

---

## TX VRC Resource Tools

# 10. Business Plan Approvals

---

As a VR Counselor, you will need to ensure the business plan information is complete, logical, and provides enough detail to understand how the business will operate. VRCs should review drafts along the way and provide feedback to help the Potential Business Owner (PBO) and CBTAC identify the required TWC-VR self-employment expectations. The business plan provides an outline of what to look for in each section. Be aware that this is a generic form and there may be sections that will not apply to every business. VRCs should look through the business plan and verify sections have been thought through, and enough detailed information is provided. VR counselors may obtain consultation and recommendations from Regional and State Office Program Specialists assigned to self-employment. VR counselors must obtain required approvals from the VR Manager, Regional Director/Deputy Regional Director, or VR Division Director before developing an IPE for self-employment. Refer to the “Required Approvals” table in the VRSM for specifics.

Approval of the Business Plan will also require a careful analysis of the business financial projections. This tool will assist VRCs in reviewing the **business financial projections** to determine if the business will meet PBO’s financial goals, needs, and TX VR’s criteria for successful closure.

## VR Customer’s Financial Needs and Goals

Early in the process, VRCs discussed financial needs and goals with the VR customer. The business feasibility and business planning process should act as a Litmus Test to measure success. Customers may have defined their financial needs (e.g., \$2000 - \$3000/month) or short-term and long-term financial goals.

Now it is time to look at projected net profit and compare it to what the customer initially hoped to earn from the business. If financial projections are not meeting or exceeding expectations, VRCs will need to discuss this with the customer and look at ways to increase income, reduce expenses, or find additional resources. For example, Alice initially wanted to earn an extra \$800/month to supplement her Social Security Disability, but her long-term goal is to go off SSA benefits. To figure out if she will reach her earning goals, you

need to look at her projected net profit (See attached Business Plan Approval worksheet with Alice's Example).

---

Approval of Business Plans will require careful analysis of business financials.

---

## Commensurate Wages

TX VR policy requires that VR Counselors and Prospective Business Owners (PBO's) agree to business stability measures, such as, when the business revenue:

- equals or exceeds operating costs, as shown on a financial statement, and provides no less than minimum wage income for the business owner; or
- yields an income that is comparable to the income received by other individuals who are not individuals with disabilities and who are self-employed in similar occupations or on similar tasks and who have similar training, experience, and skills (Based on 34 CRF §361.5(9)(i)(C)).

So, how can you tell how much the PBO will earn? First, look at their annual Net Profit and divide it by 12 to arrive at an average monthly net profit. Then divide the average monthly net profit by the number of hours the business owner plans to work.

Example (See Alice's Profit and Loss Projections, below):

- Alice launched her business in July.
- She earned \$3,998 in Net Profit in Year 1, or about \$666 average monthly net profit.
- She reports she worked 76 hours per month.
- $\$666 \div 76 \text{ hours} = \$8.76 \text{ per month}$ .
- In Year 2, her average monthly net profit goes up to \$1494/month and she works 100 hours a month giving her an average of \$14.94/hour.



<b>Break Even Sales</b>	<b>Break Even Sales = Fixed Costs/(1-(COGS/Gross Sales))</b>
<b>Yearly Break Even Sales</b>	<b>1,544</b>
<b>Monthly Break Even Sales</b>	<b>129</b>
	Monthly

Alice's business expenses are minimal, only an average of \$129 per month. You can see that Alice will reach Break Even Sales early on.

## Cash Flow

VRCs should also review the Cash Flow Statement to ensure that cash flow remains positive throughout the length of projections. Remember that "Ending Cash" is what is left in the account at the end of the month. Projections that show negative cash flow mean that the business owner will not be able to cover expenses. Some ways to deal with negative cash flow include:

- Increasing revenue – additional products/services; increasing time spent in production; raising prices (if the market will allow it), etc.
- Decreasing expenses – less expensive materials, purchasing in bulk, delaying some purchases, etc.
- Limiting owner's draw – Business owners may need to initially limit their draw so that equity builds up in the business. **Note** – limiting owner's draw will help cash flow, but not net profit.

Cash Flow							
	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b>Starting Cash</b>	-2	-64	229	544	774	1,337	
<b>Cash In</b>							
PASS							
Total Sales	800	850	875	975	1,150	1,325	5,975
TX RSD (VR) Funding							
Owner's Cash Infusion							1,992
Loan/ other cash inj.							
Other (Specify)							
<b>Total Cash In</b>	800	850	875	975	1,150	1,325	7,967
<b>Cash Out</b>							
Total cost of sales	80	85	88	98	115	133	598
Accounting/Tax Prep	200						200
Advertising (quarterly ads)	50			50			100
Internet	60	60	60	60	60	60	360
Insurance	20			125			145
Supplies (office and operational)	60	20	20	20	20	20	160
Telephone	60	60	60	60	60	60	360
Other expenses (specify)							
Other (specify)							
Other (specify)							
Miscellaneous							
Loan Interest							
Total TX RSD (VR) Expenses							
Loan principal payment							
Capital purchase (specify)							
Owner's Draw	332	332	332	332	332	332	3,988
<b>Total Expenses</b>	862	557	560	745	587	605	5,910
<b>Ending Cash</b>	-64	229	544	774	1,337	2,057	2,057

You will see in the example above, Alice's Ending Cash in her first month of business operation is negative, but not by much, and all future balances are positive. If VR could sponsor her accounting expenses for this month (\$200) it would make Alice's cash flow positive. Alice could also look at ways to increase revenue or decrease expenses.

### Next Steps:

If the Business Plan is approved, the VRC and the Prospective Business Owner will jointly develop criteria for amending the IPE and self-employment success for case closure (see next VRC Tool "Defining Success").

## BUSINESS PLAN APPROVALS

	YEAR 1	YEAR 2	YEAR3
<b>ANNUAL NET PROFIT</b>			
<b>AVERAGE MONTHLY NET PROFIT (Annual net profit /# months in operation).</b>			
<b>MEETS PBO FINANCIAL NEEDS/GOALS? (Enter Yes/No, and describe)</b>			
<b>NUMBER OF HOURS WORKED PER MONTH (*include hours for business management tasks)</b>			
<b>EQUAL OR GREATER THAN MINIMUM WAGE? (Enter Yes/No, and describe)</b>			
<b>WHEN CAN THE BUSINESS OWNER COVER OPERATING EXPENSES? (Enter date)</b>			
<b>CASH FLOW (+/-). (Must show positive cash flow to approve.)</b>			

## BUSINESS PLAN APPROVALS

**Example: Alice**

	YEAR 1	YEAR 2	YEAR3
<b>ANNUAL NET PROFIT</b>	\$6,600	\$ 13,683	\$ 19,990
<b>AVERAGE MONTHLY NET PROFIT (Annual net profit /# months in operation).</b>	/6 months (business launched in July).  = \$666/month	/12 months  =\$1,140/month	/12 months  = \$ 1,666/month
<b>MEETS PBO FINANCIAL NEEDS/GOALS? (Enter Yes/No, and describe)</b>	No. She isn't quite hitting her short-term goal of earning an additional \$800/month to supplement benefits.	No. Long-term goal is to go off SSA benefits. She won't reach that in Year 2. Benefits will continue.	Yes. Long-term goal is to go off SSA benefits. Benefits will suspend in Year 3.
<b>NUMBER OF HOURS WORKED PER MONTH (*include hours for business management tasks)</b>	76/month	100 hours/month	120 hours/month (approx. 30 hours per week)
<b>EQUAL OR GREATER THAN MINIMUM WAGE? (Enter Yes/No, and describe)</b>	Yes. \$1,100 / 76 hours =  \$8.76/hour	Yes. \$1,140 / 100 hours  = \$11.40/hour	Yes. \$1,666 / 120 hours  \$13.88/hour
<b>CAN THE BUSINESS OWNER COVER OPERATING EXPENSES? (Enter date)</b>	Yes, by month 3.	Yes	Yes
<b>CASH FLOW (+/-). (Must show positive cash flow to approve.)</b>	Cash Flow negative first month. Discussed ways to address that.	+	+