

Feasibility Checklist for Starting a Small Business

Last Verified: 2008-09-12

This publication is a checklist for the owner-manager of a small business enterprise or for one contemplating going into business for the first time. The questions concentrate on areas you must seriously consider to determine if your idea represents a real business opportunity and if you really know what you are getting into. You can use the checklist to evaluate a completely new venture proposal or an apparent opportunity in your existing business.

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 will be 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 that very few ideas result in successful business ventures, even when introduced by well established firms. Too many entrepreneurs strike out on a business venture so convinced of its merits that they fail to thoroughly evaluate its potential.

Here are some questions and worksheets to help you think through what you need to know and do. Answer each question with a YES or NO. Where the answer is NO, you have some work to do.

Preliminary Analysis

A feasibility study involves gathering, analyzing and evaluating information with the purpose of answering the question: "Should I go into this business?" Answering this question involves a preliminary assessment of both personal and project considerations.

General Personal Considerations

The first questions ask you to do a little introspection. Are your personality characteristics such that you can both adapt to and enjoy small business ownership/management?

Yes No

Do you like to make your own decisions?

Do you enjoy competition?

Do you have will power and self-discipline?

Do you plan ahead?

Do you get things done on time?

Can you take advice from others?

Can you get a business started and make it run efficiently?

Are you adaptable to changing conditions?

Have you worked for someone else as a supervisor or Manager?

Have you had any business training in school?

Have you saved any money?

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

Yes No

Do you understand that owning your own business may entail working 12 to 16 hours a day, probably six days a week, and maybe on holidays?

Do you have the physical stamina to handle a business?

Do you have the emotional strength to withstand the strain?

Are you prepared to lower your standard of living for several months or years?

Are you prepared to lose your savings?

Are you willing to re-invest your salary/business profits to help your business grow?

Specific Personal Considerations

Yes No

Do you know which skills and areas of expertise are critical to the success of your project?

Do you have these skills?

Does your idea effectively utilize your own skills and abilities?

Can you find personnel that have the expertise you lack?

Do you know why you are considering this project?

Will your project effectively meet your career aspirations?

The next questions emphasize the point that very few people can claim expertise in all phases of a feasibility study. You should realize your personal limitations and seek appropriate assistance where necessary (i.e. marketing, legal, financial).

Yes No

Do you have the ability to perform the feasibility study?

Do you have the time to perform the feasibility study?

Do you have the money needed to have the feasibility study done?

General Project Description

- Briefly describe the business you want to enter.
- List the products and/or services you want to sell.
 - Do you know how much or how many of each you will buy to open your store with?
 - Have you compared the prices and credit terms of different suppliers?
 - Will your plan for keeping track of your inventory tell you when it is time to order more and how much to order?
- Describe who will use your products/services.
 - Do you know what kind of people will want to buy what you plan to sell?
 - Do people like to live in the area where you want to open your business?
 - Do they need a business like yours?
 - If not, have you thought about opening a different kind of business or going to another location?
- Why would someone buy your product/service?
 - Do you have a plan for finding out what your customers want?
- What kind of location do you need in terms of type of neighbourhood, traffic count, nearby firms, etc?
 - Have you found a good building for your business?
 - Will you have sufficient room to expand when necessary?

- Can people access your business easily from parking spaces, bus stops, or their homes?
- Have you had a lawyer check the lease and zoning requirements?
- List your products/services suppliers.
 - Do you plan to buy most of your stock from a few suppliers or several?
 - Do you know the advantages and disadvantages of each supply method?
- List your major competitors - those who sell or provide similar products/services.
- List the labour and staff you require to provide your products/services.
 - If you need to hire someone to help you, do you know where to look?
 - Do you know what kind of employees you need?
 - Do you have a plan for training your employees?
- Do you know how to determine what you should charge for each item you sell?
 - Do you know what your competitors charge?
- Have you decided whether or not to let your customers buy on credit?
- Do you know the good and bad points about joining a credit-card plan?
- Have you planned a system of records that will keep track of your income and expenses, what you owe people, and what other people owe you?
 - Have you figured out how to keep your payroll records and take care of tax reports and payments?
 - Do you know what financial statements you should prepare?
 - Do you know an accountant who will help you with your records and financial statements?

Requirements for Success

To determine whether your idea meets the basic requirements for a successful new project, you must be able to answer at least one of the following questions with a "yes."

Yes No

Does the product/service/business serve a presently unserved need?

Does the product/service/business serve an existing market in which demand exceeds supply?

Can the product/service/business successfully compete with existing competition because of an "advantageous situation", such as better price, location, etc.?

Major Flaws

A "Yes" response to questions such as the following would indicate that the idea has little chance for success.

Yes No

Are there any causes (i.e. restrictions, monopolies, shortages) that make any of the required factors of production unavailable (i.e. unreasonable cost, scarce skills, energy, material, equipment, processes, technology, or personnel)?

Are capital requirements for entry or continuing operations excessive?

Is adequate financing hard to obtain?

Are there potential detrimental environmental effects?

Are there factors that prevent effective marketing?

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 in operating that business.

How much income do you desire?

Are you prepared to earn less income in the 1st - 3rd years?

What minimum income do you require?

What financial investment will be required for your business?

Do you know how much credit you can get from your suppliers - the people you will buy from?

Do you know where you can borrow the rest of the money you need to start your business?

Have you figured out what net/loss income per year you expect to get from the business?

How much could you earn by investing this money? (A)

How much could you earn by working for someone else? (B)

Add the amounts in (A) and (B). 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 the prospects of more substantial profit/income in future years?

Equipment and Supplies

Yes No

Can you make a list of every item of inventory and operating supplies needed?

Do you know the quantity, quality, technical specifications, and price ranges desired?

Do you know the name and location of each potential source of supply?

Do you know the price ranges available for each product from each supplier?

Do you know about the delivery schedules for each supplier?

Do you know the sales terms of each supplier?

Do you know the credit terms of each supplier?

Do you know the financial condition of each supplier?

Is there a risk of shortage for any critical materials or merchandise?

Are you aware of which suppliers have an advantage relative to transportation costs?

Will the price available allow you to achieve an adequate markup?

Expenses

Yes No

Do you know what your expenses will be for: rent, wages, insurance, utilities, advertising, interest, etc.?

Do you need to know which expenses are direct, indirect, or fixed?

Do you know how much your overhead will be?

Do you know how much your selling expenses will be?

Miscellaneous

Yes No

Are you aware of any major risks associated with your product, service and/or business?

Can you minimize any of these major risks?

Are there major risks beyond your control?

Can these risks bankrupt you?

Venture Feasibility

Yes No

Are there any major questions remaining about your proposed venture?

Do the above questions arise because of a lack of data?

Do the above questions arise because of a lack of management skills?

Do the above questions arise because of a "fatal flaw" in your idea?

Can you obtain the additional data needed?

Can you obtain the additional managerial skills needed?

Are you aware that there is less than a 50-50 chance that you will be in business two years from now?

Originally prepared by: Government of Saskatchewan.

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