

Arkansas

Small Business

ASBDC

Development Center

Business Blueprints:

Is Your Business Idea Feasible?



*A partnership program with the
U. S. Small Business Administration and
the University of Arkansas at Little Rock*

U·A·L·R

College of Business Administration

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INTRODUCTION

- **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” to any of these questions, 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 "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 to do a business plan, you should have already completed the basic business feasibility analysis.

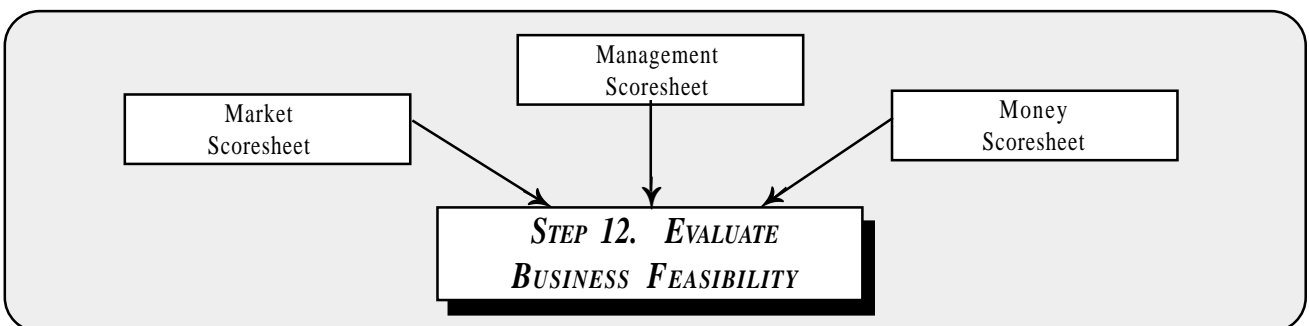
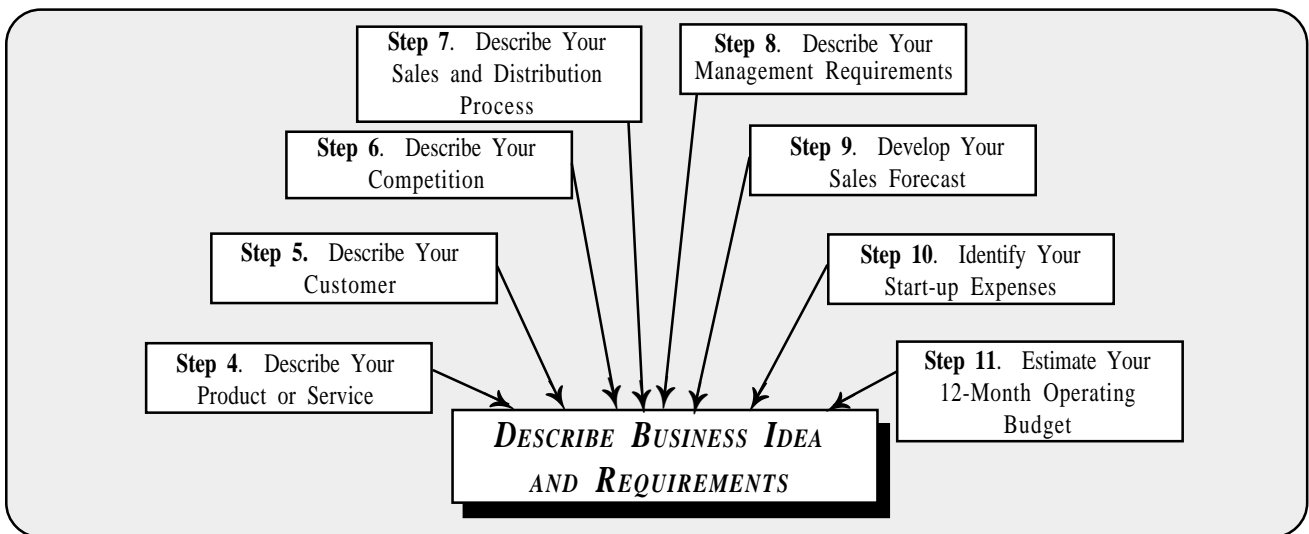
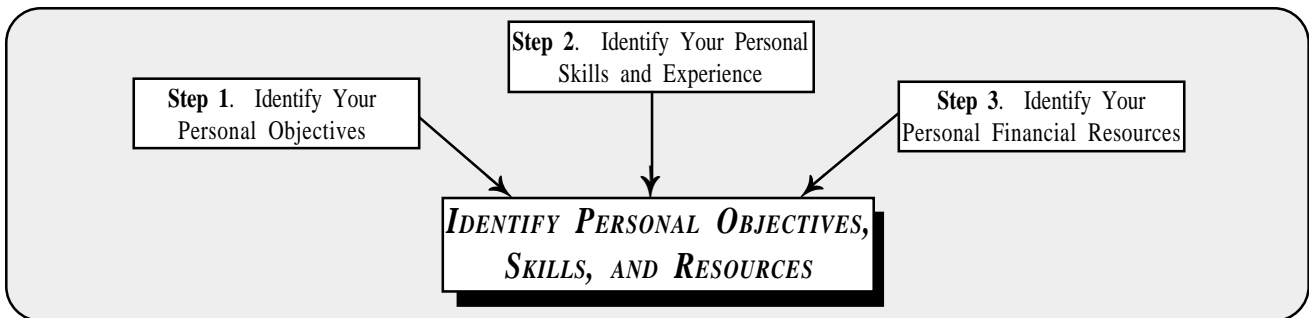
To assist you in working out a feasibility analysis, a list of useful reference materials has been included. The list is organized according to that part of the feasibility analysis each reference item is most helpful or appropriate for.

We recommend that you glance through all materials listed for each specific step since some items will aid in filling out the questionnaires. Additional references not referred to in the text of the workbook appear in the Step lists most appropriate.

THE STEP-BY-STEP BUSINESS FEASIBILITY PROCESS

It is often helpful in the process of business feasibility analysis to be able to picture a step-by-step flow. The chart shown below provides you a way to visualize some of the critical steps that need to be undertaken before starting your business. Following the step-by-step process pictured in this flow chart can help make sense out of what can be a detailed and sometimes confusing process.

While completing these steps does not guarantee success in business, your detailed attention to them will improve your chances of success. They will help you evaluate your business idea before you or other people make a financial commitment. The sections of this business feasibility workbook provide details for completing each of the steps listed.



**IDENTIFY PERSONAL
OBJECTIVES, SKILLS, AND
RESOURCES**

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.

IDENTIFY YOUR PERSONAL OBJECTIVES

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. **Yes**___ **No**___

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.

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 firsthand 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 insure 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.

IDENTIFY YOUR PERSONAL SKILLS AND EXPERIENCE

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			

Names of people or places who will satisfy "I Need Training" requirements:
(See Step 8 for more information.)

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* in Step 2 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* which you own. State market values for stocks and bonds, real estate, automobile, 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* which 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.

IDENTIFY YOUR PERSONAL FINANCIAL RESOURCES

9. Section 3: List all stocks and bonds which 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 which you own. Examples include antiques, paintings, jewelry, boats, farm or lawn equipment, and household furnishings.
12. Section 6: List other assets that you have as well as details on notes and accounts receivable. If you own another business, list the value of your equity in the business.
13. Sections 7 and 8: Describe any unpaid taxes or other liabilities which you owe.
14. Section 9: Identify all life insurance policies which you or your spouse have.

PERSONAL FINANCIAL STATEMENT

AS OF _____, _____ (MONTH, YEAR)

Name _____	Residence Phone _____
Residence Address _____	
City, State & ZIP _____	
Business Name of Applicant/Borrower _____	

ASSETS <small>(omit cents)</small>	LIABILITIES & NET WORTH <small>(omit cents)</small>
Cash on Hand & in Banks	Accounts Payable
Savings Accounts	Notes Payable to Banks & Others (Describe in Section 2)
IRA	Installment Account (Auto)
Accounts & Notes Receivable (Describe in Section 6)	Mo. Payments \$ _____
Life Insurance-Cash Surrender Value Only	Installment Account (Other)
Stocks and Bonds (Describe in Section 3)	Mo. Payments \$ _____
Real Estate (Describe in Section 4)	Loans on Life Insurance
Automobile-Present Value	Mortgages on Real Estate (Describe in Section 4)
Other Personal Property (Describe in Section 5)	Unpaid Taxes (Describe in Section 7)
Other Assets (Describe in Section 6)	Other Liabilities (Describe in Section 8)
Total Assets	Total Liabilities
	Net Worth
	Total Liabilities & Net Worth

SECTION 1. SOURCE OF INCOME	CONTINGENT LIABILITIES
Salary	As Endorser or Co-Maker
Net Investment Income	Legal Claims & Judgements
Real Estate Income	Provision for Federal Income Tax
Other Income (Describe)*	Other Special Debt

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

SECTION 2. NOTES PAYABLE TO BANKS AND OTHERS					
NAME & ADDRESS OF NOTEHOLDER	ORIGINAL BALANCE	CURRENT BALANCE	PAYMENT AMOUNT	FREQUENCY (MONTHLY, ETC)	HOW SECURED OR ENDORSED -- TYPE OF COLLATERAL

SECTION 3. STOCKS AND BONDS (Use separate sheet if necessary)				
NUMBER OF SHARES	NAMES OF SECURITIES	COST	MARKET VALUE	DATE OF MARKET QUOTE

SECTION 4. REAL ESTATE OWNED (List each parcel separately. Use supplemental sheets, signed and dated, if necessary.)							
ADDRESS--TYPE OF PROPERTY	NAME(S) ON TITLE	DATE PURCHASED	ORIGINAL COST	PRESENT VALUE	MORTGAGE BALANCE	PAYMENT AMOUNT	STATUS OF MORTGAGE

SECTION 5. OTHER PERSONAL PROPERTY (Describe, and if any is mortgaged, state name and address of mortgage holder and amount of mortgage, term of payment, and if delinquent, describe delinquency.)

SECTION 6. OTHER ASSETS, NOTES, & ACCOUNTS RECEIVABLE (Describe)

SECTION 7. UNPAID TAXES (Describe, in detail, as to type, to whom payable, when due, amount, and any property the tax lien attaches)

SECTION 8. OTHER LIABILITIES (Describe in detail)

SECTION 9. LIFE INSURANCE HELD (Give face amount of policies, name of company, and beneficiaries)

Signature

Signature

Date

Social Security No.

Social Security No.

DESCRIBE BUSINESS IDEA AND REQUIREMENTS

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 setup 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* so that you will be able to access information available in reference materials and sources.

* The North American Industry Classification System (NAICS), approved in April, 1997, will replace SIC and enable the NAFTA partners to better compare economic and financial statistics, keeping pace with the changing economy. Data reported by NAICS will begin to appear gradually over the next two to five years.

DESCRIBE YOUR PRODUCT OR SERVICE

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

The SIC/NAICS code for my business is _____

What will my business' 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* takes the mystery out of gathering market data and using it to make sound decisions. *The Insider's Guide to Demographic Know-How* tells you how to find, analyze, and use information about your customers. See reference list included near the end of the workbook.

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 most current 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.

DESCRIBE YOUR CUSTOMER

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?

What percent of my customers will use the Internet to purchase my product/service?

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. These can be found in the Arkansas State Library, the offices of the Arkansas Department of Economic Development, and college libraries. Another good manufacturer's directory is the *Thomas Register*, available in print, CD-ROM, and Internet, 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*. This book offers techniques you can use to assess your competition. Another useful book is *Competitor Intelligence*. It shows you how and where to gather information about your competitors' operations. See reference list included near the end of the workbook.

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.

DESCRIBE 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?

What is the impact, if any, of the Internet on my industry?

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.

The growth of the Internet offers small businesses global opportunities in the sales and distribution of their products and services. The use of a web site can reach potential customers that otherwise would probably never come into contact with the small company. A company web site is only one element of electronic commerce.

Depending on industry practice, your small business may process transactions electronically. Electronic data interchange (EDI) allows two or more trading partners to electronically communicate text and data such as: orders, shipping, receiving, inventory, production and financial information between their computer information systems. Keeping up with the different sales and distribution processes available is an important component when planning and growing 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.

**Please refer to the Reference List for more
information about many of these topics.**

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.

Can I initially operate the business out of my home?

DESCRIBE YOUR SALES & DISTRIBUTION PROCESS

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' traffic flow?

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

To what extent might an Internet web site influence local business?

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?

DESCRIBE YOUR SALES & DISTRIBUTION PROCESS

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?

How will any construction or renovation, that may occur near my location, impact my business?

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.

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?

DESCRIBE YOUR SALES & DISTRIBUTION PROCESS

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

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

To what extent will a presence on the Internet influence my distribution process? How will my business deal with fluctuating demands caused by this global exposure?

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 mass merchandiser requires, or will my output be better suited to smaller, individually owned retail stores?

Can my product/process 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?

DESCRIBE YOUR SALES & DISTRIBUTION PROCESS

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?

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** 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 on the following page. 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* 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 Step 2.

Please fill out the questions on the following page **after** you have talked with at least five sources of reliable information. Do not respond with your opinions.

DESCRIBE YOUR MANAGEMENT REQUIREMENTS

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?

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*. 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* 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*. 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.

See Reference List included near the end of the workbook for more information on the above resources.

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.

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).

DEVELOP YOUR SALES FORECAST

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?

If my product/service/process is unique, to what extent will education of the market (time) impact my business cash flow?

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 nonrecurring, 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. Instead, you will look at operating cash needs after completion of the next section.

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.

If you do a survey of other business owners, you should prepare a list of questions taken from steps 8, 9, and 10 of this workbook.

IDENTIFY YOUR START-UP EXPENSES

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

Be conservative and realistic as you develop your operating budgets. It is much better to outperform 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' 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 which follow 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.

HOW TO PREPARE THE PROJECTED SALES REVENUE WORKSHEET

Month	Write in the months for your projected twelve-month calendar	12-Mo. Total
+ Sales: Product 1 + Sales: Product 2 + Sales: Product 3 + Other Sales <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> + Gross Sales	Enter your projected sales by month for each product of service <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> Sum each month's total sales	Sum your twelve-month totals and enter in this column
- Returns	List your projected amount of product returns, by month	
= Net Sales	Subtract the projected monthly returns from the projected gross sales to yield Net Sales	

PROJECTED SALES REVENUE WORKSHEET

Month														12-Mo. Total
+ Sales Product: 1														
+ Sales Product: 2														
+ Sales Product: 3														
+ Other Sales														
+ Gross Sales														
- Returns														
= Net Sales														

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Sales Revenue Assumptions:

1. The sources of information for my sales projection are: _____

2. If the total market demand for my product/service =100%, my projected sales volume represents _____% of this total market.

3. The following factors might lower my sales projections: _____

HOW TO PREPARE THE PROJECTED COST OF GOODS SOLD WORKSHEET

Month:	Write in the months for your projected twelve-month calendar	12-Mo. Total
+Beginning Merchandise Inventory	Enter the beginning balance of inventory each month	Sum your twelve-month totals and enter in this column
+Net Purchases	Record each month's projected purchases of inventory	
+Freight In	Enter freight charges for inventory purchases	
=Total Merchandise Available for Sale	Sum beginning inventory, purchases, and freight costs to arrive at value of total merchandise available for sale	
- Ending Merchandise Inventory	Enter your projected amount of inventory on hand at the end of each month	
=Cost of Goods Sold	Subtract ending inventory from total merchandise available to get Cost of Goods Sold	

NOTE: This worksheet does not include direct labor costs as part of total cost of goods sold. Labor costs would properly be part of cost of goods sold of manufacturers and some other types of businesses.

HOW TO PREPARE THE PROJECTED LABOR EXPENSE WORKSHEET

Month =	Write in the months for your projected twelve-month calendar	12 Mo. Total
+ Owner's Salary + Employee 1 + Employee 2 + Employee 3 + Employee 4 = Total Wages	Enter amount of owner's monthly salary from business Enter each employee's monthly wages. To compute, multiply hourly wage by estimated hours per week times 4.3 weeks per month. Sum owner's salary and all employees' wages, by month	Sum your twelve-month totals and enter in this column
+ FICA + FUTA + SUTA + Worker's Comp Ins. + Employee Benefits = Total Labor-Related Expense	Multiply "Total Wages" by FICA rate * Multiply "Total Wages" by FUTA rate * Multiply "Total Wages" by SUTA rate * Enter projected cost of worker's compensation insurance Enter monthly costs of any additional benefits (health/life insurance, etc.) Sum all labor-related expense, by month	

- * FICA = social security and medicare tax
- * FUTA = federal unemployment tax, based on first \$7,000 of wages per employee
- * SUTA = state unemployment tax, based on first \$8,000 of wages per employee

PROJECTED LABOR EXPENSE WORKSHEET

Month =													12 Mo. Total
+ Owner's Salary													
+ Employee 1													
+ Employee 2													
+ Employee 3													
+ Employee 4													
= Total Wages													
+ FICA													
+ FUTA													
+ SUTA													
+ Worker's Comp Ins.													
+ Employee Benefits													
= Total Labor-Related Expense													

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Labor Expense Assumptions:

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

Payroll Taxes: _____

Employee Benefits: _____

Worker's Compensation Insurance: _____

Hourly Wage Rate: _____

HOW TO PREPARE THE PROJECTED OPERATING EXPENSE WORKSHEET

Month =	Write in the months for your projected twelve-month calendar	12-Mo. Total
<ul style="list-style-type: none"> + Total Wages + Labor-Related Exp. + Commissions + Advertising + Auto/Truck + Bad Debts + Bank Charges + Depreciation + Freight Out/Postage + Insurance + Legal/Accounting + Rent + Repairs/Maintenance + Supplies + Taxes/Licenses + Travel/Entertainment + Utilities/Telephone + Miscellaneous = Total Operating Exp. 	<ul style="list-style-type: none"> Enter total wages, by month, from Projected Labor Expense Worksheet Enter total labor-related expense, by month, from Projected Labor Expense Worksheet Enter total monthly commissions paid to sales staff Projected bad debt expense on customer sales Estimated bank fees on business checking accounts, bank credit card charges, etc. Estimated monthly depreciation expense on fixed assets (e.g., building, equipment) owned by business Projected business insurance costs (e.g., liability, building and property, business interruption, etc.) Projected facility upkeep or repairs per month Projected property taxes, privilege license fees, etc. Estimated amount for unplanned or unknown costs, by month Sum of all operating expenses, by month 	<p>Sum your twelve-month totals and enter in this column</p>

NOTE: Enter projected monthly costs for each category of operating expense listed on the left; additional comments are offered for some cost items.

HOW TO PREPARE THE PROJECTED PROFIT OR LOSS WORKSHEET

Month =	Write in the months for your projected twelve-month calendar	12- Mo. Total
+ Net Sales	Enter projected net sales, from the Projected Sales Revenue Worksheet	
- COGS	Enter projected cost of goods sold, from the Projected Cost of Goods Sold Worksheet	
= Gross Profit	Subtract cost of goods sold from net sales to yield Gross Profit	
- Total Operating Exp.	Enter total operating expenses, from the Projected Operating Expense Worksheet	
= Operating Profit	Subtract total operating expenses from gross profit to yield Operating Profit	
+ Other Income	Enter projected non-operating income, by month (e.g., vending machine income)	Sum your twelve-month totals and enter in this column
- Other Expense	Enter estimated monthly non-operating expenses (e.g., vending machine expense)	
- Interest Expense	Enter monthly interest expense on loans obtained by business	
= Profit Before Taxes	To Operating Profit, add Other Income and subtract Other Expense and Interest Expense	
+ Income Taxes	Multiply your profit before taxes by your income tax rate	
= Net Profit	Subtract projected income tax expense from Profit Before Taxes to yield Net Profit	

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. 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/NAICS 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

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' 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' 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
Strongly Disagree	-10						
Disagree	-5						
Neutral	0						
Agree	+5						
Strongly Agree	+10						
Total points for each of the three scoresheets		<input style="width: 80px; height: 30px;" type="text"/>		<input style="width: 80px; height: 30px;" type="text"/>		<input style="width: 80px; height: 30px;" type="text"/>	

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

Good luck on making your dream a success!

APPENDIX

REFERENCE LIST

These sources will provide answers to your research needs in Steps 4 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, CD-ROMS, 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. The majority of these resources are available at either the ASBDC Lead Center library or the Arkansas State Library.

STEP 4. DESCRIBE YOUR PRODUCT OR SERVICE

1. American Business Directories, Arkansas Business Directory. (Omaha: American Business Directories).
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
2. Arkansas Employment Security Division, Labor Supply/Demand. (Little Rock: Research and Information/Employment and Training Section).
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.
3. Duns Million Dollar Disc±, CD-ROM, Dun & Bradstreet, Inc.
This is a CD that consists of a national directory of all businesses in the United States. Each record includes the name of the company, address, telephone and fax numbers, sales, import/export, CEO information, and number of employees. One can limit a search by number of employees or by sales in dollars.
4. Executive Office of the President/Office of Management and Budget, North American Industry Classification System United States (Lanham: Bernan Press).
This system was adopted in July 1997 to replace the SIC code. The first data collected is from the 1997 Economic Census. Some data will be provided with a bridge between the SIC and NAICS codes.
5. Executive Office of the President/Office of Management and Budget, Standard Industrial Classification Manual (Washington: U.S. Government Printing Office, 1987).
Use this manual to identify the code number that describes your product or service. It is useful when doing research for your business since many business-related indexes are arranged by SIC number.
6. U.S. Bureau of the Census, County Business Patterns. (Washington: U.S. Government Printing Office).
These sources are available on CD and paperback. A good statistical source which groups businesses by professional categories. Statistics on the number of people in each profession is provided for each county.

STEP 5. DESCRIBE YOUR CUSTOMER

1. Ambry, Margaret K., Consumer Power: How Americans Spend Their Money, (Ithaca: New Strategist Publications).
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.
2. Arkansas State Highway and Transportation Department – Planning and Research Division, Annual Average Daily Traffic Estimates By County, (Little Rock: AHTD).
These maps give annual average daily traffic estimates for specific locations. They are available for cities or by entire state. Traffic counts can be especially helpful in finding locations for retail outlets.
3. Breen, George and A. B. Blankenship, Do-It-Yourself Marketing Research, (New York: McGraw-Hill, Inc.).
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.
4. Crispell, Diane, The Insider’s Guide to Demographic Know-How, (Ithaca: American Demographics Press).
This guide 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.

5. Heslop, Janet, The American Marketplace: Demographics and Spending Patterns, (Ithaca: New Strategist Publications, Inc.).
This consumer guide presents facts from The Bureau of Labor Statistics and the Federal Reserve Board to define eight powerful trends that will drive consumer markets.
6. The Lifestyle Market Analyst, (Des Plaines: SRDS).
A reference guide for Consumer Market Analyst. The profile of consumers in different states is outlined.
7. "Survey of Buying Power," Sales & Marketing Management.
This publication involves the study of customer characteristics. There are sub groups on age, income, state/regional, sales by store groups and media projections of household spending.
8. U.S. Bureau of the Census, Census of Population & Housing, (Washington: U. S. Department of Commerce) *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.*

STEP 6. DESCRIBE YOUR COMPETITION

1. Arkansas Economic Development Commission, Arkansas Directory of Manufacturers, (Little Rock: Stone & Ward Advertising, Inc.).
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. County Business Patterns, CD-ROM, U. S. Bureau of the Census.
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.
3. Darnay, Arsen, Editor, Manufacturing USA: Industry Analyses, Statistics, and Leading Organizations Vols. I & II, (New York, Gale Research, Inc.).
A concise presentation of 448 U.S. manufacturing industries. It is useful to people in these categories: research, investment, advertising, economic analyst, students, and Librarians.
4. Darnay, Arsen and Joyce Piwowarski, Editors, Wholesale and Retail Trade USA: Industry Analyses, Statistics and Leading Organizations (Detroit: The Gale Group).
This reference is a comprehensive guide to economic activity in 133 service industries covering wholesale and retail trade.
5. Darnay, Arsen, Editor, Service Industries USA: Industry Analyses, Statistics, and Leading Organizations (New York, Gale Research, Inc.).
This reference includes 151 US service industries compiled from federal sources, public and private corporations, and non-profit organizations. The information is also divided by states.
6. Kelley, John M., How to Check Out Your the Competition. A Complete Plan for Investigating Your Market, (New York: John Wiley & Sons).
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.
7. Lazich, Robert S., Market Share Reporter, (Detroit: Gale Research, Inc.).
This publication is an annual compilation of reported market share data on companies, products, and services.
8. Manufacturers' Agents National Association, Directory of Manufacturer's Sales Agencies, (Laguna Hills: MANA).
This directory is a good source for finding the best sales agencies for your product line. It is indexed alphabetically and by product line.
9. Marlow – Ferguson, Rebecca and Holly Selden, Editors, American Wholesalers and Distributors Directory (Detroit: Gale Research, Inc.).
This directory is 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.
10. Park, C. Whan and Daniel Smith, Competitors as Sources of Innovative Marketing Strategies, (Cambridge: Marketing Science Institute).
This publication is a concise text on how to use competitors as sources of information and insight. The basics of defining a

competitor and how to communicate with them is discussed.

11. Thomas Register, CD-ROM, Thomas Publishing Company.

Use this database to locate customers, suppliers, and competitors nationwide. This index is available in a 34 – volume set which indexes over 20,000 manufacturers in the United States and Canada, available at the ASBDC Information Center in print and CD-ROM, and can be used to develop a mailing list. This resource is also available as a free service on the Internet at www.thomasregister.com.

STEP 7. DESCRIBE YOUR SALES AND DISTRIBUTION PROCESS

1. Baker, Sunny and Baker, Kim, Market Mapping: How to Use Revolutionary New Software to Find, Analyze and Keep Customers, (New York: McGraw-Hill, Inc.).

This book is for readers interested in global marketing. It is a concise text that delivers a powerful, precise technique and data analysis for sales and marketing intelligence.

4. Peterson, Robin T., How to Market Your Product Through Distributor and Sales Networks, (American Management Association).

This is a course handbook to understand the operations of sales and distribution process. The course consists of instructional programming, one examination, and a practice case.

5. Toth, Adrienne, Suzette Bessette, Leanne Jisonna, Deborah Kid and Elizabeth McLaughlin, Directory of Mass Merchandisers, (Stamford: Hunter Media).

This directory lays the groundwork to evaluate distribution opportunities and reach buyers. It includes information on demographics, market area maps, major corporations, top 100 mass merchandisers, convention dates, and companies.

STEP 8. DISCUSS YOUR MANAGEMENT REQUIREMENTS

1. Bourgoin, Suzanne, Editor, Small Business Profiles, Vol. I & II, (New York: Gale Research, Inc.).

This resource is published in two volumes and includes small business topics. Each topic is summarized following the start-up costs, financing sources, location of the business and marketing.

2. Encyclopedia of Associations, CD-ROM, SilverPlatter Information – Gale Research.

Trade associations are an excellent source of industry-specific information. Also available in print.

3. Entrepreneur, Inc., Entrepreneur Business Start-Up Guides, (Irvine: Entrepreneur, Inc.).

These guides include a variety of business topics such as travel agency, consulting, and microbrewery. They include start-up costs, inventory information, marketing/advertising and licenses/taxes.

4. Marder, Joyce S., Surviving the Start-Up Years In Your Own Business, (White Hall: Betterway Publications, Inc.).

This book presents dozens of case histories of both successful and unsuccessful business people in a variety of fields. It discusses start-up capital, operating money, expansion, pricing, and managing employees.

5. Tompkins, James A., Winning Manufacturing, (Norcross: Industrial Engineering and Management Press).

This resource focuses on the basic requirements of manufacturing success, together with a “how-to” approach that will lead a manufacturing team to success.

STEP 9. DEVELOP YOUR SALES FORECAST

1. “Survey of Buying Power,” Sales & Marketing Management.

This resource uses current 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. Urban land Institute, Dollars & Cents of Shopping Centers, (Washington: ULI).

This series is an excellent source for data on sales per square foot and median size of storefront businesses. It contains a 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.

STEP 10. IDENTIFY YOUR START-UP EXPENSES

1. Entrepreneur Magazine. (Boulder: Entrepreneur Group, 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.

2. Kahn, Sharon and Phillip Lieff Group, 101 Best Businesses to Start, (New York: Doubleday & Company).
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.
3. UALR Arkansas Small Business Development Center, Business Information Resources: Guidelines to Obtaining Licenses, Permits, and Tax Requirements, pamphlet (free).
This pamphlet provides information about agencies to contact when obtaining initial business licenses, permits, etc.

STEP 11. ESTIMATE YOUR 12-Month OPERATING BUDGET

1. Bangs, David H., The Business Planning Guide: Creating a Plan for Success in Your Own Business (Dover: Upstart Publishing).
2. Industry & Financial Consulting Services, Industry Norms and Key Business Ratios (Murray Hill: Dun and Bradstreet Information Services).
3. Kelsay, Susan, (RMA) Annual Statement Studies, (Philadelphia: Robert Morris Associates).
4. Troy, Leo, Almanac of Business and Industrial Financial Ratios (Englewood: Prentice Hall).

OTHER INFORMATION

1. Entrepreneur Magazine Group, The Small Business Encyclopedia, Parts 1-3. (Irvine: Entrepreneur Group).
2. Heil, Scott and Terrance Peck, Editors, Encyclopedia of American Industries, Vol. 2, (New York, Gale Research Inc.).
3. Kahrs, Kristin, Editor, Business Plans Handbooks. (New York, Gale Research, Inc.).
4. MacFarlane, Theresa, Editor, Small Business Sourcebook, Vol. I & II (Detroit: Gale Research, Inc.).
This handbook lists information sources for over 300 businesses including associations, services, and assistance available.
5. Maurer, John, Joel Shulman, Marcia Ruwe, and Richard Becherer, Encyclopedia of Business, Vol. 1 and II, (New York, Gale Research, Inc.).
6. Rice, Frederick H., Starting a Home-Based Business (Manhattan: Kansas State University).
This 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.
7. Woy, James, Editor, Encyclopedia of Business Information Sources (Detroit: Gale Research, Inc.).
This is an extensive bibliography with topics arranged alphabetically.

NINE COMMONLY ASKED QUESTIONS ABOUT STARTING A BUSINESS AND OBTAINING BUSINESS FINANCING

1. I know that I have a successful business idea. All I need is money. Why does all this have to be so complicated?

You may "know " that you have a successful idea, but that is not sufficient. If you wish to obtain financing, you have to demonstrate, in writing, to other people that your idea will be successful. Their money, after all, will be at risk; they cannot lend money based on your opinion. If "they" is a bank, the money that they are lending you is actually money which belongs to their depositors and they are naturally cautious. Many small businesses fail — they want to be sure that you are one that succeeds!

You may believe that your issue is "money" — many people do. However, the real business issues (that may prevent you from receiving a loan) are more likely to be your market, management skills, distribution network, pricing, or operating budget. For many people, money is an obstacle that ignores more critical issues.

2. What skills and experience do I need to run a business?

The skill and experience requirements of a business vary widely, but in general they include

- Attitude: A strong need to achieve, drive, abundant energy, the courage to take risks, persistence, self-confidence, flexibility, innovativeness, ability to get along with others, and
- Skills: Educational skills (reading, writing, arithmetic), professional or technical skills (specific experience in the line of business), entrepreneurial skills (past management experience or ownership of a business).

Many lenders consider past experience in the line of business as crucial to your potential success. If you seek financing, be prepared to explain how your work history will contribute to your success as a business owner.

3. Who is my business team?

A successful business has at least four important "partners" — an accountant, a banker, a lawyer, and an insurance agent. Each of these people has specialized skills that can help a business succeed.

4. Why do small businesses fail?

Several studies have suggested that three out of five small businesses fail within the first year. Causes vary, but the primary reasons can usually be traced to insufficient management skill, inadequate experience, and/or poor business planning.

You can significantly increase the odds that you will be one that succeeds by going through a feasibility analysis process which forces you to examine many possible business start-up issues and questions. This is called writing a business plan — which can range from a general sketch of your business and key business issues to a comprehensive analysis and description of the business and its operating environment.

NINE COMMONLY ASKED QUESTIONS ABOUT STARTING A BUSINESS AND OBTAINING BUSINESS FINANCING

5. Where can I learn more about running a business, and about my business in particular?

There are many basic business courses offered by the Arkansas Small Business Development Centers, community colleges, and others. In addition, there are many manuals that can be very helpful (see the accompanying reference list). Your local library will have books and periodicals on business and some may have business training videos.

The appropriate trade association and small business owners in the same industry can be invaluable sources of information concerning your specific type of business or service.

6. What do I have to prove to a bank or investor in order to get financing?

In general, you have to demonstrate that there is a market for your product or service, that you have sufficient management skill to start and manage the business, and that there is sufficient cash flow from the business to repay the loan (shown by a projected budget).

7. What must I do to answer the questions that lenders will have of me?

The accepted practice is to develop a financing proposal that includes several parts of your business plan. At a minimum, the proposal should include a brief description of your planned business, a summary of the requested loan (use of funds, requested terms), management resumes, a personal financial statement, and a projected income statement for the first year (including an explanation and justification of income and expense items).

8. What is equity?

Equity is the money and/or assets which you put into the business yourself. Banks rarely lend 100% of the funds required by a business, just as a bank rarely makes a mortgage for 100% of the value of a house. It is expected that you will put a part of the funds required into the business yourself. This shows that you are willing to risk your money in the business.

9. What is collateral?

Collateral is the assets you pledge as security on a loan. These assets may be a part of the business, or they may be personal in nature (equity in your house, for example.)

One of the key issues that a lender is concerned with is "How will I get repaid?" There are two potential sources of repayment, in general: cash flow from the successful business and the proceeds from the sale of your collateral should the business fail. Lenders usually prefer that the resale value of collateral be greater than the loan request.



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