



Evaluating Your Chance for Success



Find out if your business
concept is a good one by asking
yourself these questions



Learning Objectives

At the end of this module, you will be able to:

- Assess your business idea from financial and operational perspectives.
- Determine the maturity level of your business.
- Identify key operational and financial indicators to make your business successful.
- Identify the attributes of a successful business.

The logo of the Federal Deposit Insurance Corporation (FDIC) is located in the top left corner. It features a circular emblem with the text "FEDERAL DEPOSIT INSURANCE CORPORATION" around the perimeter and the year "1933" in the center. The emblem is set against a blue background with a subtle pattern.

About FDIC Small Business Resource Effort

- The Federal Deposit Insurance Corporation (“FDIC”) recognizes the important contributions made by small, veteran, and minority and women-owned businesses to our economy. For that reason, we strive to provide small businesses with opportunities to contract with the FDIC. In furtherance of this goal, the FDIC has initiated the FDIC Small Business Resource Effort to assist the small vendors that provide products, services, and solutions to the FDIC.
- The objective of the Small Business Resource Effort is to provide information and the tools small vendors need to become better positioned to compete for contracts and subcontracts at the FDIC. To achieve this objective, the Small Business Resource Effort references outside resources critical for qualified vendors, leverages technology to provide education according to perceived needs, and offers connectivity through resourcing, accessibility, counseling, coaching, and guidance where applicable.
- This product was developed by the FDIC Office of Minority and Women Inclusion (OMWI). OMWI has responsibility for oversight of the Small Business Resource Effort.



Executive Summary

- Government agencies tend to contract with successful small businesses that can provide quality service on a continual basis.
- Determine if your company will be successful by:
 - Assessing your business idea.
 - Understanding stages of a successful business.
 - Identifying the traits of mature companies.
 - Evaluating performance and measuring success.



Evaluating Your Chance for Success

- Once you decide that you want to be an entrepreneur, determine your business idea's chance for success.
- Answer these questions:
 - How can you learn more about your chosen industry?
 - Is there a market for your product or service?
 - How much capital is required to start the business?
 - How will you raise capital? Debt or equity?
 - What do short and long term cash flows look like?
 - What potential liabilities are you exposing yourself to?



Opportunity Assessment

- Pay close attention to market dynamics surrounding your product/service.
- Answer these questions:
 - What is the monetary size of this opportunity?
 - Which other companies provide similar product/service?
 - What other product/service lines could compete with you?
 - How many clients do your competitors have?
 - What is their pricing strategy?
 - How would you attract your customers?
 - What laws or regulations would affect the offering of your product/service?



Market Assessment

- After carefully evaluating the opportunity, study the overall market landscape.
- Answer these questions:
 - Who are your competition, and who do they target?
 - Who is your perfect customer and client base?
 - What is your current customer base (in terms of age, sex, income, and geographic location)?
 - What habits do your customers and potential customers share? Where do they shop, what do they read, watch, listen to?
 - What prospective customers are you currently not reaching? How can you reach them?
 - What are the qualities your customers value most about your product or service? Do they value selection, convenience, service, reliability, availability, or affordability?
 - What qualities about your product or service do you need to improve? How can they be adjusted to serve your customers better?



Profitability Assessment

- Determine what it will cost to start or keep running a profitable business.
- Consider the following:
 - **Operating budget:** Look at your family's fixed and variable living expenses. You should know the personal costs that you will have to cover during the startup phase of your business.
 - **Set-up Costs:** Look at the costs associated with forming and setting up the new business.
 - **Operational costs:** Look at the costs associated with operating the business and keeping it going in the long term.
 - **Cash flow peaks and valleys:** Look at the costs associated with uneven cash flows and seasonal businesses and how to plan for them.
 - **Exit strategy:** Look at ways to limit your costs and to cushion yourself if the business does not go as expected.



Financing Assessment

- By now, you understand both the costs of running your business and your ability to make profits.
- If you need additional capital to manage growth, consider the following:
 - Find lenders with good reputations for small business lending. Each year, the Small Business Administration publishes a report that rates commercial banks on their small business lending performance.
 - Evaluate options for venture capital financing that do startups, debt capital, cash flow financing, asset-based financing, receivables financing, state economic development pools, and city and county funds.
 - Raise cash using a second mortgage, loan from family and friends, or look for partners and angel investors.



Legal Assessment

- Protect yourself, your employees, and your business from harm being done by external causes, such as fire or burglary.
- Consider the liabilities of what your product/service, employees, or your business can do to your customers.
- To protect your business, consider the following:
 - Determine which types of insurance you need to purchase, i.e., auto, business owners, malpractice, or other.
 - Determine how much protection you need to buy, i.e., premiums, replacements costs, etc.
 - Pay attention to exemptions, foot notes, and special clauses that may affect your coverage.
 - Explore all alternatives to insurance.



Staging Your Ownership

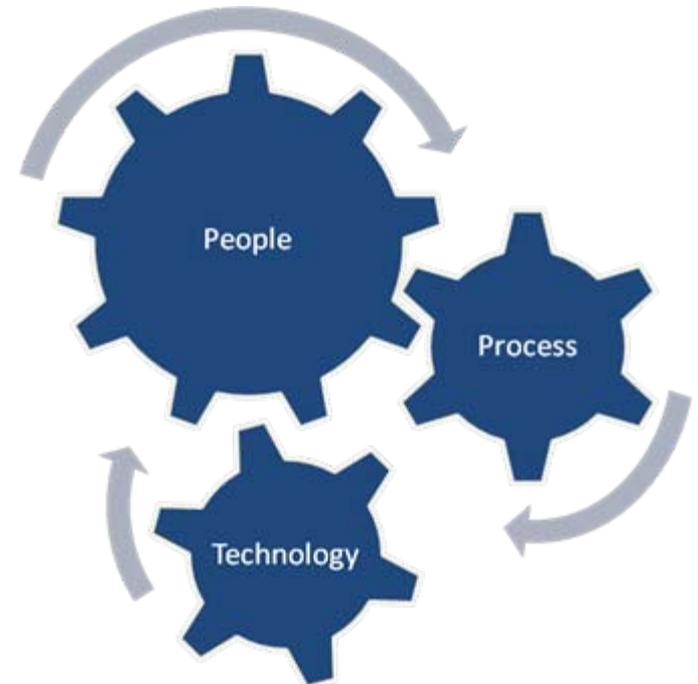
Now that you are running your business, determine the maturation stage:

- **Infancy:** Owners spend all the time in the business.
Focused more on the “how to’s” for acquiring customer, delivering products and services, building a healthy pipeline, and managing working capital, etc.
- **Survival:** Owners think about growth strategies.
Income sufficient to cover expenses, small profits, some employees, minimal processes, and systems, etc.
- **Nominal Success:** Owners look for other opportunities.
Able managers running the business with sustainable profits, leveraged expansion, and growth targets, etc.



Measuring Success

- As you grow your business, use people, process, and technology yardsticks for measurement.
- Use the following categories:
 - Informal or Performing:
Initial, Ad-Hoc, and Inconsistent
 - Documented or Managing:
Emerging, Managed, and Repeatable
 - Integrated or Established:
Structured and Measured
 - Strategic or Predictable:
Functional Alignment, Analytical, and Disciplined
 - Mature or Optimized:
Adaptive, Opportunistic, and Proactive





Leading a Successful Business

- To prepare your business for success:
 - Identify functional areas needing improvements.
 - Identify business processes within each functional area.
 - Identify process-related industry best practices.
 - Assess your process.
 - Develop prioritized recommendations.
 - Document improvements.
 - Incorporate changes to processes.
- Continually assess all functional areas.



Planning for Success

All businesses, big or small, struggle to maintain capabilities amid uncertain economic or financial conditions. Knowing what and how to measure is a very important aspect of running a successful business.

If you cannot measure it, you cannot understand it

If you cannot understand it, you cannot control it

If you cannot control it, you cannot improve it



Measurable Indicators for Small Businesses

- Monitor your business every period with these indicators:
 - Sales volume, i.e. number of quotes, orders, customers
 - Time to respond, delivery times, processing times
 - Gross margin, net operating expense, working capital
 - Net profit per employee
 - Customer satisfaction
 - Plough back ratio
- Benchmark some of your indicators against quarterly numbers published by Small Business Administration
<http://www.sba.gov/advo/research/sbei.html>



Key Takeaways from This Module

- After running your business through infancy, evaluate your business and determine if things are going as planned.
- As your business matures, stage the ownership and think about growth opportunities.
- Be a leading and successful business by
 - planning success,
 - rigorously looking for improvements, and
 - continually monitoring progress.



Sources and Citations

- Terence J. Cooke-Davies, *Measurement of Organizational Maturity*, Chapter 13
- Stanford University, *Organizational Maturity Levels*
- Shirleen Glasin, ProSidian Consulting, *Evaluating Your Chance for Success*
- International Public Management Association Assessment Council, *An Introduction to Organizational Maturity Assessment*
- [www. toolkit.com](http://www.toolkit.com), *Business Owners Toolkit, Total Know-How for Small Businesses*
- SUREPAYROLL, *How to Measure Success of Small Business*