
APPENDIX C: FEASIBILITY CHECKLIST

Perhaps the most crucial problem you will face after expressing an interest in starting a new business or capitalizing on an apparent opportunity in your existing business is determining the feasibility of your idea. Getting into the right business at the right time is simple advice, but advice that is extremely difficult to implement. The high failure rate of new businesses and products indicates few ideas result in successful business ventures, even when introduced by well-established firms. Many entrepreneurs strike out on a business venture convinced of its merits, but they fail to evaluate its potential. This checklist should help you evaluate a business idea. It is designed to screen out ideas that are likely to fail before you invest extensive time, money, and effort in them. Remember, your local Illinois Small Business Development Center (SBDC) is available to assist you, as well. To locate the Illinois SBDC nearest you visit www.ilsbdc.biz/directory or contact the First Stop Business Information Center at 800.252.2923.

Preliminary Analysis

You should realize your personal limitations and seek appropriate assistance where necessary (i.e., marketing, legal, financial). Few people have expertise in doing a feasibility study. A feasibility study involves gathering, analyzing, and evaluating information by answering: "Should I go into business?" Answering this question involves a preliminary assessment of both personal and project considerations. Financial statistics are available from most businesses, trade and industry associations, private companies, banks, universities, public libraries, and government agencies.

General Personal Considerations

The first series of questions ask you to do self-introspection.

- Are your personality characteristics such that you can adapt to and enjoy small business ownership/management?
- Do you like to make your own decisions?
- Do you enjoy competition?
- Do you have willpower and self-discipline?
- Do you plan ahead and get things done on time?
- Can you take advice from others?
- Can you adapt to changing conditions?

The next series of questions stress the physical, emotional, and financial strains of a new business.

- Do you have the physical stamina and emotional strength to handle a business?
- Do you understand that owning your own business means working 12-16-hour days, maybe six days a week and holidays?
- Are you prepared to lower your standard of living for several months or years?
- Can you afford to lose your savings?

Desired Income

The following questions should remind you that you must seek both a return on your investment in your own business, as well as a reasonable salary for the time you spend operating your business.

- How much income do you desire?
- Are you prepared to earn less in the first 1-3 years?
- What minimum amount of income do you require?
- What financial investment is required for your business?
- How much could you earn by investing this money elsewhere?
- How much could you earn by working for someone else?
- Add the amount you could earn by investing this money elsewhere plus the amount you could earn by working for someone else. If this income is greater than what you can realistically expect from your business, are you prepared to forego this additional income to be your own boss with only the prospects or more substantial profit/income in future years?
- What is the average return on investment for a business of your type?

Preliminary Income Statement

You need to know about business income and expenses. Show profit/loss and derive operating ratios on income statements.

- What is the normal markup in this line of business (i.e. the dollar difference between the cost of goods sold and sales expressed as a percentage of sales)?
- What is the average cost of goods sold percentage of sales?
- What is the average inventory turnover (i.e. the number of times the average inventory is sold each year)?
- What is the average gross profit as a percentage of sales?
- What are the average expenses as a percentage of sales?
- What is the average expenses net profit as a percent of sales?
- Take the preceding figures and work backwards using a standard income statement format and determine the level of sales necessary to support your desired income level.
- From an objective, practical standpoint, is this level of sales, expenses, and profit attainable?

Market Analysis

The primary objective of a market analysis is to arrive at a realistic projection of sales.

Specific Personal Considerations

- Do you know why you are considering this business opportunity?
- Do you know which skills and areas of expertise are critical to the success of your business?
- Do you possess these skills and know how to effectively utilize them?
- Can you find personnel who have the skills, abilities, and expertise you lack?

General Project Description

- Describe the business you want to enter.
- List the products/services you want to sell/offer.
- Describe who will use your products or services.
- Why would someone buy your product/services?
- What kind of location do you need?
- List product/service suppliers.
- List your major competitors (who provide similar products or services).
- List the labor and staff you require to provide your products/service.

Requirements for Success

To determine whether your idea meets the basic requirements for a successful new project, you must answer one of the following questions with a “yes”.

- Does the product/service/business serve an under-served need?
- Does the product/service/business serve an existing market in which demand exceeds supply?
- Can the product/service/business compete with existing competition because of an “advantageous situation” (i.e. better price, location, etc.)?

Major Flaws

A “yes” response to these questions indicates the idea has little chance for success.

- Are there any causes (i.e. restrictions, monopolies, or shortages) that make required factors of production unavailable (i.e. unreasonable cost, scarce skills, energy, equipment, technology, material, process, or personnel)?
- Are capital requirements for entry or continuing operations excessive?
- Are there any extraordinary circumstances that would make financing hard to obtain (i.e. bankruptcy or bad credit)?
- Are there potential detrimental environmental effects?
- Are there factors that prevent effective marketing?

Customer Base

- Define the geographical areas from which you can realistically expect to draw customers.
- What is the makeup of population in these areas, average family size, age distribution, and per capita income?
- What do you know about the population growth trend in these areas?
- What is the consumer's attitude, shopping/spending patterns of business?
- Is the price of your product or service important to your target market?
- Can you appeal to the entire market?
- If you appeal to only a portion of the market, is that segment enough to be profitable?

Competition

- Who are your major competitors and their strengths/weaknesses?
- Are you familiar with factors concerning your competitors' price structure, product lines (quality, breadth, and width), location, source of supply, promotional activities, and image from a consumer's viewpoint?
- Do you know of any new competitors or competitor's plan for expansion?
- Have any firms of your type gone out of business lately? If so, why?
- Do you know the sales and market share and profit levels of each competitor?
- Do you know whether the sales and market share and profits of each competitor are increasing, decreasing, or stable?
- Can you compete with your competition?

Sales

- Determine the total sales volume in your market area.
- How accurate is your forecast of total sales? Is it based on concrete data?
- Is the estimated sales figure “normal” for your market area?
- Is the sales per square foot for your competitors above the normal average?
- Are there conditions or trends that could change your forecast of total sales?
- Do you plan to mark down products occasionally to eliminate inventories?
- If you do not carry over inventory, have you adequately considered the effect of mark-down in your pricing (profit margin may be too low)?
- How do you plan to advertise/promote your product/service?

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- Forecast the total market share you can realistically expect—as a dollar amount and as a percentage of your market.
 - Can you create enough competitive advantages to achieve the market share in your forecast of the previous question?
 - Is your sales forecast greater than the sales amount needed to guarantee your minimum income?
 - Are you optimistic/pessimistic in your forecast of sales?
 - Are you willing to hire an expert to refine the sales forecast if needed?

Supply

- Can you make an itemized inventory list of operating supplies needed?
- Do you know the quantity, quality, price ranges, technical specifications, and name/location of potential sources of supply?
- Do you know delivery schedule, credit terms, and sales of each supplier?
- Do you know the risk of shortage for any critical materials or merchandise?
- Do you know if the price allows you to achieve an adequate markup?
- Do you know which supplies have an advantage relative to transportation costs?

Expenses

- Do you know your necessary expenses: rent, wages, insurance, utilities, advertising, interest, etc.?
- Do you know which expenses are direct, indirect, or fixed?
- Do you know how much overhead will be?
- Do you know how much selling expenses will be?

Miscellaneous

- Are you aware of the major risks associated with your product/business/service?
- Can you minimize these major risks or are they beyond your control?
- Can these risks bankrupt you?

Venture Feasibility

- Are there major questions remaining about your proposed venture?
- Do the above questions arise because of a lack of data, management skills, or a “fatal flaw” in your idea?
- Can you obtain the additional data and management skills needed or correct the “fatal flaw”?
- Are you aware that there is less than a 50-50 chance that you will be in business two years from now?

APPENDIX D: OUTLINE OF A BUSINESS PLAN

A business plan is a description of your proposed or existing business and should include information on the business' products or services, markets, marketing strategies, manufacturing procedures, ownership, management structure, needs (organizational, personnel, and financial), and projections. A well-prepared business plan serves two important functions. First, it is a basic management tool that helps guide the future direction of your company. Second, it is a mandatory document if you plan to seek business financing.

How much detail should your business plan contain and in what order? What will help make it effective in communicating your proposed or existing company's strengths and potential? The purpose of this section of the handbook is to help you answer such questions. Not all plans need to be alike. Some sections of this outline may be more applicable to your company than others. You should make every effort to tailor your plan to your company's specific set of circumstances.

Plan Summary

A well-written business plan summary allows prospective lenders and investors to quickly decide if they want to examine the entire plan in detail. Therefore, your objective in the plan summary is to convince them to study the plan further. Although a plan summary appears first, it should be the last part you write. The summary should briefly highlight the key elements of your business plan and include the following points:

- A brief history of your business or business concept
- A description of your products or services with emphasis on their distinguishing features, the market needs they will meet, the market potential and assessment of the competition
- How the products will be made or services performed
- An outline of your management team's experience and talent
- A summary of your financial projections and
- How much money you are seeking, in what form, for what purpose and how it will be repaid.

Company and Industry

The purpose of this part of the plan is to provide background information on your company, and to describe the condition and prospects of your industry. The following points should be covered.

Company

- The business you are in or plan to be in, including a description of your product or services
- The background of your business, including when it was started, current ownership, its legal structure, and highlights of its progress and prospects and
- The principals of your business and the roles each played or will play in the firm.

Industry

- A brief discussion of your industry (e.g., restaurant, plastics, executive recruiting, etc.), your view of the current status, and prospects for the industry
- Description of your principal competitors and how they are performing in terms of growth in sales, profits, and market share and
- An analysis of the effect of major economic, social, technological, or regulatory trends.

Product or Service

In this section you need to thoroughly describe your product or service, along with any proprietary features and future development plans. The following information should be presented:

- **Description of product or service**—Describe in detail and include engineering studies, photographs, and sales brochures, if needed, to help further the reader's understanding.
- **Research and development**—If applicable, describe the nature and extent of research and development work that must be accomplished before your product or service is placed on the market. Also indicate the time and costs involved.
- **Proprietary features**—Describe any patents, copyrights and any other proprietary features. Also discuss any other factors that have enabled you or could allow you to obtain an advantageous position in your industry.
- **Future development**—Outline any plans you may have for the extension of your product or service or development of new or related products.

Market Analysis

This section and the "Marketing Strategy" section are generally the most difficult parts of the business plan for an entrepreneur to develop. It is here that you show how you plan to turn your idea into a product or service that people will want to buy. Your objective is to convince lenders or investors that:

- There is a market need for your product or service
- You understand the potential customers' or clients' needs, and your product or service will meet such needs and
- You can sell your product or service at a profit.

Included in this section should be the following information:

- **Market definition**—Define the target market and your niche in it by describing the potential customers, their locations, why they buy or might buy your product or service, when they buy or might buy, and that their expectations are for price, quality, and service. If your company has a track record, discuss how its products or services have been received in the marketplace. It is important to discuss any negative reactions to your product or service, as well as current or planned actions to overcome such problems.
- **Market size**—Describe the market's current size. The market should be determined based on a review of statistical data and discussions with potential distributors, sales representatives and customers.
- **Market trends**—Describe the market's growth potential. Discuss how big you believe the market will be in three years, five years and ten years. Support growth estimates with industry trends, technological developments, changing customer needs, and other related factors. Your sources and assumptions should be clearly stated and realistic. If you overstate the size of the market or your market share, investors will question the credibility of the entire business plan.
- **Competition**—Name and describe the companies that will be your competitors and describe their market share potential. Compare your products and/or services with your competition on the basis of price, performance, service, warranties, and other important features. Review your competitors' strengths and weakness in financial, marketing, and operational areas. If there are no competitors, describe the possible development of competition and from where it is likely to come. Discuss barriers to entry and the likelihood of technological or other obsolescence factors.

Marketing Strategy

The purpose of this section is to provide projections of sales, market share and target market(s), and to support your belief that your marketing plan will achieve projections. It should include the following:

- **Estimated sales and market share**—Provide an estimate of sales and market share (units and dollars) based on your assessment of customer or client acceptance of your product/service, potential market size and trends, and the competition. Also, identify any major customers who have made, or are willing to make, purchase commitments.
- **Market strategy**—Identify your target market(s). It is important to target and/or segment your market carefully. Concentrating your resources on the needs of a specific segment and carving out a market niche may mean the difference between success and failure. Also, outline your method of identifying and contacting potential customers or clients, as well as the product or service features that will be emphasized.
- **Pricing**—Discuss the prices to be charged for your product or service and determine how your pricing compares to major competitors. Your pricing does not have to be the same as your competitors. However, you must be capable of explaining why your business is different. Remember, consumers will comparatively shop. You should also note that most consumers equate high pricing with higher quality and low pricing with lower quality. If you choose to use a low pricing strategy, this may suggest a lower quality product or service. Explain how your pricing or fee structure will enable you to gain acceptance of your product or service, maintain and increase market share, and provide for a profit.
- **Sales and distribution**—Discuss your plans for selling and distribution. If a direct salesforce will be used, describe how it will be organized and controlled. This should include the number and location of sales personnel and the salary or commission each will receive. If distributors or sales representatives will be used, describe how they will be recruited and paid and what geographic territories will be covered. Also, you could discuss sales efficiency issues such as how many sales calls it will take to get an order and how large an average order will be.
- **Service and warranty issues**—Discuss your service and warranty policies and your methods for handling service and warranty problems.
- **Promotion**—Discuss how you will generate awareness of your product or service, including the use of such tactics as trade show participation, trade periodical ads, promotional literature, public relations, social media, web logging (blogging), application software (apps), etc. Estimate the percentage of total expenses that will be allocated to promotion and when such expenses are likely to be incurred.

Operations

In this section, you should describe how you plan to produce your product or perform your service, including how and where it will be carried out, your physical space and equipment needs, and your labor requirements. Included should be the following information:

- **Location**—Describe the location of the business and the advantages and disadvantages of the site with respect to labor and material costs and availability, proximity to customers, access to transportation, state and local laws (including zoning), and utility costs.
- **Physical space and equipment**—Describe the physical facilities in use or to be acquired (leased, purchased or built) and the costs and timing of such acquisitions. Estimate future facilities and equipment needs, based on sales projections, including the cost of additional capacity and its timing.
- **Production processes**—Describe the production processes necessary to develop your product or provide your service, including method of production; procedures for quality, production, and inventory control; raw materials required (including sources, costs, etc.); organization and control of purchasing; breakdown of fixed production costs; and breakdown of variable unit costs by product/service.
- **Labor**—Other than management, describe to what extent the local labor force is adequate in terms of quality and quantity. If applicable, discuss the type of training needed and the cost to your company.

Management and Organization

The experience, training and talent of your management team is very important, particularly if you are seeking equity financing. Generally, venture capital firms will conduct a complete reference check of each member of your management team. Therefore, this section of your business plan should describe the following:

- **Organization**—Explain how your company's management team is organized and describe the primary role of each team member. If appropriate, include an organizational chart. Demonstrate how team members' skills complement each other. Investors are looking for a team with a balance of management, financial, production and marketing skills, as well as experience with the product or service you intend to provide.
- **Key management**—Prepare a brief summary of each key member of the management team to include duties and responsibilities, career highlights, and significant accomplishments (include resumes in the appendix). The discussion of the management team should also outline any weaknesses and how they will be overcome (e.g. training, recruiting, outside advisors, etc.).
- **Compensation of ownership**—Indicate how each member of the management team will be compensated (e.g. salary, profit sharing, incentive bonus, stock options, etc.), and what investment each has in the company. Include a list of key stockholders with the number of shares each owns.
- **Board of Directors**—Identify your board members, briefly discuss how they are expected to benefit your company, and list their investment in the company, if any.
- **Professional services**—List the legal, accounting, banking, and any other service organization that will advise your company or help fill gaps in the organization.

Schedule of Activities

A realistic schedule that shows the timing of activities for the major events of your business plan is critical to your company's success. It also indicates the ability of management to plan the company's development. A schedule should be prepared outlining steps to be taken in your company's development and the completion date of each step for a period of three to five years. Entrepreneurs tend to underestimate the amount of time needed to complete various tasks. Be realistic.

Critical Risks and Problems

The development and operation of any business involves risks and problems, and it is best to identify these potentially negative factors and explore their implications. To determine the risks and problems that require discussion, you should identify the plan assumptions or potential problems that are most critical in terms of the success of your venture. Then discuss them and outline possible ways for dealing with them or minimizing their impact.

Financial Information

The amount of financial information needed in your business plan will depend on the stage of financing, the amount of money needed, and the nature of financing being sought. Generally, the amount of information required will increase as the amount of financing requested increases, as it will when equity (versus fully collateralized) lending is requested.

Your business plan should describe, in general terms, the type and amount of funding you are seeking. Also, information on your firm's present financial status (include current financial statements if your firm is already in operation) and financial projections must be included. This part of the Financial Information section should cover the following:

- **Desired financing**—State how much money is needed and how it will be used.
- **Capitalization**—Explain the capital structure of your company and what effect funding will have on it.

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- **Use of funds**—Explain how you plan to use the funds. The use should be consistent with your financial projections. For example, if you need seed capital, you might indicate that the money will be used to further develop your product and set up a marketing organization. In subsequent rounds of financing, you can refer the reader to your financial projections for details, but briefly explain how much of the money will be used for R&D, production, equipment, etc.
 - **Future financing**—Clearly outline your company's future funding needs. Discuss when you will require future funding and what the milestones are for reaching that point.
 - **Current financial statements**—If your company has a track record, provide financial statements for the last three years or from inception.
 - **Financial projections**—You should provide a three-year cash flow, projected income (profit and loss) statements, and balance sheet projections (see Forms I-V). If your company has been in business for a while, the cash flow projections should be on a quarterly basis for the first year and annually thereafter. Otherwise, cash flow projections should be on a monthly basis for the first year, a quarterly basis for the second year and annually thereafter. When making financial projections, it is mandatory that you explain all key assumptions. They can get involved, so make use of your accountant and/or other professional advisors. There are also several good computer software packages available to help you accomplish these tasks.

Your financial projections and funding request must be keyed to your market expectations. You should begin your financial projections with a sales forecast. Often, entrepreneurs make the mistake of starting at the production cost level with the assumption that everything produced can be marketed for a profit. Starting with a sales forecast will also help you define how much cash you will have coming from operations and when it will be coming in. This is essential to forecasting cash flow and determining how much equity and debt capital you will require until the company generates a positive cash flow.

You may want to seek assistance from an accountant or one of Illinois' Small Business Development Centers (SBDCs) in developing the Financial Information section of your plan. To receive information about the SBDC nearest you, contact the First Stop Business Information Center Help Line at 800.252.2923, TTY: 800.785.6055 or www.illinois.gov/dceo/SmallBizAssistance/BeginHere/Pages/SBDC.aspx.

Conclusion

In summary, your plan should describe:

- Your company and industry
- The product or service
- The market and marketing approach
- How the product or service will be produced
- Management of the company and
- How much money the company needs and what it will do with it.

By following these guidelines, you should be able to describe your company and its market niche, your operations strategy, and future goals and objectives. Your business plan will also be able to provide a prospective investor or lender with information about your company that is well prepared and persuasive in portraying the potential of your company.

FORM I: PROJECTED CASH FLOW STATEMENT

| | Month 1 | Month 2 | Month 3 | Month 4 | Month 5 |
|------------------------------|---------|---------|---------|---------|---------|
| CASH | | | | | |
| Beginning Cash | _____ | _____ | _____ | _____ | _____ |
| Cash Sales | _____ | _____ | _____ | _____ | _____ |
| Collections | _____ | _____ | _____ | _____ | _____ |
| Other Cash | _____ | _____ | _____ | _____ | _____ |
| TOTAL CASH AVAILABLE | _____ | _____ | _____ | _____ | _____ |
| EXPENSES | | | | | |
| Purchase of Inventory | _____ | _____ | _____ | _____ | _____ |
| Salaries and Wages | _____ | _____ | _____ | _____ | _____ |
| Other Employee Expenses | _____ | _____ | _____ | _____ | _____ |
| Utilities | _____ | _____ | _____ | _____ | _____ |
| Rent/Lease | _____ | _____ | _____ | _____ | _____ |
| Office Supplies | _____ | _____ | _____ | _____ | _____ |
| Telephone | _____ | _____ | _____ | _____ | _____ |
| Printing/Photocopying | _____ | _____ | _____ | _____ | _____ |
| Misc. (including postage) | _____ | _____ | _____ | _____ | _____ |
| Advertising | _____ | _____ | _____ | _____ | _____ |
| Insurance | _____ | _____ | _____ | _____ | _____ |
| Auto/Transportation | _____ | _____ | _____ | _____ | _____ |
| Travel/Entertainment | _____ | _____ | _____ | _____ | _____ |
| Taxes/Licenses | _____ | _____ | _____ | _____ | _____ |
| Packaging/Shipping | _____ | _____ | _____ | _____ | _____ |
| Subscriptions/Dues | _____ | _____ | _____ | _____ | _____ |
| Bank Charges | _____ | _____ | _____ | _____ | _____ |
| Interest | _____ | _____ | _____ | _____ | _____ |
| Commissions | _____ | _____ | _____ | _____ | _____ |
| Decorating | _____ | _____ | _____ | _____ | _____ |
| Legal/Accounting | _____ | _____ | _____ | _____ | _____ |
| Other - List | _____ | _____ | _____ | _____ | _____ |
| TOTAL EXPENSES | _____ | _____ | _____ | _____ | _____ |
| CASH AVAILABLE | _____ | _____ | _____ | _____ | _____ |
| Payment on Debt | _____ | _____ | _____ | _____ | _____ |
| ENDING CASH | _____ | _____ | _____ | _____ | _____ |

FORM II: PROJECTED INCOME STATEMENT

| | 1st Year | | 2nd Year | | 3rd Year | |
|--|----------|------------|----------|------------|----------|------------|
| | Amount | % of Sales | Amount | % of Sales | Amount | % of Sales |
| Gross Receipts | _____ | _____ | _____ | _____ | _____ | _____ |
| Cost of Sales | _____ | _____ | _____ | _____ | _____ | _____ |
| GROSS PROFIT | _____ | _____ | _____ | _____ | _____ | _____ |
| EXPENSES | | | | | | |
| Purchase of Inventory | _____ | _____ | _____ | _____ | _____ | _____ |
| Salaries and Wages | _____ | _____ | _____ | _____ | _____ | _____ |
| Other Emp. Expenses | _____ | _____ | _____ | _____ | _____ | _____ |
| Utilities | _____ | _____ | _____ | _____ | _____ | _____ |
| Rent/Lease | _____ | _____ | _____ | _____ | _____ | _____ |
| Office Supplies | _____ | _____ | _____ | _____ | _____ | _____ |
| Telephone | _____ | _____ | _____ | _____ | _____ | _____ |
| Printing/Photocopying | _____ | _____ | _____ | _____ | _____ | _____ |
| Misc. (incl. postage) | _____ | _____ | _____ | _____ | _____ | _____ |
| Advertising | _____ | _____ | _____ | _____ | _____ | _____ |
| Insurance | _____ | _____ | _____ | _____ | _____ | _____ |
| Auto/Transportation | _____ | _____ | _____ | _____ | _____ | _____ |
| Travel/Entertainment | _____ | _____ | _____ | _____ | _____ | _____ |
| Taxes/Licenses | _____ | _____ | _____ | _____ | _____ | _____ |
| Packaging/Shipping | _____ | _____ | _____ | _____ | _____ | _____ |
| Subscriptions/Duties | _____ | _____ | _____ | _____ | _____ | _____ |
| Bank Charges | _____ | _____ | _____ | _____ | _____ | _____ |
| Interest | _____ | _____ | _____ | _____ | _____ | _____ |
| Depreciation | _____ | _____ | _____ | _____ | _____ | _____ |
| Commissions | _____ | _____ | _____ | _____ | _____ | _____ |
| Decorating | _____ | _____ | _____ | _____ | _____ | _____ |
| Legal/Accounting | _____ | _____ | _____ | _____ | _____ | _____ |
| Other - List | _____ | _____ | _____ | _____ | _____ | _____ |
| TOTAL EXPENSES | _____ | _____ | _____ | _____ | _____ | _____ |
| NET PROFIT/LOSS | | | | | | |
| BEFORE TAXES | _____ | _____ | _____ | _____ | _____ | _____ |
| LESS: Income Taxes | _____ | _____ | _____ | _____ | _____ | _____ |
| NET PROFIT AFTER TAXES | _____ | _____ | _____ | _____ | _____ | _____ |
| LESS: Withdrawals (only if Proprietorship or Partnership) | _____ | _____ | _____ | _____ | _____ | _____ |
| UNDISTRIBUTED PROFIT OR LOSS | _____ | _____ | _____ | _____ | _____ | _____ |

FORM III: SAMPLE INCOME STATEMENT EXPLANATIONS

Gross Sales: First year based on projections from your business plan. Second year gross sales based on a 5 percent growth rate and 4 percent inflation.

Cost of Sales: Use industry ratio of "X" percent.

Gross Profit: Difference between gross sales and cost of sales.

Variable Expenses

Salaries and Wages: First year based on business plan projections. Salaries and wages are projected to increase 5 percent the second year and 5 percent the third year.

Other Employee Expenses: Includes employer's share of Social Security and assigned rate for unemployment compensation.

Utilities: (Industry ratio — "X" percent) Includes electricity, gas, water and trash removal.

Office Supplies: (Industry ratio — "X" percent) For stationery, forms, photocopy paper, etc.

Miscellaneous: 0.5 percent allotted for postage, petty cash, etc.

Advertising: (Industry ratio — "X" percent) For advertising in local papers, yellow pages, and trade magazines. Four percent of sales is allocated in the first year to cover initial promotion of \$1,000, \$250 of which will be spent prior to opening day (see Marketing Strategy section of business plan.)

Legal/Accounting: (Industry ratio — 1 percent) For legal services, bookkeeping, and necessary accounting and tax services.

(Explain other items as appropriate.)

Fixed Expenses

Rent: Based on lease agreement.

Insurance: Includes workers' compensation, life insurance on president, general liability, automobile, and equipment.

Taxes/Licenses: Occupational licenses for each city served by the business.

Professional License(s): Based on renewal period.

Interest: 6-7 percent interest per year on unpaid balance of 5-year bank loan (\$800 first year on unpaid balance of \$8,000). A loan payment of \$1,600 will be made at the end of the first year, decreasing the interest paid in the second year to 10 percent on the unpaid balance of \$6,400 (or \$640), and the same amount in the third year.

Depreciation: On furniture, fixtures, and equipment including office equipment and automobile using straight line depreciation method as follows:

| Item | Original Cost | Useful Life | Salvage Value | Amount of Depreciation Per Year |
|---------------------------|---------------|-------------|---------------|---------------------------------|
| Office furniture/fixtures | \$ 2,000 | 10 | \$ 200 | \$ 180 |
| Office equipment | 4,000 | 10 | 400 | 360 |
| Automobile | 12,000 | 5 | 2,600 | 1,880 |
| TOTAL | | | | \$ 2,420 |

Auto/Transportation: Repairs, gas/oil, maintenance.

Decorating: "X" percent of sales for improvements to leased premises. No decorating expected in second or third years.

FORM IV: PROJECTED BALANCE SHEET

Opening Day

ASSETS

Current Assets:

| | | | |
|--------------------------|----|-------|----------|
| Cash on hand and in bank | \$ | _____ | |
| Accounts receivable | | _____ | |
| Inventory | | _____ | |
| Total Current Assets | | | \$ _____ |

Fixed Assets:

| | | | |
|-----------------------------------|--|-------|-------|
| Automobile | | _____ | |
| Furniture, fixtures and equipment | | _____ | |
| Less allowance for depreciation | | _____ | |
| Total Fixed Assets | | | _____ |

Other Assets:

| | | | |
|---|--|-------|-------|
| Deposit - utilities | | _____ | |
| Deposit - lease | | _____ | |
| Prepaid expenses - remodeling & advertising | | _____ | |
| Total Other Assets | | | _____ |

| | | | |
|---------------------|--|--|----------|
| TOTAL ASSETS | | | \$ _____ |
|---------------------|--|--|----------|

LIABILITIES AND CAPITAL

Current Liabilities:

| | | | |
|---------------------------------|----|-------|-------|
| Loan payable, due within 1-year | \$ | _____ | |
| Total Current Liabilities | | | _____ |

Long-Term Liabilities:

| | | | |
|-----------------------------|----|-------|-------|
| Loan payable, 5 years, 10% | \$ | _____ | |
| Less: Current portion above | | _____ | |
| Total Long-Term Liabilities | | | _____ |

| | | | |
|--------------------------|--|--|-------|
| TOTAL LIABILITIES | | | _____ |
|--------------------------|--|--|-------|

| | | | |
|----------------------|--|--|-------|
| Proprietor's Capital | | | _____ |
|----------------------|--|--|-------|

| | | | |
|--------------------------------------|--|--|----------|
| TOTAL LIABILITIES AND CAPITAL | | | \$ _____ |
|--------------------------------------|--|--|----------|

(A similar format will be used for projected balance sheets at the end of year one and year two.)

FORM V: SAMPLE BALANCE SHEET EXPLANATIONS

| Opening Day | | |
|--------------|------------|--------------------------|
| Cash: | \$ 25,000 | available 30 days before |
| Less: | 2,000 | decorating |
| | 12,000 | automobile |
| | 4,000 | office equipment |
| | 2,000 | inventory |
| | <u>250</u> | advertising in advance |
| | \$ 4,750 | |

All cash expenditures prior to opening have been converted to assets. Unlike the other cash expenditures, the \$250 in advertising and \$2,000 in decorating expenses are “temporary assets” (see Prepaid Expenses under Other Assets). Once the business is open, these will be transferred to an expense account and will appear in the income statement.

APPENDIX E: NOTES

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While the Illinois Department of Commerce & Economic Opportunity has made every effort to ensure the accuracy of the enclosed information presented in this handbook, it is not possible to guarantee that this information will remain valid. This handbook is periodically updated. Please email corrections, additions and suggestions to the First Stop Business Information Center at ceo.support@illinois.gov. Upon verification of the accuracy and relevance of the suggested information, future editions of this handbook will be updated to include the changes.



Illinois Department of Commerce & Economic Opportunity

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