
TX VRC Resource Tools

7. Evaluating Business Feasibility

A major decision point occurs at the end of the business feasibility stage. This tool is meant to help you determine if there is enough evidence the business can be profitable to authorize continued services for the next stage -- Business Plan development.

The VR-1802 Concept Development and Feasibility

The VR-1802 Business Concept Development and Feasibility Study requires VR Customers and CBTACs to describe the business's products and/or services and summarize market research regarding the "Three C's" – Customers, Competition, and Capability. It also requires Prospective Business Owner's to conduct test marketing to demonstrate the need/desire for products and/or services offered by the business and rough financials to assess whether the business can potentially be profitable. The questions on the attached handout will help you determine if the business feasibility study is complete.

Business Financials

The **VR-1805 Self-Employment Financial Projections Spreadsheet** is not required at this stage, though you might encourage customers, and provider CBTAC's assisting customers, to use the VR-1805 to draft projections during business feasibility. Regardless of whether the VR-1805 is used, there are questions on the VR-1802 that address financial considerations which you can use to project potential profitability.

- What are the business's sales projections?
- What are critical factors to reach the sales projections?
- What are potential financial resources for supporting business start-up?

In evaluating these rough projections, you need a sense of how much net profit (income

Both the test-marketing results and the rough financial projections provide key data to decide if the business can be profitable.

minus business expenses) the business can make once up and running. Many businesses might start off slowly and increase income and profit as they go. So don't be surprised if first year projections might seem low. It's how the business will fare once it's up and running that counts!

Use The Team!

The end of business feasibility is a great time to pull in your SBA partners to help. This is their area of expertise and will likely be able to give solid advice and recommendations.

Evaluating Business Feasibility

	What to look for:	Example: Stitched Alterations and Repair Services
DESCRIPTION OF BUSINESS	<ul style="list-style-type: none"> Is it clear what products/services the business will provide? What strategies will the business use to get products to potential customers? 	"Stitched" provides affordable tailoring and clothing repair services in the Springfield community.
CUSTOMERS	<ul style="list-style-type: none"> Have the primary customers been clearly identified? Do proposed marketing strategies pinpoint primary customers? Do customers need/want this product or service? 	<p>Primarily professionals (male and female) ages 20 – 65.</p> <p>Other primary customers are primarily women purchasing services for special events (e.g., weddings, prom).</p>
COMPETITION	<ul style="list-style-type: none"> How does this business compare with similar businesses in the geographic area? What is this businesses niche? Why would customers use this business vs a competitor? 	There are no other tailors in Springfield, but three in the neighboring larger city (listed on VR 1802). Stitched will compete on both price and convenience.

CAPABILITY	<ul style="list-style-type: none"> How much can the business produce in a given week, month, year? Do income projections match what can realistically be produced? 	Alice anticipates working 25-30 hours a week given medical appointments. Approx. 20 hours will be spent in production once established, potentially bringing in \$4,000/month.
TEST MARKET RESULTS	<ul style="list-style-type: none"> How was test marketing conducted? What do the results tell you about: <ul style="list-style-type: none"> demand for the product/service? marketing the product/service? pricing of the product/service? Are there changes you would suggest based on the feedback received? 	A survey of 30 Sunnyvale Drycleaning customers who have used tailoring/repair services in the past year showed that they would much prefer to have these services available in Springfield (100%) and would use this service if available (100%). Customers indicated they spend an average of \$80/year on tailoring and clothing repair services (range \$0 - \$500). Eighty seven percent (87%) responded they thought the \$50/hour rate was reasonable or very reasonable. Thirteen percent (13%) were neutral on price.
PROJECTED NET PROFIT	<ul style="list-style-type: none"> How much net profit (income minus expenses) can be expected once the business is fully operational? Is this consistent with customer financial needs and goals? Consistent with VR criteria? 	<p>\$ 4000 Income</p> <p>[-] <u>400</u> 10% to Sunnyvale</p> <p>\$ 3600</p> <p>[-] <u>400</u> Estimated expenses</p> <p>\$ 3200 Net Profit</p> <p>This exceeds Alices needs and expectations. There likely will be higher demand in Spring and Summer (weddings, proms, etc.). Start-up costs are minimal as Alice already has most equipment needed.</p>