

START-UP

USA

SELF-EMPLOYMENT TECHNICAL ASSISTANCE,
RESOURCES, & TRAINING

Self-Employment Q and A: Developing a Business Plan

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As more and more individuals with disabilities explore the possibility of becoming self-employed, they must decide if owning a business is right for them. One strategy to help in the decision making process is the development of a business plan. A business plan allows the individual who is considering self-employment, and those individuals who are providing support, to think critically about the future.

A functioning business plan assists the individual in identifying personal and rehabilitative support needs such as flexible work hours, assistive technology services and devices, bookkeeping services, and transportation. The development of a plan also is important for the identification of funding. Funding sources can include low-interest Small Business Association (SBA) backed small business loans, grants through state development agencies, loans through non-profit lending sources, credit card advances, and financial support from friends and families. Individuals who are receiving rehabilitative services and benefits such as Supplemental Security Income (SSI), Social Security Disability Insurance (SSDI) may use Social Security Work Incentives to underwrite start-up or expansion costs. Financial support can also be provided through State Vocational Rehabilitation or Medicaid Waiver services.

Essentially, a good business plan provides a roadmap of the business' potential for sales and meeting earning goals. This fact sheet offers guidance on the typical elements of a functional plan. Prospective owners may also want to seek assistance from local Small Business Development Centers (SBDCs), the Senior Corps of Retired Executives (SCORE), other business owners, friends, families, and rehabilitation professionals trained in developing enterprises.

Where does an individual who is considering self-employment begin the planning process?

The initial planning should include a statement of why the potential business makes sense. The individual should write a precise statement describing the business' product or service followed by the most likely location for the business. He or she should also include a concise description of his/her skills, interests, and talents as well as potential support needs. The initial planning should identify the assets that an individual brings to the company such as family support, the availability of funding, a love for making and or selling the particular product, or passion for providing the identified service.


Can developing a business plan determine if the proposed venture will be successful?

Part of the process for developing a business plan is to conduct a feasibility study. The individual should be able to answer the following question after conducting a feasibility study. "Should I start this business?" Essentially, conducting a feasibility study "tests" if there is a need for the product or service that will be provided by the business.

Testing a business idea can be done in numerous ways. For instance, someone starting a lawn-mowing business might canvas a neighborhood by simply knocking on doors and asking people if they are interested in having their yards groomed. Someone establishing a day-care center might buy a local children's

clothing store mailing list in order to distribute a simple survey asking families about their childcare needs. Someone interested in a retail store might rent a flea market booth for several weekends to refine a product based on sales. "Test piloting" the business might also reveal support needs regarding money management, problem solving, and customer service. Positive responses to any of these methods indicate the possibility of launching a successful venture.

Another component of conducting a feasibility study is to link to others in similar businesses and owners who can be polled about their experiences. Talking with local Small Business Development Centers (SBDCs) can be quite helpful, and SBDCs are particularly aware of local market needs, buying behavior, and quality locations. Websites such as START-UP / USA [<http://www.start-up-usa.biz>] may also provide valuable information including e-mail links to project entrepreneurs who have successfully started a similar business. The potential entrepreneur should ask advice on recommended suppliers of raw materials or services as well as advice on marketing, pricing, and quality control. Combining all of the practical information gained by canvassing prospective customers along with solid advice from other business owners, and data from similar enterprises contributes to a solid feasibility study.




Should customers and competitors be determined before opening for business?

Yes, a feasibility study can assist in the identification of possible customers. This includes identifying the competition by determining where potential customers purchase similar products and services. One mistake new entrepreneurs sometimes make is assuming that the existence of competitors is undesirable. In reality, the existence of competitors signals that a market exists. The business plan must differentiate the new business from the competition by explaining how its product or service is better in quality, price, or convenience. Also, the existence of competitors may open new markets to the new entrepreneur such as helping to identify a supplier or even as a partner to handle overflow or specialized work.

The basic questions for identifying customers include:

- ◆ Who are they?
- ◆ Where do they live?
- ◆ Why would they buy this product/service?
- ◆ Are they one-time buyers or will they continue to need the product/service?
- ◆ Is price a consideration?
- ◆ What quality of product/service do customers expect?



Should a business plan include information on the day-to-day work operations of the company?

Yes! There are only two ways to make money in a business. The first is to raise prices. The second is to lower costs. Having a solid production plan and employing efficient operations reduces wasted materials and labor and saves money. Operations is the technical aspect of producing the product or service that will be provided by the proposed business. Operations includes determining the best process for producing the product or service including the number of products or services that will be sold or guaranteed by a certain delivery date, pay-back analysis for equipment, manufacturing space, production skills, and workforce availability.

Detailing the tools and equipment necessary for production or delivery is another essential piece of the business operations puzzle. Suppliers should be listed along with details regarding volume discounts, freight charges, quality, and product availability. Training, and/or adaptations to accommodate a disability, for the business owner and employees may be a cost to be considered. For example, makers of do-it-yourself beaded necklace kits might consider providing a "how-to" videotape for their customers as a value-added strategy. If high tech equipment is available, its purchase and operation must be planned for and amortized profitably. (The term amortized refers to the gradual elimination of a liability, such as making regular payments over a specified period of time.)

Contingency plans are also necessary in the Operations section of some plans. For instance, if a supplier is unable to deliver, alternative suppliers should be known. If equipment breaks down, the business must have repair parts and mechanics nearby. When products become instantly successful, the entrepreneur must make certain that there are adequate raw materials, workers, equipment, and shipping materials to meet the demand. If the individual's disability is cyclical, planning for this eventuality should be considered.


This section of the plan is also important when calculating income, expense, and cash flow. Generally, sales quotas are included as milestones along the way to profitability. The monthly or weekly quota offers quick feedback regarding success and if additional efforts are needed to pay the bills.



Is a marketing plan different from the business plan?

For small businesses and microenterprises, the marketing plan is part of the business plan. Marketing is a bit of a misnomer and might best be described as promotion and distribution. Distribution and promotion refer to where and how customers access the product or services, as well as how customers are attracted to the business (i.e. advertising; networking). Distribution planning includes determining the physical boundaries of the sales territory, if any. This may include acquiring shelf space in a grocery store or paying eBay listing fees to sell on-line; shipping and timeliness of delivery; and the various aspects of putting the customer face-to-face with the product. Promotion is the method used to advertise and market the business and its products and/or services. Many small companies rely on word-of-mouth networking to advertise the availability and quality of the service. Many use Internet home pages; some buy newspaper display ads or TV and radio airtime; others make public appearances or air infomercials. Generally, small businesses rely on several promotional approaches to reach their customers. An evaluation and decision on which methods are to be used is essential in devising a successful plan.

Based on this information, the niche or unique target market is determined. For instance, if the research reveals that upper-middle income professionals are seeking childcare services, and then the distribution and promotion of these services should focus on avenues accessed by this customer. In other words, the business perhaps should be housed near a main highway artery traveled by customers going to and from work. Information on the business should be placed where parents will find it (such as fliers posted at the children's clothing store).




What information should be included in the financial planning section of a business profile?

The financial section is generally the most critically constructed and managed portion of the plan. A typical financial section includes a start-up budget that lists all the expenses for opening and getting the business operational, along with the source of the money or resources. Generally, a sales forecast is included that estimates the number of units to be sold per month (e.g. bags of dog food sold; number of lawns mowed), multiplied by the price to calculate gross income per month.

In addition, a cash flow projection is performed to anticipate the first two or three years of capital that will be needed and when, in order to fulfill customer orders. A cash flow projection can be simple or complex, but it must include the cost of producing the goods and services, the projected sales income, the purchase of supplies throughout the production cycle, the cost of payroll, taxes, and all associated costs. The analysis indicates how much money will be required to run the business and when and from where infusions of cash can be expected. Sample forms and assistance can be found at all SBDCs.

The cash flow analysis helps the business owner identify the need for loans, investors, and partners. It also provides a glimpse of an often-unclear future. The cash flow analysis may prompt a revision of manufacturing methods, modification of the product line, a change in marketing strategy to attract more buyers in a specific demographic range. It also might indicate that the business should be rolled out ahead of schedule. The cash flow analysis is an educated guess, but it is critical for planning a smooth production cycle and anticipating possible peaks and valleys in income and expenses.

A significant source of business capital often can be generated through use of a Plan for Achieving Self-Support (PASS) through the Social Security Administration (SSA). PASS can buy vehicles, production equipment, training, special clothing such as uniforms, and advertising. PASS represents a loan-free approach to self-financing that can also be used in combination with funds from other sources such as Vocational Rehabilitation, Individual Planning Accounts, SBA backed small business loans, grants through state development agencies, loans through non-profit lending sources, credit card advances, financial support from friends and families, and so forth.



What is a breakeven analysis and is this necessary for business planning?

A breakeven analysis is closely tied to the cash flow analysis. It is another tool for analyzing the amount of money invested, compared to projected revenue from sales. A typical breakeven analysis predicts the date business profits will pay off the investment. Some breakeven analyses use a variety of scenarios to represent "best-case" and "worse-case" pay-off dates. The breakeven analysis is a relatively simple tool that helps refine a prospective small business idea quickly. After someone proposes a business idea, the next series of general cost and pricing ques-

tions leads to a quick analysis of how many products need to be sold to breakeven on annual costs. It also shows how much profit is generated after the breakeven.

To develop a simple breakeven analysis, two questions should be answered. What are the fixed costs per month or year, including rent, advertising, utilities, and insurance? What are the variable costs per product or service sold per unit or service sold? If these questions are answered, a rough breakeven analysis develops illustrating the time when sufficient sales occur to cover the fixed and variable costs per product sold. Fixed costs are costs that largely remain unchanged regardless of sales or production. Variable costs increase or decrease with sales/production. For instance, if a company sells shirts but no one buys them, no fabric needs to be purchased

Is there a particular legal structure required for a business?

Generally speaking, most individuals with disabilities will use one of the following legal structures for their businesses: sole proprietorship, partnership, or a Limited Liability Company. An individual with a disability receiving Social Security benefits assistance through Vocational Rehabilitation or a Workforce Center will use one of these legal structures. More specifically, state agencies and the Social Security Administration (SSA) do not encourage corporate forms of business. A board owns corporate forms of business, not an individual. Profits can be hidden in a corporate structure. Public funding sources need to account for earnings and the reduction of public assistance.

Describing the pros and cons of each type of business structure is not within the scope of this fact sheet. However, a brief description of each follows. Please refer to the resources listed below for more information.

- ◆ **Sole Proprietorships:** The owner and the business are the same. Business and personal tax returns are filed together. The advantage to sole proprietorship is that it is simple and inexpensive to start and it allow for maximum control by the owner. The disadvantage is personal legal liability.
- ◆ **Partnerships:** This is a business with more than one owner. Partnerships divide profits and losses among partners. The advantages include the spreading of risk and the leveraging of experience and capital from the various partners. Disadvantages include the potential for personality conflicts and disagreements over management and money.
- ◆ **Limited Liability Companies (LLC):** This option is a form of partnership, and the fastest growing company structure in the U.S. A limited liability company allows for reduced personal liability of a corporation, but with the tax advantages of a partnership. The advantages include liability protection and no double taxation (paying company and personal income taxes). The disadvantages include variability of tax and liability benefits from state to state, and the sometimes high cost of start-up.

Conclusion

A business plan tells a story and makes the case for a business in a logical sequence. The business plan should provide funders with the information needed for them to justify investing in the business start-up and operations. The plan also serves as a guidebook detailing sales quotas, legitimate purchases, support strategies, and actions that promote profitability and growth. More information is available at Self-Employment Technical Assistance, Resources, & Training (START-UP-USA) [<http://www.start-up-usa.biz>]. START-UP /USA is a national disability technical assistance and resource center on self-employment sponsored by the U.S. Dept. of Labor, Office of Disability and Employment Policy (ODEP).

Resources

A listing of local SBDCs can be found at the Small Business Administration website www.sba.gov or the Association of Small Business Development Centers at www.asbdc-us.org. Additional information on SSA work incentives and business resources are found at Griffin-Hammis Associates' website www.griffinhammis.com and the U.S. Dept. of Labor funded Small Business and Self-Employment Service within the Job Accommodation Network at <http://janweb.icdi.wvu.edu/sbses/>. A variety of resources are available through the Association of Enterprise Opportunity at www.microenterpriseworks.org.

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For additional information, you may contact ODEP at (202) 693-7880 or for more information on START-UP / USA; Please visit <http://www.start-up-usa.biz> and <http://www.dol.gov/odep/>

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