FEASIBILITY ANALYSIS

A. RESPONSIBILITIES

An important point to consider is the ability of you (and your associates, if any) to successfully carry out all of the responsibilities that will be required to start and manage a company. There are many tasks that must be completed on a regular basis to succeed. Some of these tasks require considerable skill and/or training. The relative importance of each responsibility varies from company to company, depending on characteristics of the industry and the specific nature of the business.

The following page is a representative list of the responsibilities that will typically need to be fulfilled. Some of them need to be done many times each day, while others may only be done once or twice each year; however, they are all important, regardless of their frequency.

Across the top of the following page, enter your name and any associates, if any. Then, in the boxes on each responsibility line, check off those that you (or each associate) feel comfortable fulfilling. You can assign a grade to each, if you wish, with "F" meaning no ability at all and "A" representing high expertise.

If you and your associates have too many responsibilities with "Fs" or blanks, you will need to purchase these services from appropriate professionals or capable employees. Assuming that the responsibility doesn't need to be fulfilled or that it will "just go away" is a mistake that often leads to failure, so take this worksheet seriously.

RESPONSIBILITIES OF MANAGING A BUSINESS

SELLING TO CUSTOMERS				
PREPARING & COORDINATING ADVERTISING				
DEVELOPING PROMOTIONS				
ATTENDING TRADE SHOWS				
ANALYSIS OF COMPETITION				
PRODUCT/SERVICE PRICING				
DETERMINING CUSTOMER PROFILES				
COORDINATING SALES REPS				
MAKING PRESENTATIONS RE COMPANY				
PRODUCT/SERVICE DESIGN				
PRODUCTION OF PRODUCTS / SERVICES				
DELIVERY OF PRODUCTS / SERVICES				
AFTER-SALE SERVICE				
QUALITY CONTROL				
INVENTORY CONTROL				
PURCHASING OF MATERIALS & SUPPLIES				
PURCHASING OF CONTRACT LABOR				
EQUIPMENT MAINTENANCE & REPAIR				
BUSINESS FORMATION & STRUCTURE				
GENERAL ACCOUNTING				
WRITING CHECKS				
SIGNING CHECKS				
COST ACCOUNTING / CONTROL				
FINANCIAL REPORT PREPARATION				
FINANCIAL ANALYSIS				
SALES TAXES				
INCOME TAXES				
BILLING & COLLECTIONS				
PAYMENTS TO SUPPLIERS / BILLS				
NEGOTIATE FINANCING ARRANGEMENTS				
INCOMING MAIL PROCESSING				
OUTGOING MAIL				
INFORMATION TECHNOLOGY				
BUSINESS PLANNING				
DAY-TO-DAY ADMINISTRATION				
COORD. W/ LEGAL & OTHER PROFESS.				
EMPLOYEES & ORGANIZATION				
GOVERNMENT REPORTING				
RELATIONS WITH BANKS				
ANSWERING THE PHONE				

B. CAPITAL SOURCES & REQUIREMENTS

PREREQUISITES: THE 5 Cs OF CREDIT

Capacity—The borrower's ability to repay the loan from the normal course of business operations.

- Must be able to demonstrate sufficient cash flow to make monthly loan payments
- Existing businesses must be able to demonstrate, through historical financial statements, that sufficient cash flow exists, prior to loan, to support operations.
- The growth of revenues generated by application of the loan proceeds must match the terms of repayment.

Character/Credit—The borrower's demonstrated willingness and ability to repay the loan as agreed.

- Must have a clean credit history.
- Start-up business—the owner must have clean personal credit, which means, few, if any, delinquencies, no repossessions, and no judgments.

Collateral—Provides a secondary source of repayment for the loan and is critical in start-up situations. Most banks like to be 100% collateralized.

- Common collateral values:

Certificate of deposit	100%
Stock (publicly traded)	75%
Vehicles	70%
Equipment	10%-75%
Real Estate	75%-80%
Inventory	0%-35%
Accounts Receivable	50%

Capital—The amount of equity invested in the business by the owner(s) and/or investors or from retained earnings.

- Banks and the SBA prefer to see at least 30% equity invested in a business.

Conditions—Factors in the economy that might impact the business' ability to repay its debt or deteriorate its collateral position. (Example: A seller of pleasure boats will see a sales decline during a recession.)

CAPITAL SOURCES & CONSIDERATIONS

The following table summarizes the basic elements of the most common sources of capital. The notes for each source are generally true at the present time; however, it should be noted that there are frequently exceptions to some these due to unusual circumstances in the situation of the owner or business.

CONSIDERATIONS	FAMILY & FRIENDS	COMMERCIAL BANK	BANK / SBA GUARANTEE	SELF-HELP CREDIT UNION	CREDIT CARDS	PRIVATE INVESTOR
Type of Capital	Loan or Equity	Loan	Loan	Loan	Advance	Loan or Equity
Owner Cash Percentage	0% - ??%	25% - 30%	10%-20%	5% - 10%	0%	10%-20%
Collateral Required	none	100%	40% - 80%	minimal	none	none
Interest Rates	base rate	base rate ++	bank rate +.5% - 1.0% + fees	bank rate + 2% - 3%	bank rate + 5% - 15%	20+% return
Availability of Funds	individual circumstances; depends somewhat on amount	available funds; must demonstrate ability to repay	available funds if bank wants backup; must demonstrate ability to repay	available funds; must demonstrate ability to repay	relatively easy to obtain	difficult to find and obtain capital
Required Information	varies widely; depends on lender & amount	business plan; financial projections; personal financials	business plan; financial projections; personal financials	business plan; financial projections; personal financials	none; personal financials	business plan; financial projections
Control Asserted by Lender	could be considerable	none to some	none to some	none to some	none	could be considerable, especially with equity capital
Consequences of Default	family problems	loss of collateral & company; bad credit	loss of collateral & company; bad credit	loss of collateral & company; bad credit	bad credit	loss of company

NOTE THE FOLLOWING WEBSITES:

http://www.sbtdc.org/publications/cap_opps.asp
http://www.sbtdc.org/pdf/startup.pdf
http://www.cris.state.nc.us/ (for grant information)
http://www.cfda.gov/ (for grant information)

C. FINANCIAL FEASIBILITY

It is important to know, as early as possible in the business planning process, whether the business has a financial future – i.e., whether it is financially feasible. This analysis consists of three parts that must each pass the feasibility test. In addition, they must work together to yield a "whole" business that is feasible (the fourth part). These four parts are as follows:

. Revenue from Sales of Products / Services

. Variable Margins of Products / Services

. Fixed Costs of the Business

. Profit that Represents a Fair Return on the Owners' Investment

The following pages explain how to systematically perform this Financial Feasibility analysis, along with formats and completed examples.

FEASIBILITY ANALYSIS – MARKET SIZE & REVENUE

There are two ways to evaluate the feasibility of revenue projections:

- Are the projected units of sales reasonable in light of customer trends, competitive activities and company capacity?

- Are the projected prices per unit of sale reasonable in light of customer demand and competitive practices?

The following example shows the relevant data for a product/service or for a group of related products/services; this information should be prepared for each product/service (or group) offered by the company.

MARKET SIZE

	EXAMPLE	COMPANY	INFO RESOURCES
Total Market Size (Total Population of Area)	165,000		www.ersys.com www.easidemographics.com http://www.greenvillenc.org/
Estimated Market Potential (No. in the Total Market Matching the Target Demographic Profile)	50,000 (a)		Trade Journals Trade Association Web Sites Chamber of Commerce
Number of Competitors in the Market Area	40 (b)		Phone Book Industry Publications Business Directories
Average No. of Customers per Competitor	1,250 (a / b)		
No. of Customers to Purchase from Company	900 (c)		
No. of Sales to each Customer	5 (d)		
Avg. Price / Sale	$8.90 (e)		
Total Revenue (Sales) for Company	$40,050 (c x d x e)		

FEASIBILITY ANALYSIS – REVENUE CALCULATION

There are two ways to evaluate the feasibility of revenue projections: (1) Are the projected units of sales reasonable in light of customer trends, competitive activities and company capacity? (2) Are the projected prices per unit of sale reasonable in light of customer demand and competitive practices? The following example shows the relevant data for two products/services (or for the same product in different years); this information should be prepared for each product/service offered by the company.

REVENUE CALCULATION – EXAMPLE

	Product A	**Product B**	**Product C**	**Product D**	**TOTAL**
Company Units of Sales/Service	1,000	1,400	500	1,600	4,500
Avg. Price / Unit	$9.25	$7.25	$11	$9.47	$8.90
Total Product/Service Revenue	$9,250	$10,150	$5,500	$15,150	$40,050

FEASIBILITY ANALYSIS – VARIABLE MARGINS

Variable Margins represent the profits that are generated by sales, and are calculated as follows:

Variable Margins = Sales Revenue minus Variable Costs

Variable Costs are the costs directly associated with production and distribution of products. They are called "variable" costs because the amount of these costs *varies directly* with the level of production and sales. In other words, if you double production and sales, your level of Variable Costs (and Margins) will also double; if you increase your sales by 20%, your Variable Costs (and Margins) will increase by 20%.

Variable Costs consist of three main components – Material, Labor and Contract Labor/Subcontracting. Material may consist of several subcategories, such as Purchased Components and Raw Materials, depending on the type of business. Labor represents work performed by company employees, those to whom "W-4s" are issued. Contract Labor/Subcontracting services represent labor that is contracted to third parties, those to whom "1099s" are issued.

The table below represents an example and a blank format for developing Variable Costs and the resulting Variable Margins.

		Example- Product A		
Material Costs				
Purchased Components		3.50		
Raw Materials				
Total Material Costs		$3.50		
Labor Costs		$2.00		
Contract Labor & Subcontracting				
Total Variable Cost / Unit		$5.50		
Avg. Price per Unit		$9.25		
Variable Profit / Unit (= Price – Variable Cost)		$3.75		
Variable Margin Pct of Sales (= Var Profit / Avg Price)		40.5%		

FIXED EXPENSES

Fixed Expenses represent the basic costs of running the business that do not change when the level of sales changes. In other words, these are expenses that will begin when you open the doors for business, even though production and sales activities may not have begun. The level of Fixed Expenses will remain relatively constant and are independent of production and sales. It is possible for sales to double while Fixed Expenses are unchanged.

It is generally preferable to exclude salaries of the owner(s). Instead, it will be much simpler to consider that the profit that falls to the bottom line is the owners' compensation rather than trying to plan on a salary.

The example on the next page includes a selection of accounts that will normally be included in Fixed Expenses. Note that the company's more-than-doubling of revenue is only accompanied by a small increase in Fixed Expenses. Some increase was necessary in Vehicles (more customers to service) and Office Supplies (more correspondence means more paper and postage).

FIXED EXPENSES

		EXAMPLE	FORMAT
Admin. Salaries (non owners)		1,000	
Facility Rent		600	
Utilities		200	
Insurance		50	
Advertising & Promotions		300	
Equipment Rental		80	
Maintenance & Repairs		60	
Vehicles		350	
Travel / Meals & Entertainment		100	
Professional Services		50	
Office Supplies		100	
Phones		100	
All Other		475	
Total Fixed Expenses		$3,465	

CALCULATION OF OWNER’S TARGET

As shown the example below, a salary of $2,500 per month earned as an employee equates to $3,024 per month of pre-tax profit from a business as a self-employed person. The higher level of income is needed to replace the benefits provided by an employer, to pay the employer’s portion of the social security tax (*you* are now the employer) and to earn a modest return on the capital invested in the business. Enter your desired monthly salary and calculate your business income target.

CALCULATION OF OWNER'S TARGET

		EXAMPLE		
MONTHLY SALARY		$2,500		
LESS:	PAID MEDICAL INSURANCE	(100)		
	EMPLOYEE RETIREMENT	(50)		
	EMPLOYEE FICA	(191)		
NET PRE-TAX INCOME		$2,159		
ADD:	RETURN ON $10,000 @ 10%	83		
TOTAL PRE-TAX INCOME & INVESTMENT RETURN		**$2,242**		

TOTAL INCOME AS AN EMPLOYEE (ABOVE)		**$2,242**		
ADD:	EMPLOYER & EMPLOYEE FICA	382		
	MEDICAL INSURANCE	300		
	PORTION RETIREMENT	100		
TOTAL BUSINESS PROFIT NEEDED		**$3,024**		

BREAKEVEN ANALYSIS

You may have heard the term “Breakeven Point.” The Owner’s Target is essentially the Breakeven Point for the business. It represents the sales volume at which the business will pay the owner a suitable salary/return and cover all costs. At volumes below the Breakeven Point, it will be losing money and at volumes above the Breakeven Point it will be making money.

The following example, taken from the foregoing Owner’s Target analysis, demonstrates how this works:

EXAMPLE

Operating Profit at Breakeven	$ 0
Add: Overhead to be Covered	$3,465
Add: Owner’s Salary & Return to be Covered	$3,024
Total to Cover by Variable Margin from Sales <A>	$6,489
Variable Margin Pct. <B>	40.5%
Breakeven Revenue <= A / B >	$16,022
Breakeven Sales Units < = Breakeven Revenue / Avg. Price >	1,800

Using the above format, you can work out your own situation and get a better understanding of the calculation of your Breakeven Point.

If the breakeven point is too high to be reasonably achievable, the business is probably not feasible as developed at this point.