



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:
 - Evaluate and assess your business idea's chances for success from financial and operational perspectives.
 - Determine the maturity stage of a business.
 - Understand the key measures of success and what key performance indicators you should measure to lead a successful business.



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

- Small businesses are the backbone of our economy and have historically been the driver behind significant job growth. However, many small businesses fail or struggle considerably and are hit the hardest during an economic crisis.
- Government agencies tend to contract with successful small businesses that can provide quality service on a continual basis.
- No business is assured 100% that they will be successful. Before you start your own business, increase your chances of success with planning, preparation, and insight.



Evaluating Your Business' Chance for Success *(Slide 1 of 2)*

- Do you have an entrepreneurial spirit?
 - Are you a self-starter? Are you driven? Are you a risk taker?
 - Do you have relationships with key decision-makers who may become potential clients?
 - Do you have the physical stamina to initially work long hours, week after week?
 - Do you have the ability to persuade clients?
 - How are your negotiation skills? Be prepared to negotiate anything from a client's contract to lease space.
 - Is your idea feasible?
- Have you developed a business plan?
 - What are your key business objectives for the next three to five years? How and when will you achieve these objectives?
 - How do you expect to run day-to-day operations and make business decisions?
 - How will you grow revenue?
 - Do you have a marketing plan and sales strategy?
 - Are you seeking funding? What are your financial projections?



Evaluating Your Business' Chance for Success *(Slide 2 of 2)*

- What type of business should you start?
 - What things do you enjoy and like spending time doing? Are these interests marketable?
 - Are you considered an expert in any field or have technical skills you've learned or developed?
 - Do others repeatedly comment on any specific skill or capability you have?
 - Is there a market for your product or service?
 - What is your value proposition? How does it differ from competitors?
 - Are you available full-time or are you starting a side business?
 - Do you have access to the required capital? Debt or equity?
 - What potential liabilities are you exposing yourself to by starting a business?
 - Will starting a business create a conflict of interest with your existing or former employer?



Market Assessment

- Have you evaluated the overall market landscape?
 - Who are your competitors? Do they provide similar products/services?
 - 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? Do you have a marketing plan?
 - What laws or regulations would affect the offering of your product/service?
 - Who is your perfect client base? What is your current client base (in terms of age, sex, income, and geographic location)?
 - What prospective customers are you currently not reaching? How can you reach them?
 - What qualities do your clients 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.
 - Operating budget: Look at your personal fixed and variable living expenses. You should know the personal costs that you will have to cover during the start-up phase of your business.
 - Set-up Costs: Look at the costs associated with forming and setting up the new business. Understand which costs are a one-time charge or are ongoing.
 - 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 (SBA) publishes a report that rates commercial banks on their small business lending performance.
 - Evaluate options for venture capital financing that offer funds for start-ups, debt capital, cash flow financing, asset-based financing, receivables financing, state economic development pools, and city and county funds.
 - Carefully consider raising 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 natural disasters, accidents, or unexpected incidents, 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, understand and comply with:
 - Which types of insurance and how much you need to purchase, i.e., auto, business owners, malpractice, or other. Pay attention to exemptions, foot notes, and special clauses that may affect your coverage.
 - The appropriate federal and state laws, rules, and regulations.
 - U.S. employment laws and regulations.
 - Tax requirements.
 - Licensing, permit, copyright, trade name, and patent laws.



Maturity Stages of a Business

- Now that you are running your business, determine the maturation stage:
 - Infancy/Establishment: Owners spend all their time consumed by the start-up process. They are focused on “how to” acquire customers, deliver products and services, build a healthy pipeline, and manage working capital, etc.
 - Survival/Growth: Owners think about growth strategies. At this stage the income is sufficient to cover expenses, small profits, some employees, minimal processes, and systems, etc.
 - Success/Maturity: Owners look for other opportunities, such as entering new markets. Able managers are onboard and helping run the business with sustainable profits, leveraged expansion, and growth targets, etc.
 - Status Quo/Decline/Post-Maturity: Owners assess the current condition of their business and determine if new growth areas should be pursued, if continuing in a state of maturity is satisfactory, or if there is a drop in sales due as a result of a negative impact on the business.



Measuring Success *(Slide 1 of 2)*

- Profit: Are you making money? This may seem like common sense, but if you're not bringing in enough revenue to cover your expenses and debt, your chances of success are lessened.
- Growing Sales and Customer Base: You're increasing your chances of success by reaching your target market. Look for ways to expand existing client relationships by cross-selling other services.
- Customer Satisfaction and Loyalty: Happy customers equal repeat business. Developing strong customer service policies, including problem resolution, and enforcing them will increase your chances of success.
- Employee Satisfaction: Hiring and training new employees is an expensive process. When employees feel appreciated, they will actually work harder and are committed to helping grow your business.
- Owner Satisfaction: If you're happy, you increase your chances of success exponentially. If you're not happy, figure out why. Are you not meeting your goals? Revisit your business plan and determine what needs to happen to get back on track. Consistently look for ways to improve your processes or offering to keep your approach fresh and re-energize yourself. Update your business plan as necessary.



Measuring Success *(Slide 2 of 2)*

- **Budget:** Did you stay within your budget? Review your projections and determine where you need to make adjustments for the next client or project. Consistently being over budget can quickly become detrimental to small businesses.
- **Marketing Effectiveness:** Is your marketing plan working? Your efforts may increase your customer base, but did it cost you money in the long run? Calculate the cost of acquiring a new customer by dividing your total marketing costs for a given time period by the number of new customers you've gained. Track and measure your marketing plan's effectiveness.
- **Sales Strategy:** How long is your sales cycle, from initial client contact to contract close? Is your contact-to-close cycle becoming shorter with each client or project implementation? If not, review your sales strategy. You may be find redundancies that are costing you time and money.
- **Track Achievements:** This may seem time consuming, but track your achievements – daily, weekly, monthly, quarterly, and annually. Easy access to your achievements may be exactly what you need to rejuvenate your passion and remind you why you started your business.



Leading a Successful Business

- To prepare your business for success:
 - Track and measure your marketing efforts.
 - 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.
 - Automate processes where possible.
 - Utilize social media: Twitter, Facebook, YouTube, Foursquare, etc.
- 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

- Monitor your business with these indicators:
 - Sales cycle: Initial customer contact to contract close.
 - Sales volume: Number of quotes, orders, and/or customers.
 - Time to respond: Initial request, processing time, to delivery time.
 - Costs: Gross margin, net operating expense, and working capital.
 - Net profit per employee.
 - Customer satisfaction.
 - Plough back ratio.
 - Social media.
- Benchmark some of your indicators against quarterly numbers published by the Small Business Administration found at [sba.gov/advocacy/847](https://www.sba.gov/advocacy/847).



Key Takeaways from This Module

- If you're contemplating starting a new business, understanding and evaluating your chances of success will help you to decide if you should go forward or not.
- Understanding which maturity stage your business is in can help you evaluate your business and determine if things are going as planned. As your business matures, think about growth opportunities.
- Leading a successful business is accomplished by planning, measuring, controlling, and improving all aspects of your business.



Sources and Citations

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