

Chapter 3: Business Feasibility

Tab 1: Introduction

Just because you have a great business idea doesn't mean it will work. You need to figure out if your idea is actually doable. To figure out business feasibility, or the chance that a business will succeed, you look at things like:

- The people who would want to buy your product or service.
- The details of running your business.
- How much money you will need to get started.
- How much money you might make once you start selling your product or service.

As part of this chapter, you will fill in the About Your Business, About You, and Start-up Costs Inventory worksheets. Make sure to save your answers and notes because they will help you develop an in-depth business plan, if needed.

To get started, read the brief overview and do a quick "napkin math" exercise to figure out if you want to continue exploring business feasibility.

Business Success

There are three important parts to business success:

1. Customers
2. Management and Operations
3. Financing

Customers

If a business doesn't have customers, it won't survive.

- It is important to know if people will buy your proposed product or service, and to know who those potential customers are.
- You need to make advertising that is attractive to your potential customers.
- To keep costs down, you need to know where to focus your marketing efforts.

Management and Operations

There are many important tasks you have to do to run a business. Those tasks include:

- Keeping records
- Bookkeeping
- Preparing reports
- Filing taxes
- Purchasing supplies and equipment
- Marketing
- Communicating with customers and suppliers

You need to know how these tasks will be done. You also need to figure out who will do them. Will it be you? A volunteer? Or someone you hire, such as an accountant?

Financing

Every business needs money to get up and running. You need to carefully figure out what things you need to launch and run your business, and know how much everything costs. This is important to make sure the business has enough money.

Start-Up Financing can be broken into three parts:

- **Personal living expenses** - money to cover your living costs until the business can pay wages and earn a profit. This often takes a year or more.
- **Start-up costs** - money for things you need before your business opens. Examples are equipment, supplies, and business licenses.
- **Fixed operating costs** - things you have to pay for every month even if you are not making any money. Examples include rent, utility bills, insurance, and advertising fees.

Napkin Math

In the early stages of thinking about your business idea, you should make a rough estimate of how much you need to sell so that your business makes enough money to stay open. This can be done with a few simple calculations.

“Napkin math” is a quick check to help you figure out if your business idea will work before you spend too much time on planning. You can do the “napkin math” exercise at home or with your counselor.

Estimates

Write down the following estimates.

- A = Your monthly living expenses (such as rent, loan payments, utilities, food, insurance)
- B = Monthly fixed costs to run the business (such as rent, utilities, insurance, labor)
- C = Cost to buy one unit of a similar product or service
- D = Costs of materials to make one unit of a similar product or service

Calculations

Complete the following calculations using your estimates.

- $A + B$ = Monthly expenses
- $C - D$ = Gross profit per unit sales

Use your monthly expenses ($A + B$) and gross profit per unit estimates ($C - D$) to calculate how many units you need to sell:

- $\text{Monthly expenses} \div \text{gross profit per unit} = \text{how many units you have to sell}$

Thumbs Up or Thumbs Down

Now that you have figured out how many units you'll have to sell each month to meet your monthly expenses, answer these questions:

- How long will it take you to make and sell this many units each month? Does this seem possible?
- Do you want to work this hard?

If you answered “no” to either of these questions, you should talk with your counselor about other employment options. Do you want to change your business idea to make it more realistic? Or would getting a paid job be a better plan?

Example: Lucy's Skirts

Lucy wants to start a business making and selling upcycled skirts. She made these estimates to see if her idea would work.

- Monthly living expenses
 - \$500 rent + \$400 food + \$300 insurance + \$200 utilities = \$1400
 - A = \$1400
- Estimate of monthly fixed costs to operate the business
 - Although she is running a home-based business, she still estimates \$50 advertising, \$100 phone, and \$50 for incidentals = \$200
 - B = \$200
- Costs to buy one unit of a similar product or service
 - C = \$30 per skirt
- Costs of materials to make one unit of similar product or service
 - D = \$10 per skirt

Example – Lucy's Calculations

Lucy did the following calculations

- $A + B = \$1,400$ living expenses + \$200 monthly fixed costs = \$1,600 monthly expenses
- $C - D = \$30$ sales price per skirt - \$10 costs of materials per skirt = \$20 gross profit per skirt
- Monthly expense \div gross profit = $\$1600 / \$20 = 80$ skirts

Thumbs up! Lucy decided that making and selling 80 skirts seemed possible, and continued on with her business planning. She realizes that this was just a rough estimate to decide if she will continue with the business feasibility process.

Tab 2: About Your Business

This section covers questions about your business, including potential customers, business competition, and business location. Answering these questions requires a lot of work, but is an important step in business planning.

Download and fill in the [About Your Business Worksheet](#)

(<http://vrselfemployment.org/sites/default/files/PDFs/About-Your-Business-Fillable-Worksheet.pdf>).

Use the following sub-sections to help you answer the worksheet questions.

- The Basics sub-section covers questions 1-4.
- The Potential Customers sub-section covers questions 5-7.
- The Business Competition sub-section covers questions 8-9.
- The Location sub-section covers questions 10-13.
- The Feasibility sub-section covers question 14.

Something to think about as you get started:

- Some questions may be hard to answer or might be confusing. You can always skip some questions and come back to them when you have learned more in later chapters or talked to others for advice.

See [Daisy's Daisies About Your Business Worksheet](#)

(<http://vrselfemployment.org/sites/default/files/PDFs/Daisys-Daisies-About-Your-Business-Worksheet.pdf>) to see a filled-out example.

The Basics

Business Name

What is the name of your business? (see Chapter 4)

- Does the name describe your business?
- Is the name available, and is it unique?
 - Is there another business with the same or a similar name nearby that would confuse customers?

Product or Service Description

Describe the primary product or service your business will provide. (see Chapter 4)

- Did you describe the primary purpose of the business? Are there other services or products that you could or should sell to increase your profit? Think about other things that people who want your product or service would also want.
- For example, a hairdresser might sell hair care products, or a lawn mowing business might offer services like leaf raking or snow removal.

Day-to-Day Operations

Describe how your business will be run on a day-to-day basis.

- How will you do things like handle money, provide receipts, order inventory, and make deliveries?
- What other things will you need to do every day?

Business Structure

What is your proposed business structure? Is it a sole proprietorship, limited liability company, corporation, general partnership, non-profit, or unknown? It is important to get professional advice when picking a business structure, particularly if you receive SSI or SSDI benefits. (see Chapter 4)

- Why did you select this business structure?
- Will this structure impact your public assistance benefits, such as SSI or SSDI?
- Will your funders support this type of business structure?
 - Keep in mind that many vocational rehabilitation agencies have limits on the types of businesses they support.

Potential Customers

Business Features

Describe why you think potential customers will buy your product or service. (see Chapter 5)

- What want or need does your product or service fill?
- Describe how you identified the want or need for your product or service.

Demographics

Describe your most likely customers. (see Chapter 5)

- Where do they live?
- What is their range of income?
- Education level?

- Gender?
- Age range?
- Important interests they have?

If you plan to sell your product or service to other businesses, describe these businesses. Include your methods for determining this information as part of the answer. How reliable is the information?

Marketing

How do you plan to market your product or service to potential customers? (see Chapter 5)

- Have you explained why you want to do each method of marketing?
- How much will each marketing method cost?
- How will each marketing method reach potential customers?

Business Competition

The Competition

Who is your competition? (see Chapter 5)

- Name a few businesses that offer the same or similar products or services in the same area where your business will be.
- Include how you identified these businesses in your answer.

Competitive Edge

Why will people choose your business instead of your competition? (see Chapter 5)

- What will you do to attract customers?
- Do you have special strengths? Do your competitors have weaknesses?
- Explain how you determined this information.

Location

Description

Describe your business location and address. (see Chapter 6)

- Is the location in a safe area?
- Does the location make sense for the type of business?
- If the business is in your home, what are the benefits and drawbacks of this as a business location?

Zoning Laws and Restrictions

Are there any zoning laws and restrictions for your business location? (see Chapter 6)

- Contact the city or county where you will buy your business license. Tell them what kind of business you want to start and your proposed location. Ask if there are any zoning laws or restrictions to consider.
- What will you need to do to apply for the business license?
- Are there any restrictions?
- If yes, what will you need to do?

Business Neighbors

What other kinds of businesses are around your location? (see Chapter 6)

- Think about how these businesses might affect your business.
- Do the businesses attract customers that might also want to come to your business?

- Do the surrounding businesses pose any health or personal risk to you or your customers?
- Are there undesirable businesses nearby that might discourage your customers from visiting the area?

These considerations may not apply for a home-based business.

Customers and Suppliers

How will customers and suppliers get to your location? (see Chapter 6)

- What public transportation serves your location?
- Is there parking nearby?
- Can people walk to your business?
- Are there curb cuts and accessible parking spaces?

These considerations may not apply for a home-based business.

Feasibility

Considerations

Even if you have a good business idea, there may be barriers to starting your business. Some of these barriers are things all businesses have to consider. Others might be related to the vocational rehabilitation agency you are working with.

Barriers to Start-Up

General barriers to business start-up might include:

- Restrictions, patents, copyrights, or monopolies
- Challenges in obtaining materials or supplies
- Negative environmental impacts of the business
- Concerns about how to market the business
- Concerns about paying off existing debt, or poor credit scores that could impact financing

VR Restrictions on Business Type

Many VR agencies will not support:

- Franchise businesses
- Businesses that are co-owned
- Non-profit businesses
- Business that are speculative, such as making investments in real estate or stock trading

VR Restrictions on Purchases

Many VR agencies will not help you pay for:

- Permanent buildings or land
- Improvements, remodeling, or construction to a business property (unless it is to make it accessible)
- Labor

Action

Do any of these barriers apply to you? If yes, discuss them with your counselor or a business development expert to get ideas for addressing them.

Additional Thoughts

Take time to record any additional thoughts about your business that may be important for future planning.

Tab 3: About You

Running a successful business requires many different skills and attributes. Exploring questions about your business goals and skills will help you determine if self-employment is a good fit at this time.

Download and fill in the [About You Worksheet](http://vrselfemployment.org/sites/default/files/PDFs/About-You-Fillable-Worksheet.pdf) (<http://vrselfemployment.org/sites/default/files/PDFs/About-You-Fillable-Worksheet.pdf>). The section below follows along with the worksheet and helps you begin describing your potential as a business owner. Some of this information builds on the self-assessments covered in Chapter 2: Self-Employment Readiness.

See [Daisy's Daisies About You Worksheet](http://vrselfemployment.org/sites/default/files/PDFs/Daisy-Daisies-About-You-Worksheet.pdf) (<http://vrselfemployment.org/sites/default/files/PDFs/Daisy-Daisies-About-You-Worksheet.pdf>) to see a filled-out example.

About You

Why Self-Employment?

Why do you want to be self-employed? (see Chapter 2)

Some good reasons may include:

- Needing flexibility in work hours
- Limited job opportunities in your location
- Demand or need for your product or skills
- Workplace attitudes that prevent you from working at your full potential

Your Business Idea

How did you come up with your business idea? Business ideas are more likely to be more successful if they are based on:

- Experience
 - Having been in the same or a similar business for a number of years
 - Something you are skilled at doing
- Interest
 - Passion for the product or service
 - Willingness to spend considerable time to learn about the product or service
- Market forces
 - Strong demand or need for the product or service

Your Experience

What previous experience or training has prepared you for this particular business?

- Was the experience or training doing the same thing, or was it similar? If similar, how is it relevant?
- How independent were you when accomplishing the tasks of the job?
- Do you have other experience that will contribute to your business success, such as:
 - Bookkeeping

- Ordering supplies
- Customer service
- Marketing and promotion
- Other skills needed to run your business

Credentials

Do you need any formal training to operate or succeed in your business?

This could include a professional license, certification, or degree.

- Do you have these credentials now?
 - Are they current? If not, how do you renew them?
 - If you don't have the credentials you need, what are your plans to get them? When do you think you will have them?
- If you need an educational degree, how can business management knowledge be included in the degree?
- Does your proposed business require an apprenticeship?

Training

Will you need any kind of training to own and operate your business?

- If yes, what kind of training will you need?
 - What are your plans for getting the training?
 - Where and when is the training program?
 - What is the cost?
 - Can the training be on-the-job?

Bookkeeping

Who will set up and maintain your bookkeeping system?

- What bookkeeping system will you use?
 - If it is electronic, what software is required? Do you need training?
 - Is the system adequate for your business needs?
 - Will the system be appropriate if or when your business grows?
- What are the credentials and the experience of the individual who will set up and maintain the system?
- How will you keep your personal and business expenses separate?

Business Activities

What percentage of your time do you plan to spend on the following activities?

- Working with potential customers, such as bidding jobs
- Serving current customers
- Manufacturing products
- Supervising employees
- Maintaining financial records
- Purchasing supplies
- Planning and managing the business
- Marketing and promotional activities
- Traveling for routine business tasks
- Other

Check with another small business owner to see if your estimates are realistic and similar to theirs.

Accommodations

What issues related to your disability might need to be considered for running your business? These could include:

- Flexible work hours or part-time work
- Limited pressure or stress
- Limited walking, standing, stooping, reaching or lifting
- Need for specially-designed or assistive equipment
- Personal assistance with some operations in your business
- Other

Describe how you will arrange business operations to accommodate your disability. Think about your business location, office equipment, office set-up, and methods of communicating with customers. What accommodations will you need to make?

Business Shutdown

What will happen to your business if you cannot continue to work?

- When planning a business, it is a good idea to have a shutdown plan.
- This should include things like closing accounts, selling inventory, notifying creditors, and filing final tax returns.

Past Self-Employment

Have you ever owned a business? If yes,

- What product or service did the business provide?
 - How does the product or service of your previous business relate to your proposed business?
- How long was the business open?
- Why did you close the business?
- In what ways was the business successful?
- What will you do the same or different in your proposed business?

Tab 4: Start-up Costs

If you and your counselor determine your business idea is feasible, the next step is figuring out how much money you need to get the business up and running. This section asks you to estimate your business start-up and operating costs for the first month.

Use the [Start-up Costs Inventory Worksheet](http://vrselfemployment.org/sites/default/files/PDFs/Start-up-Costs-Inventory-Fillable-Worksheet.pdf)

(<http://vrselfemployment.org/sites/default/files/PDFs/Start-up-Costs-Inventory-Fillable-Worksheet.pdf>) as you go through this section.

See [Daisy's Daisies Start-Up Costs Inventory Worksheet](http://vrselfemployment.org/sites/default/files/PDFs/Daisys-Daisies-Start-Up-Costs-Worksheet.pdf)

(<http://vrselfemployment.org/sites/default/files/PDFs/Daisys-Daisies-Start-Up-Costs-Worksheet.pdf>) to see a filled-out example.

Start-Up Cost Estimates

Here are some common costs to think about as you estimate start-up costs. Use the fillable Start-Up Costs Inventory Worksheet to keep track of these costs as you plan your business.

Materials and Supplies

Materials and supplies to produce the first two months of goods or services. (see Chapter 6)

List each supply needed for production including:

- The supplier
- Units required
- Cost per unit
- Total cost for that item (number needed multiplied by cost per unit)

Inventory

Inventory you need on hand to open and run the business for the first month. (see Chapter 6)

List each item needed for opening inventory. Include:

- The supplier
- Units needed
- Cost per unit
- Total cost for that item (units required multiplied by cost per unit)

Rent

Rent for business location. If you are renting your business location, start-up costs include:

- Rent deposit
- Rent to cover the first month of business

Utilities

Utilities include start-up fees and first month estimates for utilities including phone, power, water, internet, and garbage.

For each utility specify:

- Start-up fee
- First month's estimate

Business Licenses and Registrations

Business licenses and registrations you need to operate your business. (see Chapter 6)

List each license or registration you need. Include:

- Why it is needed
- Where to get it
- Cost

Insurance

Types of insurance you need for your business. (see Chapter 6)

List each type of insurance. Include:

- Who will provide it
- The 6-month premium cost

Be sure to include all policies needed for the business.

- For instance, if your business is based out of your home, does your homeowner's policy require a rider for business activities?
- Do you need extra insurance for business vehicles, equipment, or supplies stored in an off-site location?

Remodeling and Redecorating

List each remodeling or redecorating item including:

- Why is it needed
- Who will do the work
- The cost for each item

Fixtures, Furniture, Displays, and Shelving

List each fixture, furniture, display, or shelving item including:

- Why it is needed
- Where it will be bought
- Cost

These include less-expensive items that are not considered equipment or assets.

Signs – outside and inside

Think about where you will want to put signs. How many you will need and what size should they be?

List each sign including:

- The supplier
- Cost

Equipment

Equipment is a major item used to operate the business that has a useful life of one year or longer. Equipment can be leased or purchased. (see Chapter 6)

List each piece of equipment including:

- Why it is needed
- Where it will be bought
- Cost

General Supplies

General supplies are different from the materials and supplies you need to make your product. They include things like cleaning supplies, general office supplies, or small tools, like a stapler or paper cutter. (see Chapter 6)

List each general supply including:

- The supplier
- Cost

Marketing and Promotion

Marketing and promotion activities that focus on business opening. Other ongoing marketing and promotion will be included in your full Marketing Plan. (see Chapter 5)

List each marketing and promotion activity related to opening your business. Include:

- Why it is needed
- Cost

Legal and Accounting Fees

Legal and accounting fees cover a variety of business start-up activities. Examples area legal review of a contract prior to signing, developing articles of incorporation, or setting up your bookkeeping.

List each legal or accounting activity, including:

- Why it is needed
- Who will provide it
- Cost

Association or Organization Dues

List each association or organization dues for the first year. Include:

- Why membership in the group is important
- Cost

Cash Reserve

Cash reserve is the money you need to pay bills until your business is profitable. Cash reserve can come from personal savings, loans or other sources (such as family members or grants). (see Chapter 7)

List each source of cash reserve. Include:

- The source
- Amount
- Repayment schedule, if applicable

Consider:

- Do you have enough cash reserve to pay your bills during start-up?
 - A Cash Flow Statement is a useful tool to help you figure out how much money you'll need each month, and if you might run out of money in the short-term (see Chapter 7)

In-kind Contributions

In-kind contributions include supplies or tools and equipment you already own, such as a vehicle that will be used for business activities. These contributions cut down on start-up costs. List each in-kind contribution. Include the estimated "as is" value.

Total Costs and Funding Sources

Fill out the Start-Up Costs Inventory worksheet with your estimated costs. Then, figure out which costs you can pay for with your own personal funds. The other costs will need to be covered with other funds.

Talk to your VR counselor and to a small business development advisor about other sources of funding.

Tab 5: Chapter Review

This chapter focused on business feasibility. You considered:

- The proposed business, including potential customers, business competition, and business location
- Potential barriers, including limitations on some funding sources
- Your business goals and the skills needed to operate your business
- Costs required to get your proposed business up and running

Much of this information is covered in more depth in later chapters. This section is meant to help you get started in the process and consider gaps to be addressed as you move forward.

Prepare

In this chapter, you explored the feasibility of your business idea. You started filling out the About Your Business, About You, and Start-up Costs Inventory worksheets. These worksheets help you think critically about your business idea.

- Do your best to fill out as much as you can in each of the worksheets.
- If you are unsure how to answer a question or need more information, leave it blank.
 - Make a note of what you have questions about or need help with, and discuss these with your VR counselor.

As you go through the rest of the chapters in this guide, add more detailed answers to the worksheets. This will help you when you put together an official Business Plan.

Counselor Review

This chapter outlined a process for considering and preparing for self-employment. Over time, it will be important to revisit if self-employment is a good fit for the client.

The three worksheets in this chapter (About your Business, About You, and Start-up Costs Inventory) can be used together as a preliminary business planning tool. For Tier 1 businesses, these may be sufficient for moving forward on a VR self-employment plan. For Tier 2 businesses, the worksheets can be used to help gather information for a complete business plan.

Worksheet Review

When evaluating the worksheets, ask yourself questions about the quality of the client's answers and your role to support the business development process.

Business Idea Questions

Did the client clearly describe the business?

Can the agency support this type of business?

- Have you clearly explained what type of businesses your agency will support?

Are there barriers to business start-up that seem problematic?

- Can the client provide additional information that would lesson your concerns?

Client Skills Questions

Does the client possess the skills necessary to start and run the business?

- Did they provide plans to address missing skills or competencies?

Are strategies for addressing training needs included in their Individualized Plan for Employment?

Start-up Costs Questions

Do the start-up costs make sense and seem necessary?

- Are there costs that appear to be missing?
- Are there costs that seem unnecessary?

Have you clearly explained what types of costs your agency will cover?

What additional sources of funding could the client apply for?

Documentation

The About your Business, About You, and Start-up Costs worksheets provide you and the client an opportunity to explore self-employment more completely. Any concerns you have should be fully documented and discussed with the client.

Check Your Understanding

This section helps you check your understanding of the material covered in this chapter. Go through the questions and write down your answers on a separate piece of paper. Check your answers in the Review Your Answers section.

Check Your Understanding

Customers

Why is it important to know the demographics, or characteristics, of your potential customers?

Competition

Why is it important to know about your business competition?

Start-up Barriers

Sometimes a business idea is good, but other things prevent it from getting up and running. What are some of the possible barriers to business start-up?

Success Factors

What are some factors that can improve chances a business will be successful?

Review your Answers

Customers

Question: Why is it important to know the demographics, or characteristics, of your potential customers?

Answer: Knowing the characteristics of your potential customers helps you figure out the demand for your product. It also helps you figure out how to best market your business.

Competition

Question: Why is it important to know about your business competition?

Answer: Knowing the competition helps you figure out how to make your business more attractive to customers. It helps you identify your business's special strengths so you can market these traits to attract customers.

Start-up Barriers

Questions: Sometimes a business idea is good but other things prevent it from getting up and running. What are some of the possible barriers to business start-up?

Answer: Some possible barriers to business start-up include:

- Restrictions, patents, copyrights, or monopolies that limit what you can do
- It is hard to get the supplies you need because they cost a lot or are hard to get
- There are not enough customers in your area to support the business
- Your existing debt or poor credit score make it difficult to get funding
- VR will not support the business you propose based on agency policies

Success Factors

Question: What are some factors that can improve chances a business will be successful?

Answer: Some factors that can improve chances that a business is successful include:

- Owner experience in running a similar business in the past
- Owner skills in delivering the product or service
- Owner business management skills in things like bookkeeping and computer use
- Owner passion or interest in the product or service
- Strong customer demand or need for the product or service