

Evaluating Your Business Idea©

These questions will help you and your business advisor examine your business idea and determine your potential for success before you spend time and money developing a business plan. Your responses will provide insight into your market, competitors, start-up costs, sales, expenses, and financing needs. Your honest answers will help identify areas of strength and concern. They will also help determine if you are ready to take the next step or need to re-evaluate your business idea. This is only a beginning and should not be considered as the final word when determining the feasibility of a new business venture.

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

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

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

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

General Public
 Government

Businesses
 Specific Industry _____

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

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

Agriculture/Forestry/Fishing
 Construction
 Finance/Insurance/Real Estate
 Services
 Wholesale Trade

Mining
 Manufacturing
 Retail Trade
 Transportation/Communication/Public Utilities
 Other _____

If selling to the general public, profile your customer by answering the questions and checking the boxes that apply below:

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

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

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

Sex: Male Female Both

Race/Ethnicity: Asian Black Hispanic Origin White Other _____

Household Income: Under \$25,000 \$25,000 to \$50,000
 \$50,000 to \$100,000 Above \$100,000

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

Home: Own Rent

Geographic Location: Urban Suburban Rural

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

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

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

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

7. How many competitors do you have? _____ (Note: "0" is not an appropriate answer.)

8. List your five most important competitors?

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

9. **What would you like your annual salary to be from your business?** \$ _____
 USE THIS FORMULA: Annual Salary = Hourly Wage \$ _____ x Available Work Hours _____.
 (Note: Use 2,080 hours for a full work year if this business will be your sole source of income.)

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

<p><i>Before your business can earn money, you will need to invest money in start-up costs. These costs are paid just one time and do not include your normal monthly expenses.</i></p> <p><i>This worksheet will help you estimate your start-up costs. List the costs of items you have already purchased in the “purchased” column and those you still need in the “needed” column.</i></p>	Worksheet 1: Start-up Costs		
	One Time Requirements Before Start-Up	Items Already Purchased:	Items Still Needed Before Start-Up:
	Legal, Accounting & Professional Services	\$	\$
	Advertising & Promotions	\$	\$
	Deposits for Utilities	\$	\$
	Licenses & Permits	\$	\$
	Prepaid Insurance	\$	\$
	Salary & Wages	\$	\$
	Payroll Taxes	\$	\$
	Truck & Vehicle	\$	\$
	Travel	\$	\$
	Tools & Supplies	\$	\$
	Furniture & Fixtures	\$	\$
	Machines & Equipment	\$	\$
	Building Improvements	\$	\$
	Land & Buildings	\$	\$
	Starting Inventory	\$	\$
	Cash (Working Capital)	\$	\$
	Other (specify)	\$	\$
TOTAL:	\$	\$	

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

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

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

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

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

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

Worksheet 2: Sales and Earnings

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

***NOTE: 1st Year data is required to answer questions 13 and 14.**

13. Calculate your sales breakeven point: \$ _____

Sales Breakeven Point = Total Expenses* / Gross Profit Percentage**

* Total Expenses: \$ _____ found in question 12 at the bottom of “Worksheet 2: Sales and Earnings,” in column 1, the 1st Year.

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

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

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

- a. Project your average total monthly revenue (sales): \$ _____
Note: Use 1st year "Total Revenue" found in column 1 of question 12. Divide by 12.
- b. Project average total monthly expenses and COGS: \$ _____
Note: Use 1st year "Total Expenses" found in column 1 of question 12. Divide by 12.
- c. Projected monthly net profit Subtract b from a = \$ _____

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

Note: Number comes from Question 10, “Total Estimated Start-Up Costs.”

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

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

16. How would you rate your personal credit?

- Excellent Good Average Poor

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

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

NOTE: For best results in using this evaluation, please answer each question to the best of your ability. When you have completed it, you are encouraged to seek the professional assistance of the Missouri Small Business & Technology Development Center in your area. Experts can help you interpret your results and provide you with resources to further explore and develop your business idea. To find the office nearest you, visit our Web site at www.missouribusiness.net/sbtdc/centers.asp or phone (573) 884-1555.



Notes: