

By working through this relatively short checklist, you will be able to determine if your idea has the potential to create a successful business. The question you are attempting to answer is “Can my business sell enough products or services to make enough of a profit to be successful?” You will then be able to make an educated decision about going ahead as you planned or making some critical changes to allow you to reach your goals.

It is important that you can concisely and accurately describe your product or service in terms that your customer can understand and relate to. The ability to describe your product or service will be a critical factor in the success of your marketing and advertising. What are the things about your product or service that are important to your customer? What words immediately create an image of your business?

1. Describe what you are selling and how it will benefit your customers. Explain how your product or service is different from the competition. Answer the question, "Why will people buy from me?"

If you hope to obtain a loan, your experience in the particular business you choose will be one of the main criteria by which your banker will judge your qualifications. Your chances of success decrease dramatically when you have little or no business management experience.

2. Briefly describe your management/technical experience with your product/service:

Developing a profile of current (or targeted) customers allows you to determine if your company’s customers are different from the general product category consumer. The similarities and differences will be important when determining future marketing strategies.

3. Which category best represents your primary group of potential customers?

- General Public Businesses
 Government Specific Industry

4. Select the criteria below that best represents the demographics of your customer:

a. If selling to businesses, which category(s) represent your primary customers?

- Agriculture/Forestry/Fishing Mining
 Construction Manufacturing
 Finance/Insurance/Real Estate Retail Trade
 Services Transportation/Communication/Public Utilities
 Wholesale Trade Other: _____

b. If selling to the general public, profile your customer by answering the following questions

What is the percentage of the population that uses your product/service? _____%

Is your product designed for a: mass-market specialty market

Customer Age: under 18 18 - 34 35 - 55 55 +

Sex: Male Female Both

Race/Ethnicity: White Black Asian Hispanic Origin Other

Household Income: under \$25,000 \$25,000 to \$50,000
 \$50,000 to \$100,000 above \$100,000

Family Size: 1 2 3 to 4 5 to 6 7+

Home: Own Home Rent

Geographic Location: Urban Suburban Rural

Education level: Did not graduate high school Graduated high school
 Some college Graduated college

Determining your produce/service sales area is crucial in planning your marketing campaign, determining how you will provide customer service, how you will ship product to customers or make it available in wholesale/retail outlets, etc. If you are shipping product directly to customers, do you have a return policy in place? Do you understand mail order regulations? Will you have an "800" number for customer service and complaints? How will you handle a remote sales force?

5. Which category best describes the sales area for your product/service?

- Sold locally
- Sold in two or more states
- Sold statewide
- Sold nationally (all or nearly all 50 states)
- Sold regionally
- Sold nationally and internationally

Most small business owners find it easy to start a business. They understand the technical aspects of their product or service but often stumble when trying to find customers. There are five basic ways to reach customers: advertising, personal selling, public relations, publicity, and sales promotion. The mix you choose will be dependent on your available money, competitive factors and customer expectations.

6. How do you plan to promote your business to potential customers?

Every business faces competition from direct competitors selling the same or similar product or service and from indirect competitors selling substitute products and services. You must be able to identify who and where these competitors are so that you can study their individual strengths and weaknesses, and identify opportunities and threats that may present themselves to your business. Knowing your competition will help you differentiate your business and assist in the identification of markets that are under-served or show the greatest promise for success.

7. How many competitors do you have? _____ ("None" is not an appropriate answer.)

To be successful, you must constantly monitor your most important competitors. Not only can you learn from their successes and failures, but you can also learn how to better position your products and services against them.

8. Who are your five primary competitors?

| Name and Location | Number of Employees | Years in Business | Why Do Customers Buy From Them? |
|-------------------|---------------------|-------------------|---------------------------------|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

As the owner of a small business, you need to establish an annual salary for yourself based on what the business can afford. You need to budget your annual salary so it can be included in your total business expenses, calculated into your selling price and used to determine your sales breakeven point. This will help you arrive at a reasonable level of compensation without putting your business at risk by taking too much money out of the company. This calculation will also make you aware of the hourly cost associated with your annual salary, the number of hours you have available in a work year, and the value of your time.

9. What would you expect your annual salary to be from your business? \$ _____
(Hourly wage \$ _____ x 2080 hours = Annual Salary)

Estimating your start-up costs is critical to getting started. These are one-time costs incurred prior to beginning your business operations. These costs will help you determine how much money is needed to launch and maintain your business until you generate enough sales to cover normal operating expenses.

Before your business can earn money, you will need to invest money in start-up costs. These costs are paid just one time and do not include your normal monthly expenses. This worksheet will help you estimate your start-up costs. List the costs of items you have already purchased in the “purchased” column and those you still need in the “needed” column.

10. Estimate your start-up costs using Worksheet 1 below:

Worksheet 1: Start-up Costs

| One Time Requirements Before Start-Up | Items Already Purchased | Items Still Needed Before Start-Up |
|--|--------------------------------|---|
| Legal, Accounting & Professional Services | \$ | \$ |
| Advertising & Promotions | \$ | \$ |
| Deposits for Utilities | \$ | \$ |
| Licenses & Permits | \$ | \$ |
| Insurance | \$ | \$ |
| Salary & Wages | \$ | \$ |
| Payroll Taxes | \$ | \$ |
| Truck & Vehicle | \$ | \$ |
| Travel | \$ | \$ |
| Tools & Supplies | \$ | \$ |
| Furniture & Fixtures | \$ | \$ |
| Machines & Equipment | \$ | \$ |
| Building Improvements | \$ | \$ |
| Land & Buildings | \$ | \$ |
| Starting Inventory | \$ | \$ |
| Cash (Working Capital) | \$ | \$ |
| Other (specify) | \$ | \$ |
| | | |
| TOTAL | \$ | \$ |

TOTAL ESTIMATED START-UP COSTS (add both columns together) \$_____

Definitions:

Revenue - use the formula provided in Question 11 to estimate annual revenue for each year.

Cost of Goods Sold – estimate the cost of sales for the sales found under Revenue. Include labor used to produce the product or service (direct labor), materials used in the final product or service (direct material), and their transportation and handling costs.

Gross Profit – Total Revenue minus Total Cost of Goods Sold equals Gross Profit

Salaries & Wages – Base pay plus overtime and bonuses, include owner's draw on this line item.

Outside Services – includes cost of sub-contracts, overflow work farmed out, special or onetime purchase of services.

Office Supplies and Postage – services and items purchased for use in the business and not for resale.

Dues and Subscriptions – include subscriptions to professional, technical, and trade journals that deal with your business field. Also include membership fees.

Donations – gifts to charitable or non-profit organizations.

Rent – include only real estate used in the business. List equipment and other rentals under Other Expenses.

Telephone – include all line charges associated with fax, Internet and telephone.

Utilities – water, sewer, gas, electric, etc.

Loan Repayments – include interest and principal that must be paid to lender.

Depreciation – If property you use in your business has a useful life of more than one year, you generally cannot deduct the entire cost as a business expense in the year you acquire it. You must spread the cost over more than one tax year and deduct part of it each year.

Advertising & Promotions – includes all the costs associated with making your products and services known to your customers.

Truck & Vehicle – includes mileage, parking, tolls, etc.

Travel – business trips; include conference, hotel, meal and transportation charges.

Payroll Taxes – includes paid vacations, sick leave, health insurance, unemployment insurance, Medicare and social security taxes. (Note: Usually 10-15 % of gross payroll). Taxes, Licenses & Permits- excise tax, inventory tax, real estate tax, sales tax, other non-payroll taxes and license or permit fees as applicable.

Legal & Accounting Services– include cost of outside professional services.

Insurance – includes General Liability, Property, Commercial Auto, Workmen’s’ Comp., umbrella policies and Bonding. (Does not include Health Insurance).

Repairs & Maintenance – regular maintenance and repair, includes painting and decorating.

Bad Debts - A business bad debt is a loss from the worthlessness of a debt that was created or acquired in your trade or business, or is closely related to your trade or business when it became partly or totally worthless. A debt becomes worthless when there is no longer any chance that the amount owed will be paid.

Miscellaneous (unspecified) - Small expenditures without separate accounts.

Other Expenses – tools and equipment that are “expensed” (not set up on a depreciation schedule); and payments for leased or rented equipment.

Estimating your annual Revenue (Sales) will help you set a sales goal for your business and provide you with tools to manage your day-to-day operations. The Revenue estimate is based on three factors: 1) the number of different customers you anticipate serving; 2) the number of times the average customer will return to purchase something; and 3) the average expenditure each customer will make per visit. By monitoring each of these factors on a daily, weekly and monthly basis, you will know if your business is on target to meet its sales goal or if adjustments must be made to increase sales or decrease expenses.

11. What do you expect your annual Revenue to be in the first year? \$ _____

To help determine this estimate, please answer the questions below:

- a. How many different customers do you anticipate serving in a 12-month period? _____
- b. How many times in a 12-month period will the average customer return to purchase something? _____
- c. How much will the average customer spend on each visit to your business? \$ _____
- d. Multiply (a) x (b) x (c) = Estimated annual Revenue (Sales)

12. Estimate your annual sales and earnings using Worksheet 2 below:

Forecasting “Sales and Earnings” is important for your financial success. It may take several years before your business begins to generate “satisfactory” profits but your sales goal should be to breakeven (match sales with expenses) by the end of the first year and show modest profits for Years 2 and 3. Do not include start-up costs on this worksheet.

Worksheet 2: Sales and Earnings

| | 1 st Year | 2 nd Year | 3 rd Year |
|-------------------------------|----------------------|----------------------|----------------------|
| Total Revenue | \$ | \$ | \$ |
| Less: Cost of Goods Sold | \$ | \$ | \$ |
| Gross Profit | \$ | \$ | \$ |
| Less: Expenses | | | |
| Salaries & Wages | \$ | \$ | \$ |
| Outside Services | \$ | \$ | \$ |
| Office Supplies & Postage | \$ | \$ | \$ |
| Dues & Subscriptions | \$ | \$ | \$ |
| Donations | \$ | \$ | \$ |
| Rent | \$ | \$ | \$ |
| Telephone | \$ | \$ | \$ |
| Utilities | \$ | \$ | \$ |
| Loan Payments | \$ | \$ | \$ |
| Interest | \$ | \$ | \$ |
| Depreciation | \$ | \$ | \$ |
| Advertising & Promotions | \$ | \$ | \$ |
| Vehicles | \$ | \$ | \$ |
| Travel | \$ | \$ | \$ |
| Payroll Taxes | \$ | \$ | \$ |
| Taxes, Licenses & Permits | \$ | \$ | \$ |
| Legal & Accounting Services | \$ | \$ | \$ |
| Insurance | \$ | \$ | \$ |
| Maintenance | \$ | \$ | \$ |
| Bad Debts | \$ | \$ | \$ |
| Miscellaneous (unspecified) | \$ | \$ | \$ |
| Other Expenses (specify each) | \$ | \$ | \$ |
| | \$ | \$ | \$ |
| | \$ | \$ | \$ |
| | \$ | \$ | \$ |
| Total Expenses: | \$ | \$ | \$ |
| | | | |
| NET PROFIT | \$ | \$ | \$ |

The Breakeven Point tells you the amount of sales that must be made to cover all the expenses identified on Worksheet 2. Once you've figured your breakeven point, you can begin making plans to achieve your sales goal. The Total Revenue that you will need to breakeven at the end of the year is equal to your Total Expenses divided by your Gross Profit Percentage.

13. Calculate your breakeven point: \$ _____

Breakeven Point = Total Expenses / Gross Profit Percentage

*Total Expenses: found at the bottom of "Worksheet 2: Sales and Earnings," on Question 12.

* Gross Profit Percentage: percentage difference between the selling price of a product or service and its cost. (Note: It is recommended that your gross profit percentage be at least 15% or higher.)

Example: Total expenses of \$35,000 divided by gross profit percentage of .15 = sales breakeven point of \$233,333.

14. An alternative way to determine if you can meet your financial obligations:

a. Project your average total monthly revenue (sales): \$ _____

b. Project your average total monthly expenses: \$ _____

Subtract b from a = \$ _____

Most small businesses are started with the owner's savings. If you have equity in your home, you may need it for your equity investment in the business (see Question #17) as well as collateral on a loan. A second commonly used source of funds is family and friends who might loan you money or invest in the business.

Outside funds come into the business as either debt or equity. Debt occurs when you obtain a loan from a bank or another source, which must be repaid to the lender over some period of time, usually at some specified interest rate. Whether the business succeeds or fails, you will be responsible for repaying the loan.

On the other hand, equity funds come into the business through one or more investors who in turn own a share (perhaps even a majority share) of the business. These investor-owners may take part in making decisions, and will take a share of the profits. Investors usually require a high rate of return because they are taking the business risks with you. Should the business fail, they lose that investment because you do not have to repay it as you would a loan.

Banks are not enthusiastic about making start-up loans for new businesses, and venture capitalists/investors are very rarely interested in a new, small business. Potential business

owners frequently have to put their plans on the back burner while they save additional funds to start the business.

15. a. How much money is needed to start your business? \$ _____

Use "Total Estimated Start-Up Costs" from Question 10 to answer Question 15a.

b. Where will you find money to start your business?

| | |
|---------------------------|-----------------------------|
| Personal Savings \$ _____ | Family and Friends \$ _____ |
| Bank Loan \$ _____ | Retirement Account \$ _____ |
| Investor(s) \$ _____ | Partners \$ _____ |
| Credit Cards \$ _____ | Other \$ _____ |

16. How would you rate your personal credit?

Excellent Good Average Poor

One of the first criteria your banker will look at is your credit rating. A bankruptcy will complicate the possibility of your receiving a loan. A poor credit history will also limit your possibilities of obtaining a loan.

Most bankers now use a rating system in which points are assigned for the various aspects of your credit history. The number of points your credit history accumulates determines your loan status. Above a certain number, the loan may be approved. Below that number, it will be rejected. (You may obtain a copy of your credit report to review and correct any misinformation prior to talking to your banker.)

Bankers will also look at your character. How likely are you to make an effort to repay this loan? Have you ever been arrested, indicted, or convicted of any criminal offense other than a minor motor vehicle violation?

They will then look at collateral. If all else fails, what do you have of value that they can take possession of and sell to raise funds to pay off your debt? Their first choice is usually a second mortgage on your home. Major equipment, inventory, or real estate may also serve as collateral.

17. Most financial institutions will require that you produce a minimum of 20% - 30% of the total estimated cash needed for start-up costs. This is referred to as your owner equity/investment in the business.

- I have this money or access to it.
- I have some but not all of the money required.
- I have no money to invest in this business.

Now that you are confident you possess a viable business idea, your next step is to write a business plan. If you need guidance in compiling the components of your business plan, (i.e. industry analysis, market segmentation, and financial projections) the Milwaukee SBDC offers an Entrepreneur Training Program (ETP). ETP is designed to assist you in building the foundation of your business and teach you the essential skills needed to make that business a success.

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