?

If customers have to come to my store location, how far will they be willing to travel to get to my business?

Is the population growing or declining in my market area?

Step 6. Describe Your Competition

Competitors people in the same line of business are key sources of information. Starting a business successfully can depend to a great degree upon how well you understand your competition, their products, their marketing methods, and their competitive advantages and disadvantages.

If you are starting a storefront operation (one where customers will be coming into your business location), visit your competitors' businesses as a customer. Observe their operations: the number of customers and salespeople, the courtesy and knowledge of staff, the types and prices of goods and services available, etc. Make more than one visit, varying the time and day that you go.

If your competitors do not have storefront operations that you can visit, call them. Ask about services or products sold, how quickly they can respond to your needs, and what technical expertise they have that will reassure you of their ability.

Do not overlook the possibility of interviewing people to learn about the competition. Talk to people or businesses that fit your customer profile. Ask about their current sources for the goods and services you plan to offer. Ask them to identify what they like and dislike about their sources of supply.

For a manufacturer, competition is usually by products rather than geography, so it is more difficult to get information from competitors. One source of manufacturer information (such as product, business size, plant location, etc.) is state manufacturers' directories. (6.1) These can be found in the Arkansas State Library, the offices of the Arkansas Industrial Development Commission, and college libraries. Another good manufacturer's directory is the Thomas Register (6.2) which can be found in most libraries statewide.

If you find it impossible to get a competitor to talk to you, then try to find an independent sales representative who works in the industry; he or she is likely to be very knowledgeable about the companies in the industry. Another source of information is an industry distributor such as a retail store, catalog company, or wholesaler that carries a competitor's product. Suppliers to your industry often deal with many of the producers in it, so do not overlook them either.

A good guide to competitor analysis is *How to Check Out Your Competition* (6.3). This book offers techniques you can use to assess your competition. Another useful book is *Competitor Intelligence* (6.4). It shows you how and where to gather information about your competitors' operations.

Using the map on which you previously marked the location of customer groups, identify the location(s) of competitors. This aid may highlight customer groups that competitors are not serving.

Write out your responses to the following questions concerning your competition.

Who will my major competitors be and where are they located?

What are the major strengths of each competitor?

What are the major weaknesses?

Do any of my major competitors plan to expand? At what location?

Are there any new competitors about to start operating in my market area? Where?

Have any competitors gone out of business in the past two years?

If yes, why did they go out of business?

Will growing demand permit a new business to enter the market or will I be attempting to take business away from my competitors?

Step 7. Describe Your Sales And Distribution Process

Sales are how businesses make money and grow. Selling involves three things:

1. A good product.
2. Someone who will pay money for it.
3. A way to get the product to the customer.

For many small businesses, it is the third element, known as distribution, that causes sales problems. An understanding of the advantages, disadvantages, and costs of different channels of distribution will help you avoid making mistakes that could cost you your business.

For the purposes of this section, we divide the information into sales processes for those starting a service or retail business and distribution for those going into manufacturing. This is because retailers are a part of the distribution channel, always dealing directly with the end user. Manufacturers, on the other hand, rarely sell to end users, but instead to a variety of intermediaries, of which retail stores are one. To avoid confusion, we will use storefront to indicate those going into a retail business and retailer as a form of distribution for a manufacturer.

STOREFRONT

Since most retail operations sell directly to the end user, marketing for a retail operation is 90% location. Though advertising can increase traffic to your store considerably, your facility must be accessible in terms of finding it and getting into it.

Answer the following questions about sales and distribution as it relates to your planned retail business.

Can I initially operate the business out of my home?

What time of day will customers shop my business?

What sales-per-square-foot ratio is typical for my type of business?

What other kinds of businesses will complement mine and help increase my business's traffic flow?

How can I best communicate with my customers? What types of promotional and marketing techniques will I use to reach them?

How much space will my business need?

How much parking space will I need?

Will my business require special lighting, heating or cooling, or other special services? If yes, what?

Is the location I'm considering served by public transportation?

Is access to and from the street convenient and safe?

Is exterior lighting adequate to attract evening shoppers and make them feel safe?

Are there any zoning restrictions that will limit my operations at this location? If so, what are they?

Will I be able to expand at this location if my business is successful and I need more room?

Do I need to own my location or should I lease? Why?

If I lease, will I have the option to renew my lease?

What happened to the business that last occupied the location I am considering? Why did they vacate? If the business failed, why?

MANUFACTURING

There are many channels of distribution. While they will vary from industry to industry, the following are the main ones with which you should be familiar.

Direct to End User

End user distribution includes selling through a retail operation owned by you, by phone, at fairs or trade shows, door-to-door, or directly out of the production facility.

Sales Representatives

There are two types of sales representatives: in-house representatives, who sell only your line and are full-time, compensated employees, and independent representatives, who carry other lines besides yours, are considered independent contractors, and are paid strictly on a commission basis.

Retail Stores

These include individually owned stores, regional chains like Dollar Stores, merchandisers like J.C. Penney, upscale department stores such as Dillard's, and discounters like Wal-Mart.

Catalog, Direct Mail, and Mail Order

This category includes catalogs (a collection of items sent to specific individuals), mail order (advertising placed in newspapers and magazines that offers products directly to the reader) and direct mail (sales material sent to thousands of potential customers at one time to either make a sale or generate a sales lead).

Distributors and Wholesalers

Distributors and wholesalers include businesses that do little more than warehouse your product as well as those that will buy, store, resell, and deliver it. They usually serve markets that feature a large number of independent stores, seasonal demand, and a fair amount of price competition.

Write down your responses to the following questions concerning your manufacturing operation.

Is the product I will make intended for the consumer or industrial market?

Is my facility in an area that is accessible to my customers?

Do I have any sales experience? Describe that experience. Do I have the time to manage operations and sell the product/service?

Could my product be sold by an independent sales representative? What will the wholesale price of the product/service be after adding the cost of commissions?

Does selling the product /process require technical education or support? Can I provide such assistance in-house? How?

Can I produce in the high volume a Wal-Mart requires, or will my output be better suited to smaller, individually owned retail stores?

Can my product/service be sold with a picture? Will customers understand enough about the product to purchase it through the mail? What will I have to add to a photograph to sell my product?

Can the product be sent through the mail? How much will this cost?

If I am going to use direct mail, where will I get my mailing lists?

Can my product be produced inexpensively enough so that a distributor could add 30% and still sell it competitively?

What is the price range of competing products?

Reference List

These sources will provide answers to your research needs in Steps 4 through 7 of this book.

Visit your local public library and area college library for publications on a wide variety of business topics. In addition to books and magazines, videos may be available. Ask your public library about interlibrary loans of materials they do not have on hand. They can temporarily borrow publications from libraries outside of your local community.

STEP 4. DESCRIBE YOUR PRODUCT OR SERVICE

1. Standard Industrial Classification Manual. Washington, DC: U.S. Government Printing Office, 1987.

Use this manual to identify the code number which describes your product or service. It is useful when doing research for your business since many business-related indexes are arranged by SIC number.

2. Arkansas Business Directory. Omaha, NE: American Business Directories, 1993 - 94.

This is the "yellow pages" telephone directory for the entire state, also grouped alphabetically by town. It is useful in defining competitors, customers, or suppliers. The Arkansas State Library has this directory for almost every state.

3. Labor Market Information for Arkansas Counties. Little Rock, AR: Arkansas Employment Security Division, monthly updates.

Use this publication to get information about labor force, employment, and unemployment by number and rate for each county.

4. Labor Supply/Demand, 1986-2000. Little Rock, AR: Arkansas Employment Security Division, Annual. This report matches projections of occupational demand with available supply data. Organized by occupational cluster, it is indexed by job titles and gives statistics by regions of the state.

STEP 5. DESCRIBE YOUR CUSTOMER 1. George Breen & A. B. Blankenship. Do-It-Yourself Marketing Research. New York, NY: McGraw-Hill, Incorporated, 1992.

Use this workbook to evaluate the marketing problems you want solved, plan your research study, find existing marketing information to learn about competitors, and develop the best questionnaire.

2. Diane Crispell. The Insider's Guide to Demographic Know-How. Ithaca, NY: American Demographics Press, 1990. Shows you how to do demographic analysis, where to get the best price on demographic data, and who to call if you have a question.

3. Margaret Ambry. Consumer Power: How Americans Spend Their Money. Chicago, IL: Probus Publishing Company, Inc., 1992.

This handbook details exactly how much money Americans spend on hundreds of products and services. Its detail will help you with market share, packaging & promotion, product line, media buying, new product development, and site location.

4. Margaret Ambry & Cheryl Russell. The Official Guide to the American Marketplace. Ithaca, NY: New Strategist, 1992.

This consumer guide presents facts from the 1990 Census, The Bureau of Labor Statistics, and the Federal Reserve Board, to define eight powerful trends that will drive consumer markets in the 1990's.

5. Census of Population & Housing. Washington DC: U. S. Department of Commerce, 1990.

Use this information to locate your customers once you have identified their key characteristics. Geographically arranged by city block, census tract, MSA, city, county and state.

6. Traffic Count Maps. Little Rock, AR: Arkansas State Highway and Transportation Dept. - Planning Division, 1989.

These maps give annual average daily traffic estimates for 1989 at specific locations. They are available for cities or by entire state. Traffic counts can be especially helpful in finding locations for retail outlets.

STEP 6. DESCRIBE YOUR COMPETITION

1. Arkansas Directory of Manufacturers. Little Rock, AR: Cranford Johnson Robinson Woods, 1993.

This directory is printed annually. Use this directory to find manufacturers of specific products in each state. Most libraries have a copy of the Arkansas Directory of Manufacturers. The Arkansas State Library houses directories for every state that publishes one. Don't forget to use interlibrary loan to access this data through your local library.

2. Thomas Register. New York, NY: Thomas International Publishing Division, 1994.

This 25-volume set indexes over 20,000 manufacturers in the United States and Canada. Use this index to locate customers, suppliers, and competitors nationwide. This index is available on CD Rom disc at the ASBDC Information Center and can be used to develop a mailing list. The database also includes the Thomas Food Industry Register.

3. John M. Kelley. How to Check Out Your the Competition. A Complete Plan for Investigating Your Market. New York, NY: John Wiley & Sons, 1987.

This book gives details on how to set up a competitor intelligence program, gather information, organize it with worksheets, and evaluate a competitor's operation, administration, and financial position.

4. Leonard M. Flud. Competitor Intelligence: How to Get It, How to Use It. New York, NY: John Wiley & Sons, 1987. Answers questions about intelligence gathering like: How do you do it? What is the technique? What and where are the sources?

5. County Business Patterns. Washington, DC: U. S. Department of Commerce, 1990.

This Census Bureau publication gives statistics (by state and county level) on numbers of establishments by detailed industry, their quarterly and annual payroll, number of employees, and number of establishments by employment-size class.

6. Directory of Manufacturer's Sales Agencies. Laguna Hills, CA: Manufacturers' Agents National Association, 1993.

This directory is a good source for finding the best sales agencies for your product line. It is indexed alphabetically and by product line.

7. American Wholesalers and Distributors Directory. Detroit, MI: Gale Research, Incorporated, 1992.

A comprehensive guide offering industry details on more than 18,000 wholesalers and distributors in the U.S.

Manufactured goods are usually not delivered straight to the consumer. Instead, wholesalers & distributors buy these products from the manufacturer, then sort, assemble, and store them for resale. This directory can be used to establish important connections between manufacturers and consumers.

8. Market Share Reporter. Detroit, MI: Gale Research, Incorporated, 1994.
An annual compilation of reported market share data on companies, products, and services.

STEP 7. DESCRIBE YOUR SALES AND DISTRIBUTION PROCESS

1. Literature Searching - Do a thorough search of these database indexes to find the latest business-related information available in print nationwide.

*ABI Inform - Instant access to over 800 journals covering essential business and management information. Each record contains a 150 word abstract in addition to a full bibliographic citation.

*Business Dateline - This database contains full-text articles from more than 180 regional business journals (including Arkansas Business), daily newspapers, and business wire services. You can research articles about companies, people, and events shaping the regional & national business scene.

*Predicasts F & S Index - This index contains both abstract and full text articles about manufacturing and service industries worldwide, including facts about companies, products, markets, and applied technology.

* Note: These databases can be accessed on-line through your local library for a fee, OR you can search them on compact disc at the ASBDC Information Center free of charge, as long as the subscriptions are current.

2. Adrienne Toth; Suzette Bessette; Leanne Jisonna; Deborah Kid, & Elizabeth McLaughlin. Directory of Mass Merchandisers. Stamford, CT: Hunter Media, 1993.
This directory lays the groundwork for you to evaluate distribution opportunities and reach buyers. It includes information on demographics, market area maps, major corporations, top 100 mass merchandisers, convention dates, and specific companies.

3. Jim Gibbons. How to Build Sales With Manufacturer's Agents. Englewood Cliffs, NJ: Prentice Hall, 1989.
This guide spells out everything you need to know from the economic and legal ramifications of selling through sales reps to proven tactics that encourage agencies to devote as much time as possible to pushing your line.

4. National Directory of Catalogs. New York, NY: Oxbridge Communications, 1992.
Covers more than 7,000 U.S. and Canadian catalogs of all types & sizes. Gives contact information, a description of products carried, personnel contact names, list rental data, and production information.

5. Edward Allyn. How to Start A Mail Order Business. Woodstock, NY: Allyn Air Advertising & Publicity, 1987.
Written in an easy-to-read manner, this book begins with finding the right product and continues through the production or purchase, marketing, and sales procedures used to build a successful mail order business. It is written both for people who want to sell products they manufacture and for those who want to buy products for distribution.

6. Harriet Stephenson & Dorothy Otterson. Marketing Your Products & Services Successfully. Grants Pass, OR: Oasis Press, 1986.
Includes developing a market plan, market research, using media, cost and price strategies, and identifying new markets.

Business Feasibility Part 4 of 7: Management

Step 8. Describe Your Management Requirements

One of the most critical, yet most intangible, requirements for a successful business is management skill. In Step 2 (see the related fax document Business Feasibility: Personal Factors) you identified your personal skills and experience what you "have." The next question is to find out what you "need." This is not an easy question, but it is one that you must answer. Having sufficient market opportunity as well as financing is insufficient. Your business will fail if you are not able to control and direct the business once it is operating. In addition, it is unlikely that you will succeed if you do not enjoy or do well the kind of work required.

A good place to begin is by reviewing as many books or publications that you can obtain on starting a business, specifically on businesses of your industry or type.

A second source is to contact people running similar businesses.

You should talk with at least five people running similar businesses to get a range of opinions and experiences. It is best to find business owners or operators that are out of your region so you will not be asking potential competitors to help you get started. Not surprisingly, people who think that you might take customers and sales dollars away from their businesses will not have much interest in talking with you or in giving you accurate information.

You should ask specific questions, such as those listed below. You need to understand the day-to-day life of the business operator, the hours involved, the skills and experience required, the conflicts, the travel required, the customer skills and experience needed, and as many other elements of the business as you can.

Other possible sources of information are national or regional trade associations for your type of business and your local chamber of commerce. The Encyclopedia of Associations (8.1 in Reference List at the end of this document) identifies trade associations which you can contact for useful industry information. It is good to contact your local chamber to help develop local connections and support for your business. They may have profiles of people in this line of business. Be aware that their primary interest is in obtaining new members, so they may be biased.

With your increased understanding of the day-to-day and overall skill requirements of the business, you are now in a better position to evaluate your own skills and experiences and identify areas in which you might need additional training or support. It may be appropriate to review your responses on the Management Skills Checklist in the related fax document Business Feasibility: Personal Factors.

Please answer the questions below after you have talked with at least five sources of reliable information. Do not respond with your opinions.

What is the day-to-day life of a business operator in this business like?

What are the most important day-to-day skills necessary to be successful?

What are the daily work hours like? Weekends? Impact on family life?

According to experienced operators, what are the three most important skills or knowledge areas that I must have to run this business successfully?

What do business operators in this profession enjoy most about their business? What do they like the least?

What are the motivations of the other business operators? How are they like me? Different from me? What would they do over, if they could?

What are the most difficult challenges and tasks that people in this line of work face?

Reference List

These sources will provide answers to your research needs in Step 8 of this book.

Visit your local public library and area college library for publications on a wide variety of business topics. In addition to books and magazines, videos may be available. Ask your public library about interlibrary loans of materials they do not have on hand. They can temporarily borrow publications from libraries outside of your local community.

STEP 8. DISCUSS YOUR MANAGEMENT REQUIREMENTS

1. Encyclopedia of Associations. Detroit, MI: Gale Research Incorporated, 1994.

This reference is a primary source for identification of trade associations. Each entry gives the organization name, address, phone, and executive officer. It is indexed alphabetically.

2. Joyce S. Marder. *Surviving the Start-Up Years*. White Hall, VA: Betterway Publications, Inc., 1991.
Dozens of case histories of both successful and unsuccessful business people in a variety of fields. Discusses start-up capital, operating money, expansion, pricing, and managing employees.

3. James A. Tompkins, PH.D. *Winning Manufacturing*. Norcross, GA: Industrial Engineering and Management Press, 1989.
A focus on the basic requirements of manufacturing success, together with a "how-to" approach that will lead a manufacturing team to success.

Business Feasibility Part 5 of 7: Money

Description: Identify expected start-up costs and a twelve-month operating budget

Step 9. Develop Your Sales Forecast

In evaluating how much of the market you can get, concentrate on why customers will buy from you and not your competition. You must offer the customer a good reason to switch to your business.

Data on selected industry sales is included in Sales and Marketing Management's Survey of Buying Power (9.1 in Reference List at the end of this document). Information is given by state, county, and metropolitan areas. This publication is updated annually.

Consult the Census of Retail Trade, Census of Wholesale Trade, Census of Manufacturing, and Census of Service Industries (9.2) for industry data on sales receipts and value of shipments. This data is presented on a statewide and, sometimes, county-wide basis.

An excellent predictor of sales volume for a storefront operation can be obtained from Dollars and Cents of Shopping Centers (9.3). This reference provides data on median sales per square foot and median size of location. Multiply the sales figure by your potential location's square footage to arrive at an estimated annual sales volume. You should also compare your potential location's size to the median to determine if your site's size is in line with the industry. This data is very useful even if your location is not in a shopping center.

Another valuable source of information on what level of business to expect is other business owners and owners of similar businesses that failed. Don't expect competitors to share this data with you. Owners of similar businesses outside your market area may, however, since you will not be in competition with them. Contact business owners in similar-size markets outside your area. You may be able to obtain valuable information and advice, based on their experiences.

Answer the following questions about your possible sales volume.

What price(s) will I charge for my products/services? Why will the customer pay this much?

How many "units" of my products/services will I sell each month? Will monthly sales be fairly even or fluctuate because of seasonal factors?

What will my total sales revenue be for the first year? (Total units multiplied by your selling price).

What are the total sales for my type of product/service in the industry or market area (whichever applies)?

Of the estimated total sales in my industry or market area, what amount can I expect to get for my business?

Why will customers buy from me and not from my competitors? Will customers know or care that I'm offering something with a difference?

What will my competition do in response?

Does my estimate of sales seem reasonable based on the sales volumes of my competitors?

When will my sales increase and slow down, and why? What steps can I take to minimize the peaks and valleys that occur during my sales year?

Step 10. Identify Your Start-up Expenses

You will incur many costs to open your business. Some of these expenses will be of a continuing nature, such as rent, utilities, and insurance; others will be non-recurring, such as equipment purchases, security deposits, and the like.

These start-up costs must be identified as you analyze your business idea's feasibility. Only by knowing the total costs to get your business to an operating stage can you decide whether you have enough personal financial capacity to approach lenders about debt financing for the remainder of the money that you need.

Besides specific expenses that must be paid, you also need operating cash to support the business until it begins to generate enough cash to meet continuing costs. The amount of operating cash you need depends on the amount of your recurring monthly expenses and the number of months it takes for the business to generate a positive cash flow (that is, cash received exceeds cash paid out).

The amount of time required to begin generating a positive cash flow varies due to many factors. The type of business influences the length of the cash cycle, as do the payment terms you offer to customers and suppliers offer to you. Remember, in a start-up environment, it takes time for customers to find out about your business, decide to give you the opportunity to sell to them, and finally make a purchase.

Your past experience can affect the amount of time needed to generate a positive cash flow. For example, if you have operated a business for someone else and plan to open a competing business, you may have loyal customers who will follow you.

It is wise to be conservative when projecting the operating cash you will need during the start-up phase of your business enterprise. One of the worst things for any new business is to have only enough cash to operate for one or two months. Rarely can a new business begin to support itself so quickly.

Since the amount of operating cash required depends on your projected sales and expenses, you should not attempt to estimate a dollar figure now. After you have projected your sales and expenses for the first twelve months of operation, you can estimate an amount. You probably will want to have cash to cover at least four months of total expenses (cost of goods sold + total operating expenses) or more, if expenses will be high and sales low during initial months of operation.

The following worksheet identifies common start-up costs. Use this form to develop an estimate of the amount of money you will need to get started. Omit or add items to suit your business. Check with trade associations and franchisors for industry data on start-up costs for your potential business. You may also want to ask other business owners outside your market area for guidance.

ESTIMATED START-UP COSTS

Balance Sheet Items:

Land \$
Building
Furniture & Fixtures
Counters, display stands, shelves, tables
Window display fixtures
Storage shelves and cabinets
Outside sign
Autos
Machinery & Equipment
Cash register
Computer
Tools
Machines
Other (specify)
Starting Inventory, Merchandise
Starting Inventory, Raw Materials
Starting Inventory, Supplies
Decorating & Remodeling
Installation of Fixtures and Equipment
Deposits (utilities, lease, etc.)

SUBTOTAL \$

Profit & Loss Statement Items:

Licenses and Permits
Legal and Accounting Fees
Other Professional Fees
Advertising for Opening, etc.
Promotions (door prizes, etc.)
Printing
Other (specify)

SUBTOTAL \$

TOTAL START-UP COSTS \$

Step 11. Estimate Your 12-Month Operating Budget

The operating budgets for your business are summaries of the business's projected sales and expenses, cash flow, and balance sheet. They are the road maps by which you project and chart the business's future, compare actual performance to your expectations, and adjust the business's operations as needed to stay on course.

Be conservative and realistic as you develop your operating budgets. It is much better to out-perform your projections than to try to explain why you didn't meet them especially if you must explain that to your banker.

Some types of businesses may not achieve a profit in the first year. Extend your profit or loss projection up to the point where your projected figures show an annual profit. For example, a fish farm takes as much as nine months to grow its first "crop" of fish for market. Production costs have been incurred all that time, so expenses may exceed total sales in the first year. If they do, the result is a net loss for the year.

The projected profit or loss statement should include all the normal costs associated with the day-to-day operation of your business. Some of these expenses are fixed that is, they continue whether or not the business has sales. Others are variable they are controllable and, sometimes, directly dependent on the business's sales volume. Be sure to allow for miscellaneous expenses all the things you have not thought of or anticipated.

It is important that you obtain reliable estimates wherever possible. For example, public utility companies can give you estimates on monthly bills for your proposed location. Your insurance agent can give you advice on the types of coverage you need and estimated costs for that coverage.

Once you have completed the projections, study them for any changes you may want to make. For example, if your profit margin is below industry standard, can you increase your price? You might consider operating out of your home. Do you need to decrease your salary?

Use the worksheets in Document #1021 to project the expected sales and expenses of your business in its first year of operation. Detailed worksheets are provided for estimating sales, cost of goods sold, labor-related expenses, and operating expenses. Transfer these amounts to the Profit or Loss Statement, then complete it. The expense categories shown are those typical for most businesses; add any other expenses that you know will apply to your business, but are not shown.

Once you have estimated sales and expenses using the worksheets, return to this document to continue with your evaluation of the issues related to money as they affect the feasibility of your potential business.

Financial Ratios Worksheet

It is important to compare the projected performance of a proposed business to the "industry averages" for that type of business. This comparison will confirm whether the projected financial performance is expected to be in line with, better than, or worse than industry norms.

The results of the comparison can be very useful. If, for example, your projected figures are comparable to industry norms, you would appear to have realistic expectations about your projected earnings. If your figures are at wide variance, you will need to account for the difference(s) by re-evaluating your estimates or by showing why your business will perform differently from others in the industry.

There are several sources of industry data, but a commonly available one is Annual Statement Studies, published by Robert Morris Associates (11.1). This book is available at the ASBDC as well as many public and university libraries.

Use the following worksheet to compare the projections you have developed to industry standards.

Industry ratios obtained from:
SIC Code for my business is:

Column 1	(My \$\$) Column 2	(My %) Column 3	(Industry %)
Net Sales	100.0	100.0	
Gross Profit			
Operating Expenses			
Operating Profit			
All Other Expenses			
Profit Before Taxes			

Column 1 = My projected business income and expense data
Column 2 = Data converted into "Percent of Net Sales"; divide each item by Net Sales and multiply by 100
Column 3 = Industry average percentages for my type of business

Reference List

These sources will provide answers to your research needs in Steps 9 through 11 of this book.

Visit your local public library and area college library for publications on a wide variety of business topics. In addition to books and magazines, videos may be available. Ask your public library about interlibrary loans of materials they do not have on hand. They can temporarily borrow publications from libraries outside of your local community.

STEP 9. DEVELOP YOUR SALES FORECAST

1. Survey of Buying Power. Arlington, VA: CACI Marketing Systems, 1991
This resource uses 1990 census data combined with marketing data to produce effective buying income; total retail sales to market data; and projections for population, effective buying income and retail sales. Organized by state, county, and MSA.

2. Census of Retail Trade. Washington, DC: U.S. Department of Commerce, 1987.
Census of Wholesale Trade. Washington, DC: U.S. Department of Commerce, 1987.
Census of Manufacturing. Washington, DC: U.S. Department of Commerce, 1987.
Census of Service Industries. Washington, DC: U. S. Department of Commerce, 1987.
Use this data to locate potential markets and to analyze your own production and sales performance relative to industry or area averages. It gives data by specific industry including number of establishments, sales, and payroll.

3. Dollars & Cents of Shopping Centers. Washington, DC: Urban Land Institute (ULI), 1992.
Excellent source for data on sales per square foot and median size of storefront businesses. Lists lease arrangement, average rental rates per square foot, and other costs to retail and service stores located in shopping centers. Information is sorted by type of store and type of shopping center.

4. George C. Michael. Sales Forecasting. Chicago, IL: American Marketing Association, 1979.
This book was written specifically for business decision makers who have need of forecasts yet are uncomfortable with the forecasting process.

STEP 10. IDENTIFY YOUR START-UP EXPENSES

1. Sharon Kahn & Phillip Lieff. 101 Best Businesses to Start. New York, NY: Doubleday & Company, 1988.
This book examines some key issues every potential owner should consider before starting a business. Each business entry lists expected start-up dollar investment, typical annual revenues, and staff requirements to operate the business.

2. Entrepreneur Magazine. Boulder, CO: Published monthly.
This periodical regularly highlights new businesses and gives start-up details. The Entrepreneur Magazine Group also publishes start-up guides for over 100 businesses.

STEP 11. ESTIMATE YOUR 12-MONTH OPERATING BUDGET

1. Susan Kelsay. (RMA) Annual Statement Studies. Philadelphia, PA: Robert Morris Associates, 1994 (updated annually).

2. David H. Bangs. The Business Planning Guide: Creating a Plan for Success in Your Own Business. Dover, NH: Upstart Publishing, 1990.

3. Industry Norms and Key Business Ratios, Murray Hill, New Jersey: Dun and Bradstreet Information Services, 1994 (updated annually).

4. Leo Troy. Almanac of Business and Industrial Financial Ratios. Englewood, NJ: Prentice Hall, 1995 (updated annually).

OTHER INFORMATION

1. Small Business Sourcebook. Detroit, MI: Gale Research Incorporated, 1994.
This handbook lists information sources for over 200 businesses including associations, services, and assistance available.

2. Encyclopedia of Business Information Sources. Detroit, MI: Gale Research Incorporated, 1993.
This is an extensive bibliography with topics arranged alphabetically.

3. Starting a Home-Based Business. Manhattan, KS: Kansas State University, 1990 .

This small book offers tips on selecting a home-based business. It includes a list and description of over 200 home businesses. It also includes tax, legal, and record keeping tips.

4. U.S. Industrial Outlook. Washington, D.C: U.S. Department of Commerce, 1993.

Industry reviews, analyses, and forecasts for 350 industries.

5. Roger Bel Air. How to Borrow Money From a Banker: A Business Owner's Guide. New York, NY: AMACOM, 1988.

This book gives a good description of the loan approval process from the banker's point of view. It includes especially useful information on types of business loans, lending guidelines, and presenting a loan request.

+ FICA																				
+ FUTA																				
+ SUTA																				
+ Wrkr's Comp Ins																				
+ Empl. Benefits																				
= Total Labor-Rel. Expense																				

Labor Expense Assumptions:
The sources of my cost estimates are:
Payroll Taxes:

Employee Benefits:

Worker's Compensation Insurance:

Hourly Wage Rate:

Instructions on Completing Projected Operating Expense Worksheet:

1. Wage & Labor-Related Expenses: Enter total wages and labor-related expenses, by month, from Projected Labor Expense Worksheet.
2. Commissions: Enter total monthly commissions paid to sales staff.
3. Repairs/Maintenance: Projected facility upkeep or repairs per month.
4. Insurance: Projected business insurance (e.g., liability, building & property, business interruption, etc.).
5. Taxes/Licenses: Projected property taxes, privilege license fees, etc.
6. Bad Debts: Projected bad debt expense on customer sales.
7. Bank Charges: Estimated bank fees on business checking accounts, bank credit card charges, etc.
8. Depreciation: Estimated monthly depreciation expense on fixed assets (e.g., building, equipment) owned by business.
9. Miscellaneous: Estimated amount for unplanned or unknown costs, by month

Note: Enter projected monthly costs for each category of operating expenses listed; additional explanation is offered above for some cost items.

Operating Expense Assumptions:

1. The sources of my cost estimates in the following areas are:
Rent

Utilities/Telephone

Advertising

Insurance

Legal/Accounting

Depreciation

- Total Oper Exp	<input type="text"/>
= Operating Profit	<input type="text"/>
+ Other Income	<input type="text"/>
- Other Expense	<input type="text"/>
- Interest Expense	<input type="text"/>
= Prft. Bef. Taxes	<input type="text"/>
- Income Taxes	<input type="text"/>
= Net Profit	<input type="text"/>

P or L Worksheet Assumptions:

1. My source for income tax estimates is:

Business Feasibility Part 7 of 7: Making the Decision

Step 12. Evaluate Business Feasibility

At this point, you may be impatiently saying "Enough of all of this writing and analysis. Tell me will this business work?"

It is impossible to answer such a question on a yes or no basis. At the very minimum, the question is "Will the business work for me?" not the more general "Will the business work?" You are a critical and personal element of your business success. Ultimately, only you can answer that question.

The following scoresheets can help you focus on the pros and cons of your business idea.

Market Scoresheet

Rate your level of agreement with the following statements concerning the sales and marketing issues of your business. Check the appropriate column and total the number of choices at the bottom of each column.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
I have demonstrated that my product/service is needed in the proposed market area.					
The proposed product/service is different from anything already available from competitors.					
Based on research and conversations, I have identified why customers will buy my product/service.					
I have described ten key characteristics of my customer(s) in detail.					
I have described five geographical sites where my customers are located.					
I have estimated the number of potential customers in the proposed market area.					
I have identified and described the strengths and weaknesses of at least 50% of my potential competitors.					
As a manufacturer or distributor, I have researched at least three ways to get my product to my customers.					
I have identified and spoken at length with at least five suppliers of my raw materials.					
I have researched, priced, and spoken with key people concerning the advertising and sales techniques that I will use to reach my customer.					
Total Number of Choices in Each Category					

Management Scoresheet

Rate your level of agreement with the following statements concerning the management issues of your business. Check the appropriate column and total the number of choices at the bottom of each column.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
I have a strong need to achieve.					
I possess a large amount of energy which I am willing to put into my business.					
I am persistent - I keep trying until I get it right.					
I am comfortable taking risks.					
I have good reading, writing, and arithmetic skills.					
I know the most common skills needed to operate this business and possess them myself or will get training.					
I have owned or managed a business before and it was successful.					
I have work experience in the type of business I want to start.					
I am comfortable with hiring, firing, training, and managing employees.					
I have assembled a team of advisors - attorney, accountant, insurance agent, banker - and am comfortable seeking advice from them.					
I have considered the consequences if the business fails and I know how I will handle them.					
Total Number of Choices in Each Category					

Money Scoresheet

Rate your level of agreement with the following statements concerning the financial issues of your business. Check the appropriate column and total the number of choices at the bottom of each column.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Based on research about similar businesses, my business's projected sales per square foot is typical for the industry.					
The business will show a profit at the end of the first year, based on the expected sales volume minus all anticipated expenses.					
The estimated sales are built on researched assumptions about how much product can be					

sold at the projected selling price.					
Start-up costs and business expense estimates for the last year are based on actual dollar costs where quotes or documented estimates could be obtained.					
Trade associations and/or financial publications have proven to be good sources of useful information about the typical financial performance of businesses similar to mine.					
My business's projected sales and expenses are comparable to the industry information I have obtained for similar businesses.					
I have personal assets, such as land, stocks, etc., that I can and will use as collateral to get a loan to start this business.					
I have cash savings that I will use to start the business.					
The business will be able to pay me a salary on which I can live.					
I need to borrow no more than 70% of the money required to start the business.					
I know what lenders will expect of me if I seek a loan to start the business.					
Total Number of Choices in Each Category					

Analyzing the Scoresheets

You can now analyze the results from the Market, Management, and Money scoresheets. Please fill out the form below, as described:

		Market Scoresheet		Management Scoresheet		Money Scoresheet	
	Multiply by	Number of Choices	Points	Number of Choices	Points	Number of Choices	Points
Strongly Disagree	-10						
Disagree	-5						
Neutral	0						
Agree	+5						
Strongly Agree	+10						
Total points for each of the three scoresheets							

Above +50: Green Light

If your score for a particular scoresheet is above 50, it indicates that, based on your opinions and analysis, you have a relatively positive business proposal with respect to the particular topic.

+50 to -50: Yellow Light

A score between +50 and -50 for a particular scoresheet indicates that, based on your opinions and analysis, it is hard to predict whether or not this is a solid proposal. You can proceed to steps beyond this study of business feasibility, but be aware that some areas may require further work.

Below -50: Red Light

A score below -50 for a particular scoresheet indicates that, based on your opinions and analysis, you have a relatively poor business proposal in respect to this topic at this point, and you should not proceed further until you have sorted out some of the issues raised.

Conclusion

As we said at the beginning, the decision to start a business is an intensely personal one that only you can make. Use of this workbook will better prepare you to make an informal decision about whether to pursue your dream of business ownership.

We urge you to

Allow plenty of time to research and plan.

Take advantage of available resources.

Know what lenders expect before trying to borrow money.

Consider the consequences if the business fails and have a plan on how to handle them.

Good luck on making your dream a success.