



*Business focus: Retention driven*

# Feasibility Study: Exploring the Possibilities



Tools for your toolbox

Our mission:

*To significantly enhance economic development progress in Northwest Illinois and beyond, as measured ultimately by job creation.*

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## **Introduction**

There are no short cuts to business ownership. If it was easy, everyone would be in business for themselves. It takes a committed, dedicated, person to become a business owner. Are you that type of person? Well, you are about to find out if you are!

In the pages that follow you will answer questions about the business you are considering opening. Some of these questions at first glance you might think don't pertain to you or your business, but they do. Each person has talents and abilities. Your job in these pages is to determine if you have these talents and abilities, if not, will you be able to find the people who do?

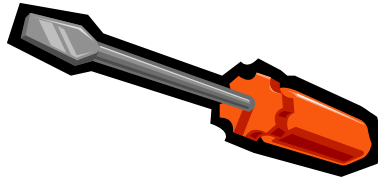
How does this work? In the pages that follow you will answer the questions that will help you assess whether business ownership is for you or not.

- Answer the questions completely and honestly, the way you would if your future depended on it and it does.
- Use additional paper if necessary. The space provided for answers is small to keep the document from being too large.
- **NO SHORT CUTS!**
- Answer each question.
- If you get stuck, research or call someone in the industry.

What happens if you get into this and you determine that you are not going in this direction? It's ok! Not everyone should be a business owner.

Finally realize that this adventure will take time, effort, and eventually money to make happen. If it is worth doing, you will find a way to get it done. But it will never be a dream comes true unless you start the process. Now it's up to you.

Part 1-Section 1  
You, your family, and the business



Part 1-Section 1

**Part A: Personal Characteristics and Objectives<sup>i</sup>**

Carefully consider each statement on the following worksheet. Be *totally honest* with your responses. Business startups are life-changing experiences. It's important that you clearly understand how you and your family may be affected, and whether the tradeoffs and sacrifices will be worth it.

As you work through this exercise you are expected to compare notes with immediate family members. The statements are meant to be thought-provoking and may not be all inclusive. Other important and relevant subject matter may emerge during your personal family discussions. Family consent and support are very necessary for minimizing stress during what may be a difficult business startup period.

Concentrating on a business to the exclusion of my family isn't a problem.

Your response: Yes\_\_\_ No\_\_\_      Your family's response: Yes\_\_\_ No\_\_\_

Regular vacations and leisure time are important to me and my family.

Your response: Yes\_\_\_ No\_\_\_      Your family's response: Yes\_\_\_ No\_\_\_

My family and I can tolerate not being guaranteed a regular paycheck.

Your response: Yes\_\_\_ No\_\_\_      Your family's response: Yes\_\_\_ No\_\_\_

My family and I can tolerate a lower standard of living for months or years.

Your response: Yes\_\_\_ No\_\_\_      Your family's response: Yes\_\_\_ No\_\_\_

I am in good health; none of my family members have health problems.      Yes\_\_\_ No\_\_\_

I don't mind working 12-16 hours per day, 6 days per week, and maybe holidays.      Yes\_\_\_ No\_\_\_

I have the physical stamina and emotional strength to handle business stress.      Yes\_\_\_ No\_\_\_

I understand the stress management and can control how stress affects me.      Yes\_\_\_ No\_\_\_

I enjoy working with people even when there is conflict.      Yes\_\_\_ No\_\_\_

I like making my own decisions.      Yes\_\_\_ No\_\_\_

I'm very adaptable to ever changing conditions.      Yes\_\_\_ No\_\_\_

I enjoy continuous competition.      Yes\_\_\_ No\_\_\_

I enjoy multi-tasking.      Yes\_\_\_ No\_\_\_

I am well organized, and can get things done on time.      Yes\_\_\_ No\_\_\_

I can take advice from others.      Yes\_\_\_ No\_\_\_

I want to become very involved and very well known in my community.      Yes\_\_\_ No\_\_\_

At the end of each day, I like to leave my work at the office.      Yes\_\_\_ No\_\_\_

Are you prepared to lose your savings?      Yes\_\_\_ No\_\_\_

Running my business will require these critical skills:

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I have the above skills.      Yes\_\_\_ No\_\_\_

I am willing to take additional training to achieve these skills.      Yes\_\_\_ No\_\_\_

I understand that without these skills or staff to help, my business may suffer.      Yes\_\_\_ No\_\_\_

What are your personal goals and career aspirations?

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How will these goals fit with my business? \_\_\_\_\_

Owning and operating my own business will allow me to reach my personal goals. Yes\_\_\_No\_\_\_

I am willing to pledge and risk losing the following assets as collateral on a business loan:

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My family understands and is okay with risking these assets.

Your response: Yes\_\_\_ No\_\_\_      your family's response: Yes \_\_\_ No \_\_\_

## **Part B: Personal Skills and Experience**

Management skills and directly related business experience are both very necessary for improving your chances of success. Not everyone who starts a business has all the required management skills. It is therefore important to accurately identify your strengths and weaknesses so you can decide to either upgrade your personal capabilities through training, or employ the required expertise. It is best not to have to hire a large amount of skill; depending too much on others can be risky in terms of business control.

There isn't a good substitute for directly related experience. Even a fundamental knowledge of the type of business you wish to start provides immediate familiarization with markets, users, competition, contacts and other factors that will be helpful as you perform a feasibility analysis and write a business plan. Zero experience doesn't necessarily mean failure, but your chances of success improve dramatically if you already have a directly related background.

Characteristic	I have knowledge	I'll get training	I'll hire expertise
Establish and maintain financial records			
Prepare operating budgets			
Compile a loan proposal			
Compile financial statements			
Meet payroll and tax requirements			
Project and control cash flow			
Analyze financial performance			
Purchase and manage inventory			
Qualify customers for credit			
Collect past-due accounts			
Price my products and/or services			
Advertise, promote, and market my business			
Interview, hire and train employees			
Develop a compensation and benefit program			
Monitor and reward employee performance			
Motivate employees, build a team			
Manage my time; delegate work to others			
Negotiate contracts/agreements			
Schedule work; forecast material needs			
Meet all legal, OSHA, and EPA requirements			
Measure and improve process efficiency and quality			

## **Part C: Personal Financial Capability**

The last five (5) years have been very difficult for our economy as a nation, but also as individuals. The skills for managing money and budgeting are a huge part of your responsibilities as a business owner. How do you handle the budget in your home? A smart business owner will know how to budget and stay WITHIN the budget, even when times are tough.

Financial institutions do not provide 100% financing for a business startup loan. Usually at least 20-30% of startup costs must be covered by personal investment, preferably cash, and sufficient collateral must be pledged for financing the remaining balance.

How much money will you need to start your business? That information comes further in the feasibility study.

The personal financial statement, like that presented on the following pages, is a document utilized nearly universally by financial institutions for determining an individual's relative financial position. By filling out the form during the feasibility study, you will clearly understand whether or not you have the ability to meet the personal financial obligation of starting your own business. Additionally, it will become obvious what assets may have to be pledged in order to secure reasonable startup financing.

Financing decisions are perhaps the most difficult of all business startup decisions. Undercapitalization is a chief cause of new business failure. Yet to acquire sufficient startup capital, it is often necessary to take extraordinary personal risks. These decisions require very careful consideration and where appropriate, total family involvement. This is where you may be asking yourself if the business proposition is worth the possibility of losing your house! And that very thing has happened to many entrepreneurs. Remember, about half of all new businesses fail within the first two years. That doesn't mean yours will, but it does mean you should consider all possibilities and consequences.

Most of the personal financial statement is self-explanatory. It will take some time to complete, and it may be necessary to do some research to find the right data. Be accurate; it must be sworn over your signature that all included information is correct to the best of your knowledge. Severe penalties can result from purposely misstating to your bank any information on this form.

# Personal Financial Statement

<b>Assets</b>	<b>Amount (\$)</b>
Cash – checking accounts	
Cash – savings accounts	
Certificates of deposit	
Securities – stocks/bonds/mutual funds	
Notes and contracts receivable	
Life insurance – cash value	
Personal property (autos, jewelry, etc. – itemize)	
Retirement funds (IRA’s, 401K, etc.)	
Real estate (market value – itemize)	
Other assets - itemize	
<b>Total Assets</b>	

<b>Liabilities</b>	<b>Amount (\$)</b>
Current debt – credit cards, credit accounts	
Notes payable (describe terms below)	
Taxes payable	
Real estate mortgages (list terms)	
Other liabilities – itemize	
<b>Total Liabilities</b>	
<b>Net Worth (Assets – Liabilities)</b>	

**Terms of Notes and/or Mortgages:**

## Point of determination

The final measurement of determining if you are ready for the next part of the feasibility study is the next self analysis. Answer yes or no, honestly, then see page 12 for the next step.

I have a strong need to achieve and don't mind working long hours. Yes or No

I possess great energy; I'm persistent. Yes or No

I'm comfortable taking risks. Yes or No

I have good reading, writing and arithmetic skills. Yes or No

I have or can get the training and skills needed to run my business. Yes or No

I have owned or managed a business before and it was successful. Yes or No

I have relevant work experience. Yes or No

I am comfortable with hiring, firing, training and managing employees. Yes or No

I have assembled a team of advisors (CPA, attorney, banker, insurance agent) and am comfortable seeking advice from them. Yes or No

My business idea is aligned with my career aspirations. Yes or No

I clearly understand what I could lose if the business startup doesn't work out. Yes or No

My family clearly understands the workload, the risks, and the possible consequences, and is with me 100%. Yes or No

I have completed my due diligence in this section of the feasibility study Yes or No

The process to this point has been a determination if this business direction is right for you, your family, and your community. The feasibility study is designed to help you determine if it is feasible for you to begin this business. We have only begun this process and now you are at a decision making point: Will you continue the feasibility study or rethink your concept?

### Answers to questions

If there is a “no” to 1-2 questions, the likelihood of success is currently in your favor. Complete the next section of the feasibility study.

3-4 “no” answers means that much work is still needed on whether you, your family, or the community is ready for this business. Review the issues and seek additional assistance to work through the issues.

5 or more “no” answers indicate that there is little chance for success, at this point. You can increase your ability to succeed by considering the following options:

- Work in the industry that you want to own a business in
- Take additional courses in business at the community college
- Read several books on business start ups written by reliable sources
- Find a mentor and work with him/her to understand the industry
- Take a career or skill assessment test at the community college to find your skill level
- Seek the assistance of the nearest Small Business Development Center

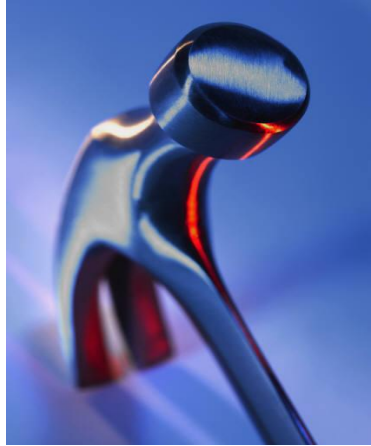
### Next steps

If your indicators encourage you to move forward, continue on with the feasibility study, working toward the business plan. If your indicators are not encouraging, review your options, seek the assistance needed, and continue on with your exploration. When you are ready, begin the feasibility study process again

### What not to do

For a variety of reasons, if your indicators are not encouraging, do not continue onto business ownership until you are truly ready. Premature business start up will lead to lower success.

Part 2  
The Market



## Your Market

You've decided you have a good personal foundation for starting a business. Now you need to decide if there are enough potential customers who will pay an acceptable price for your product(s) or service(s).

After the personal considerations you've just evaluated, the marketing analysis for your business idea is considered the second most critical factor for business startup success. A recent survey indicated that over half of the business startups that failed within the first two years failed because of bad marketing, mostly due to insufficient acknowledgement of competition.

Marketing is a complicated issue, one that you will explore in great detail during the writing of your business plan. An abbreviated process will be utilized during this, Phase II of the feasibility study. Some research and perhaps even a basic marketing class will be helpful, but all of your findings will be useful as a basis later for business plan research. The feasibility format requires that you write down in an organized fashion all the thoughts that are spinning about in your head. You may be convinced that you have the better mousetrap and people will beat a path to your door to get one, but documenting what you want to offer and who you think will buy it may be an eye-opening experience. You will likely discover challenges and opportunities you hadn't yet thought of.

Market feasibility includes accurately describing your product(s) or service(s), defining your customer base, recognizing your competition, and projecting sales volume. Completing the marketing analysis requires passing another decision point. Even if you have the personal wherewithal to be successful, it makes little sense to continue the feasibility study without marketable offerings and customers who will buy from you. Use additional sheets if more space is needed for your responses; it is important that you are as thorough as you can be at this point in the startup process.

**Part A: Product(s) or Service(s)**

Accurately describing your product(s) or service(s) is paramount to being able to produce and deliver it. Your answers to the following questions will also be important as a prelude to defining your potential customer base. Circle the appropriate business type: *service, retail, wholesale, or manufacturing*.

Applicable SIC/NAICS code: \_\_\_\_\_

Describe specifically the product(s) or service(s) you intend to offer:

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List similar products or services that are already available in the marketplace:

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How will your product(s) or service(s) be different?

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What business image do you intend to project to the marketplace?

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How will you deliver your product or service to the marketplace?

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What equipment or raw materials will be required to support your business?

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What unique labor skills will be required to support your business?

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How can you expand on or add value to your offering?

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## Part B: Target Customers

It's obvious that without customers you have no revenue, and if you can't forecast revenue you don't have a business. That makes evaluating your customer base a critical feasibility item.

Three customer characteristics are exceptionally important: 1) who are they, 2) how many are there, and 3) what is the geographic spread of the target market? The first answer provides definition for estimating the second answer. Equally important, knowing who you want to target provides a basis for directing advertising and promotion. Knowing how many there are is the starting point for determining potential sales volume. Geographic spread affects product or service delivery decisions. Although this exercise barely touches on the depth of information required for an excellent business plan, it will help you decide if there is a potential customer base of sufficient magnitude to support your business venture.

Describe in demographic detail the user(s) of your product or service (age, income, etc.):

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Where are these users located?

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Why will they buy your product or service?

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How often will they buy and in what quantity; seasonal?

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How many are there in the target market?

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How many will use the Internet to purchase from you?

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Is the market area population growing or declining? \_\_\_\_\_

If your potential customers must come to your location, will they be willing?

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What's the word on the street about possible new competition?

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Will your business succeed because of growing demand, or will you be required to take business away from your competitors?

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Will the Internet be a critical factor to your success? How?

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What are your major concerns after studying your competition?

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### Part D: Sales

By now you should be very familiar with how your product(s) or service(s) compares to the competition, and whether or not you will have customers. However, knowing that there will be buyers are one thing, knowing how much they will buy is something altogether different.

There are two distinct but directly related factors to consider before determining volume. The first is distribution – how will you get your product(s) or service(s) in front of the potential customers? This process will be different for different types of businesses. For example, a retailer might have a storefront or maybe a website, but for the most part interfaces directly with end users. A manufacturer sells to businesses and may never see the end user. Each requires a different distribution strategy.

The second factor is pricing. Businesses perpetually try to find the optimum balance between a competitive price and a price that produces sufficient profit. Most surveys indicate that pricing is generally an issue only if quality and service are lacking. A basic business assumption should be that you are going to provide excellent service and quality, and then unapologetically charge a price that the market will bear and will keep you in business.

During the writing of your business plan you will want to gather as much research data as possible to accurately predict sales revenue. Income is obviously critical information; without enough your venture will be doomed from the beginning. In this segment of Phase II, in depth research isn't required. What is needed, however, is a basic sales prediction that includes units and dollars, and reasonable justification for both. As you work through the following items you will be developing confidence that your offering is going to attract a sufficient quantity of buyers who will pay your price.

Describe the channel(s) through which your product(s) or service(s) will be presented to your potential customers/users.

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What type(s) of advertising and/or promotion will accommodate the above channel(s)?

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Who will sell your product(s) or service(s)? What experience/training do they have?

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What price(s) will you charge?

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Why will your customers pay this price? \_\_\_\_\_

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How many units will you sell at this price? \_\_\_\_\_

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Calculate the resulting projected revenue: \_\_\_\_\_



## Point of determination

The final measurement of determining if you are ready for the next part of the feasibility study is the next self analysis. Answer yes or no, honestly, then see page 22 for the next step.

I have demonstrated that my product/service is needed in the proposed market area	Yes or No
My product/service is different from anything already available from competitors	Yes or No
I have identified why my customers will buy my products/services	Yes or No
I have listed and detailed at least ten key characteristics of my customers	Yes or No
I have identified the strengths and weaknesses of my competitors	Yes or No
I have estimated the number of customers available in the market place	Yes or No
I can deliver the product/service to my market place in a timely manner	Yes or No
I have determined a price that customers will pay and is profitable for my business	Yes or No
I understand the market place and know the industry and its growth patterns	Yes or No
I have researched distribution channels and understand what those needs will be	Yes or No
I understand the marketing needs of my customers and will have funds to market	Yes or No
I have completed my due diligence in this section of the feasibility study	Yes or No

The process to this point has been a determination if this business direction is right for you, your family, and your community. The feasibility study is designed to help you determine if it is feasible for you to begin this business. We have only begun this process and now you are at a decision making point: Will you continue the feasibility study or rethink your concept?

### Answers to questions

If there is a “no” to 1-2 questions, the likelihood of success is currently in your favor. Complete the next section of the feasibility study.

3-4 “no” answers means that much work is still needed on whether your product or services will be what your customers and business need. Review the issues and seek additional assistance to work through the issues.

5 or more “no” answers indicate that there is little chance for success, at this point. You can increase your ability to succeed by considering the following options:

- Attend a trade show or join a trade association in your industry
- Work in the industry that you want to own a business in
- Take additional courses in business at the community college
- Read several books on business start ups written by reliable sources
- Find a mentor and work with him/her to understand the industry
- Seek the assistance of the nearest Small Business Development Center

### Next steps

If your indicators encourage you to move forward, continue on with the feasibility study, working toward the business plan. If your indicators are not encouraging, review your options, seek the assistance needed, and continue on with your exploration. When you are ready, begin the feasibility study process again

### What not to do

For a variety of reasons, if your indicators are not encouraging, do not continue onto business ownership until you are truly ready. Premature business start up will lead to lower success.

## Part 3

### Supporting and developing your business



## Part 3-Section 1

### Part A-The Technical Requirements

In this phase of the feasibility study you will be determining supporting requirements for creating the product or service you described earlier. You will need to expand on the facilities commentary listed above in the "Sales" segment. Also, you will be asked to describe the machines, technology, raw materials and labor required to produce your product or service.

Sooner or later you will probably consider either leasing or buying real estate from which to operate your business. This is an exciting but potentially hazardous step. The best advice is to sign nothing without the consent of your attorney and the knowledge of your CPA. There is always fine print to be considered, and the full financial liability for a 5 year lease remains even if your business fails after a year or two.

Understanding what it takes to create your product or service is important particularly if there are any special tools, machines or skills required. It may be necessary to order equipment that has a long delivery time. Or it may not be possible to fulfill labor requirements locally, in which case an expensive search may be necessary.

Giving these sorts of topics due consideration at this point provides another level of startup confidence and minimizes later surprises.

Where will your business operate from?

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How much space does your business need? \_\_\_\_\_

What is a typical sales-per-square-foot ratio for your business? \_\_\_\_\_

How much parking will your business need? \_\_\_\_\_

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Will you need to lease or purchase real estate?                      Yes\_\_\_ No\_\_\_                      Square footage \_\_\_\_\_

Are there zoning/licensing/transportation/lease restrictions? \_\_\_\_\_

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Will you be able to expand and how much? \_\_\_\_\_

Does your business require special lighting/heating/cooling/security? \_\_\_\_\_

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Is the location customer/shipper convenient? \_\_\_\_\_

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Is the location near public transportation? \_\_\_\_\_

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Are there complimentary businesses nearby? \_\_\_\_\_

What hours will you be open? \_\_\_\_\_

Is there major road or building construction planned nearby? \_\_\_\_\_

What special tools or machines does your product or service require? \_\_\_\_\_

Can you get/operate them? \_\_\_\_\_

Do you need a computer/POS/Internet? \_\_\_\_\_

What technology service is available? \_\_\_\_\_

Do you need special fixtures/shelving? \_\_\_\_\_

What raw materials are required and do you have a source? \_\_\_\_\_

What special labor and skills are required? \_\_\_\_\_

Do you need special signage? \_\_\_\_\_

Other considerations you've suddenly thought of: \_\_\_\_\_

Part B-Management

Many businesses begin with one employee, you. Others start up with several employees. Some that start small, with only one or two employees, grow rapidly to several or dozens of employees. Operating alone is very different compared to situations where performance depends a great deal on supervision and/or interrelationships. Early in this study you inventoried your own management skills. This section is meant to prompt your thinking about your organizational structure and your preparation for handling additional employees. Any shortcomings in people management skills or experience should be addressed well in advance of attempting to supervise.

What will be the legal structure of your business? \_\_\_\_\_  
\_\_\_\_\_

Do you have an attorney? \_\_\_Yes \_\_\_No

Do you have a CPA? \_\_\_Yes \_\_\_No

Do you have tax identifications? \_\_\_\_\_  
\_\_\_\_\_

Do you have/will you have a corporate or advisory board? Describe the makeup in terms of skills and experience. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

How many employees; what are their job titles? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Do you have job descriptions? \_\_\_\_\_  
\_\_\_\_\_

Will you have a compensation program. Who will design? \_\_\_\_\_  
\_\_\_\_\_

Will you have an operations manual. Who will write? \_\_\_\_\_  
\_\_\_\_\_

What is your experience with supervising or managing people? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

What formal supervisor/manager training have you had? \_\_\_\_\_  
\_\_\_\_\_

## Part C-Preliminary Financial Performance

You've gotten this far only to find that there is another especially important task – predicting initial financial performance. Your business plan will require a far more extensive set of financials than is needed for this segment of the feasibility study. The very basic information requested on the following forms is meant to accomplish two objectives: 1) you will become familiar with the primary financial documents required to track your business performance and satisfy lenders, investors, CPA's and others, and 2) you will be taking the first steps to providing the five-year financial plan that will be required within your formal business plan.

First, you'll be determining the startup expenses for your business idea. Before you "open the door" you will likely have already spent many dollars on items such as inventory, supplies, a computer, furniture, permits and fees, to name a few. A **beginning balance sheet** formally records these expenses and indicates the financial status of your business at the moment of startup.

Next you'll be developing a sales and expense forecast for determining profitability. The **income statement** is a basic and universally recognized operating tool for monitoring revenue and costs. All the work you've done so far in this feasibility study comes to fruition in this section. You will test your earlier calculated sales projections against what it costs to produce, deliver and promote your product(s) or service(s). Hopefully the resulting profit levels will encourage you to proceed further.

Determining cash flow is important because profit doesn't pay the bills, cash does. A **statement of cash flows** is a business plan requirement and will be considered even more carefully when the beginning balance sheet and income statement are compiled fully during the writing of your business plan.

Again, these worksheets are very basic versus what is required in an excellent business plan. The data from this segment will be useful as you compile your plan, but more importantly you are getting a good idea of why financial statements, and financials in general are so critical for not only determining the feasibility of your business idea, but also for monitoring the ongoing performance of your venture at and long after startup.

### Part A: Startup Expenses

You will be required to include an opening day (pro forma) balance sheet in your business plan. The format for a balance sheet is fairly standard and much like that presented on the following page. The form is typically completed once each year, or more often as required by lenders or investors, to provide a snapshot of the value of your business; essentially all your assets at that point in time minus all you owe at that point in time. Your first balance sheet will include your startup expenses. For example, if you purchase real estate, the full expense of that real estate, which is a startup expense, is listed as an asset on the pro forma balance sheet. Likewise, if you purchase or donate shelving, or put down a deposit on utilities, these are considered startup expenses and balance sheet assets. As you finalize funding, any debt will be listed on the liability side of the balance sheet.

Give thought to your startup costs and itemize them on the following worksheet in preparation for later completion of your pro forma balance sheet. Add notes for any assumptions so you will remember later why you listed certain items or values. You may not think of everything at this point; the purpose of the feasibility study is to get you started thinking about these sorts of details in preparation for completing your business plan. Again, this information should be shared with your CPA and support system.

## Startup (Opening Day) Balance Sheet

### Assets:

Cash \_\_\_\_\_

#### Inventories:

Merchandise \_\_\_\_\_

Raw materials \_\_\_\_\_

Supplies \_\_\_\_\_

#### Total current assets

Land \_\_\_\_\_

Building \_\_\_\_\_

Furniture & fixtures \_\_\_\_\_

Vehicles \_\_\_\_\_

Machinery/tools \_\_\_\_\_

Computers \_\_\_\_\_

Deposits \_\_\_\_\_

Remodeling/installations \_\_\_\_\_

#### Total Assets

### Current Liabilities:

Loans payable \_\_\_\_\_

Accounts payable \_\_\_\_\_

Other payables \_\_\_\_\_

#### Total current liabilities

### Other Liabilities:

\_\_\_\_\_

\_\_\_\_\_

#### Total Liabilities

### Owner's Equity:

#### Total Assets – Total Liabilities

\_\_\_\_\_

## **Part B: Operating Budget & Profit**

Earlier you were challenged to arrive at a basic revenue forecast based on the number of units you thought you would sell at your chosen price. Now it's time to determine whether or not that level of revenue will support the startup expense structure. If you are unfamiliar with preparing basic financials, now is the time to seek help from a CPA or mentor.

On the following page is a worksheet for itemizing your expense budget. Give careful thought to each expense category and project the appropriate costs for 12 months (your first year in business). Make notes as you go so your assumptions are recorded and can be re-visited as necessary. Make sure you can reasonably justify each expense entry. Utilize any and all information you recorded earlier in this feasibility study. This is where it must all come together; you are about to discover the possibilities of making a profit from your business idea. As pointed out earlier, you may not think of everything; this exercise is meant to get you focused on what will be required in your full business plan.

On the next page is a worksheet for calculating profit margin and cash flow based on your projected sales and expenses. Starting with the sales predictions you calculated earlier in this study, insert the required values and perform the calculations as indicated to arrive at a profit or loss for each month and for the total year. If all months show a loss, do not despair. Businesses often start out this way and sometimes don't become dependably profitable for several years. More importantly is whether or not the resulting cash flow will pay the bills. These are all items for further discussion and analysis with your SBDC counselor and your CPA.



## 12-month Profit/Loss Worksheet

	1	2	3	4	5	6	7	8	9	10	11	12	Total
<b>Sales forecast</b>													
<b>Less:</b> <b>Expenses</b>													
<b>Equals:</b> <b>Profit/(Loss)</b>													
<b>Profit/(Loss) ÷</b> <b>Sales x 100 =</b> <b>P/(L) %-age</b>													

## 12-month Cash Flow Worksheet

<b>Profit/(Loss)</b> <b>(from above)</b>													
<b>Plus:</b> <b>Depreciation</b> <b>(from budget)</b>													
<b>Equals:</b> <b>Cash Flow</b>													

## Point of determination

The final measurement of determining if you are ready for the next part of the feasibility study is the next self analysis. Answer yes or no, honestly, then see page 34 for the next step.

My business will show a profit at the end of the first year	Yes or No
I based my estimated sales on sound research about demand and pricing	Yes or No
I have enough capital for the start up phase and ongoing expenses	Yes or No
My sales projection are comparable to the industry and similar businesses	Yes or No
I have found reliable resources available to assist my business as it grows	Yes or No
I have sufficient resources to use as collateral to fund my business	Yes or No
My business will be able to pay me a salary to live on	Yes or No
I will be seeking an outside loan and understand the loan requirements	Yes or No
I am ready and willing to complete the business plan for my business	Yes or No
I have completed my due diligence in this section of the feasibility study	Yes or No

The process to this point has been a determination if this business direction is right for you, your family, and your community. The feasibility study is designed to help you determine if it is feasible for you to begin this business. We have only begun this process and now you are at a decision making point: Will you continue the feasibility study or rethink your concept?

### Answers to questions

If there is a “no” to 1-2 questions, the likelihood of success is currently in your favor. Complete the next section of the feasibility study.

3-4 “no” answers means that much work is still needed on whether your product or services will be what your customers and business need. Review the issues and seek additional assistance to work through the issues.

5 or more “no” answers indicate that there is little chance for success, at this point. You can increase your ability to succeed by considering the following options:

- Check your credit score and repair any damage
- Research financial partnerships
- Take additional courses in business at the community college
- Read several books on business start ups written by reliable sources
- Find a mentor and work with him/her to understand the industry
- Seek the assistance of the nearest Small Business Development Center

### Next steps

If your indicators encourage you to move forward, it is time to begin the work on the business plan. If your indicators are not encouraging, review your options, seek the assistance needed, and continue on with your exploration. When you are ready, begin the feasibility study process again.

### What not to do

For a variety of reasons, if your indicators are not encouraging, do not continue onto business ownership until you are truly ready. Premature business start up will lead to lower success.

You have completed a lot of work at this point, congratulations! Are you satisfied with the results of your feasibility study? If the indicators have you concerned, consider that a good thing! Finding out your direction now, before you have spent a considerable amount of money, time, and effort for a business that might not be right for you, your family, and your community is actually wise.

The next step is up to you. Remember the processes always start and end with you. Be ready for the business plan, it is a great tool. After all it tells the story of your business. Now go tell a good story!

## References

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<sup>i</sup> Adapted from the former Illinois Small Business Development Center at Highland and Sauk Valley Community Colleges Feasibility Studies, originally written by Russ Simpson, SBDC counselor (currently Interim Director of TCEDA)