

IDAs and Small Business Development

What is your role in providing assistance to participants who want to use IDAs to start small businesses?

What should your role be providing assistance to participants who want to use IDAs to start small businesses?

Where can a client get help?

- Small Business Development Center
- Women's Business Center
- Community College with a Small Business Development Department or Center
- Microenterprise Development Program
- SCORE—Senior Corps of Retired Executives
- Financial Institutions

Some of these organizations can help IDA participants write business plans including marketing plans and financial projections, get together financing and implement their business.

What can you do? You can help a participant begin to think about the feasibility of their idea.

What does feasibility mean?

Feasibility is about determining the answers to these questions:

- Is this the right business?
- Does it offer the right products and services?
- Is it the right time? Do people want and need this service? Is no one else meeting this need?

Many people starting businesses believing their success is all but guaranteed. They are motivated. They are enthusiastic. They have vision. But statistically, only 30% to 50% of small businesses make it to five years. And depending on the industry, the odds may be even more stacked against them.

Helping your participants begin to examine the feasibility of their idea is a great service. It may feel like you are crushing dreams or “raining on their parade”, but guiding your participants to examine whether they have the experiences, skills and drive to run their business as well as whether their business is based on sound concepts is important.

Feasibility Part 1: Asking Questions

Hannah Smith has come to you with a business idea! She wants to open a restaurant in western North Dakota that caters to all of the oil field workers. She loves to cook. Her whole life she has prepared meals for her family and friends and everyone raves about her cooking.

She has described to you exactly what she wants to do:

Most restaurants catering to oil field workers serve nothing but junk. I want to start a restaurant that provides a healthy and hearty alternative. I will have several salads, homemade soups, sandwiches and two or three entrees (beef, chicken and fish) for lunch and dinner seven days per week.

She even has a name for the business-- Hannah's Healthy Homecookin'—and hand sketched concept art for the signage, menu and promotions.

She is so excited and wants to use her IDA to start this business.

With other members of your group, develop a list of questions you would want to ask of Hannah to help determine whether her business is feasible.

Feasibility Part 2: Asking the Participant to Take a Self Assessment

Once you ask questions and the IDA participant still feels like he or she wants to proceed forward with the idea of starting or expanding a business, you may want to have the participant take a self assessment. This purpose of this tool is to help IDA savers determine whether they have “what it takes” to be a small business owner. Can they handle the long hours? Can they take care of all aspects of a business that need to be taken care of?

This tool is based on materials developed by *Montana State University Extension Service* and *Small Business BC*.

Question	Rating Scale		
Do you make decisions easily and quickly?	Very much like me	Somewhat like me	Not at all like me
Do you like being in charge?	Very much like me	Somewhat like me	Not at all like me
Do you like initiating a project and seeing it through until the end?	Very much like me	Somewhat like me	Not at all like me
Are your organized?	Very much like me	Somewhat like me	Not at all like me
Can you work independently?	Very much like me	Somewhat like me	Not at all like me
Are you willing to work longer and harder than you would working for someone else?	Very much like me	Somewhat like me	Not at all like me
Can you handle rejection? Do you bounce back quickly when something does not work out for you?	Very much like me	Somewhat like me	Not at all like me
Did you come from a family that had its own business? Own farm?	Very much like me	Somewhat like me	Not at all like me
Can you find people to cover areas of your business where you do not have strengths?	Very much like me	Somewhat like me	Not at all like me
If the business is a skills-based (landscaping business, consulting business, etc.), do you have those skills? Do you have experience in this line of business?	Very much like me	Somewhat like me	Not at all like me

Question	Rating Scale		
Can you adapt to changing conditions?	Very much like me	Somewhat like me	Not at all like me
Are you prepared to potentially lower your standard of living while your business gets going?	YES	NO	
Are you will to do an in-depth feasibility analysis and/or develop a business plan?	YES	NO	

Most of the responses should be “very much like me” or “yes”. If they are not, you may want to ask the participant why they think small business ownership is in fact for them.

Having the personal traits to work independently, make decisions and bounce back quickly from setbacks as well as having the experience and skills central to the business concept are foundational to successfully running a small business.

Feasibility Part 3:

Have participants complete this section to demonstrate whether they have considered some fundamental aspects of starting this business.

Describe your business.

What will your business sell?

Who will your business sell this to?

What need are you satisfying/problem are you solving for the people you plan to sell your products or services to?

Where or how are they satisfying that need/solving that problem now?

Why would they use your business instead of continuing with the current way they are satisfying that need/solving that problem now?

Are there enough customers where you plan to start your business?

Feasibility Part 4:

Finally, helping your participant do a quick break-even analysis can help them understand how much they have to sell to make it work.

Returning to Hannah, she has done her homework and knows generally what her costs are going to be:

Average cost (to her) of one meal = \$4

Variable Costs

Average price (to her customers) of one meal = \$8

First calculate her contribution margin. This is what is left over from every sale to cover fixed costs. It is simply:

Price per unit – Variable costs per unit

Rent including equipment and utilities per month =	\$1,500	
Labor costs =	\$1,500	
Cleaning and upkeep =	\$ 500	
Communications and Promotions =	\$ 500	
Miscellaneous =	\$ 200	
	\$4,200	Fixed Costs

To figure out her break even sales, divide:

Total fixed costs/contribution margin

Using this approach, how many meals must Hannah sell each month to break even?

Is this feasible?

If no, what are Hannah's choices?

One final tip, when reviewing the business plan ensure you see a provision for working capital. One of the critical start up mistakes businesses make is not budgeting enough working capital at the front end. They want to "save" money or keep start up costs low. This often leaves a business starved for cash early in the process. This is a situation that should be avoided.