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# SELF-EMPLOYMENT

Steps for Vocational Rehabilitation Counselors:  
**Helping a Consumer Start a Business**

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# FORWARD

This curriculum was developed as an integral part of a self-employment training program for vocational rehabilitation counselors, counselors working in Section 121 programs, and students pursuing a degree in vocational rehabilitation. At first glance, this book may look daunting because of its size and topic. But upon closer examination you will discover that quite a bit of it consists of examples, vignettes, and discussion and study guide questions. Besides an extensive chapter on how you can help your consumers develop a business plan, it contains chapters on assessment, describes a self-employment process, provides information about self-employment resources, explains the use of PASS plans for self-employment, and suggests strategies for supported self-employment. The last quarter of this book contains an explanation of the business plan and a list of the roles and responsibilities that you can give to a consumer, an actual business plan (for both you and the consumer to refer to), helpful forms, and answers to study guide questions.



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# ACKNOWLEDGMENTS

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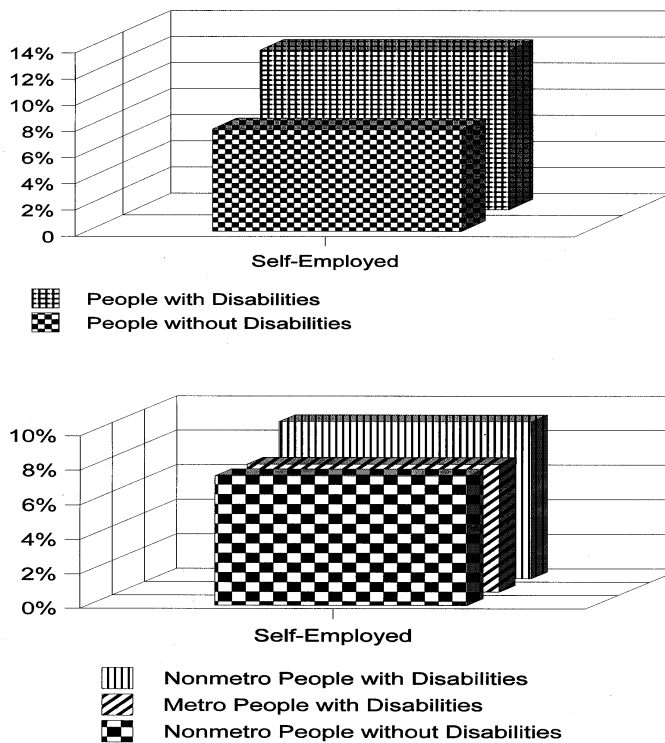


## Why Self-Employment?

Many people with disabilities dream of owning a business, but there is a gap between dream and reality that can be filled only with careful planning. The purpose of this book is to help you, the vocational rehabilitation (VR) counselor, understand the process and steps for helping a consumer start a business to help people who wish to be self-employed start the most successful business possible.

According to the 1990 Census, people 16-65 years old with disabilities are self-employed at higher rates than people without disabilities (12.2% vs. 7.8%). Non-metropolitan people with disabilities are self-employed at a higher rate than metropolitan people with disabilities or non-metropolitan people without disabilities (9.09%, 7.4%, and 7.5% respectively). In light of these statistics, it is likely that many of your VR customers will want to be self-employed.

Fig. 1 Self-Employment Statistics



## Why Self-Employment?

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According to the U.S. Small Business Administration, self-employment is an important and often-used alternative to wage and salary employment. People who are self-employed also are major contributors to the economy and generate many new services and products. In 1994, 13% of the nonagricultural workers worked at some form of entrepreneurial activity.

People with disabilities are no different than anyone else who goes into business for him- or herself. They want to be self-employed for various reasons. They may seek freedom from the 9-5 daily work routine or want to be their own bosses. They may want to improve their standards of living, be bored with their current jobs, or prefer to work when and where they want. They may have products or services that they think are in demand. In rural areas, there may be few employers and jobs. People with disabilities may need flexible work schedules or need to work at home.

### **Motivation aside, the successful small business will require:**

- **A practical plan with a solid foundation**
- **Dedication and willingness to sacrifice**
- **Technical skills**
- **Basic knowledge of management, finance, record keeping, and marketing**

## Discussion Questions

1. Why is it important to acknowledge self-employment as a legitimate employment outcome?
2. As a VR counselor, what problems or difficulties have you experienced or do you anticipate as a result of supporting a consumer with pursuing self-employment?
3. Have you ever been self-employed or wanted to own a business? Have any family members been self-employed? What is your perspective?
4. Describe your state's self-employment policy and procedures. Are they effective? How would you change them?
5. Describe the self-employment process you follow.

## Chapter 1: Why Self-Employment? Study Guide

1. People with disabilities want to be self-employed for various reasons. List what you consider the top three reasons why one of the consumers you work with might pursue self-employment.
  - a. \_\_\_\_\_
  - b. \_\_\_\_\_
  - c. \_\_\_\_\_
2. According to the 1990 Census, people with disabilities are self-employed at higher rates than people without disabilities. T\_\_\_\_ F\_\_\_\_
3. Which of the following are important for starting a successful small business?
  - a. Technical skills
  - b. A practical plan with a solid foundation
  - c. Basic knowledge of management, finance, record keeping, and marketing
  - d. Dedication and willingness to sacrifice
  - e. a,b,c,d

**Why Self-Employment?**

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# Terms

There are many terms commonly used interchangeably for self-employment or business ownership. These include “microbusiness,” “small business,” “small business owner,” and “entrepreneur.” Each term is defined below.

**Self-employment/self-employed:** Working for profit or fees in one’s own business (including a farm or ranch), profession, or trade for a minimum of 10 hours per week. (Source: Department of Labor)

Sometimes confusion exists about whether or not an occupation or situation meets these criteria. Is the realtor who rents space in a realty office or the beautician who rents a chair in a salon self-employed? What about the small business owner that sets up a corporation? There are two determining factors. The first is who pays state and federal taxes on the individual’s salary. If the realtor or beautician pays his or her own federal and state taxes, then he or she is self-employed. The second is whether or not the person works for someone else? In the case of the corporation, even though the corporation pays the state and federal taxes, the individual does not work for someone else. In most cases he or she is the company president.

### Is Linda Self-Employed?

Linda started a fine arts business of creating and selling her own original paintings. Vocational rehabilitation helped by purchasing supplies and adaptive equipment that made the business possible. Linda paints and does telephone marketing, while her mother serves as the business’ bookkeeper, outside representative, and delivery person. Linda’s paintings are small and retail for \$45 to \$70, and her disability limits her to working only an hour or two each day. However, the business has been quite successful. When Linda first started, she exhibited and sold her paintings through a local pharmacy. The pharmacist liked the paintings so much that he began marketing them to other pharmacies. By now her work has gained regional recognition and is beginning to be recognized statewide. Linda and her mother are working on plans for a home studio and gallery.

Is Linda self-employed?

## Terms

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**Microbusiness** refers to a very small business. The Self-Employment Learning Project of the Aspen Institute defines a microbusiness (or microenterprise) as a “sole proprietorship, partnership, or family business, that has fewer than five employees, does generally not have access to the commercial banking sector, and can initially utilize a loan of under \$15,000.”

### Microbusiness

After he was injured in a farming accident, Bob worked with his vocational rehabilitation counselor to start a welding business. Bob's business plan indicated that the shop had potential and that he would need to purchase \$14,000 worth of equipment and initial supplies. It was important for Bob to have a stake in his shop so VR agreed to purchase \$7,000 of the equipment. Bob contributed \$2,000 of his own money and this combined with VR's investment and the business plan convinced the local microlending agency to loan Bob the \$5,000 balance. Bob's is a microbusiness because it employs only himself and because his loan was less than \$15,000.

### Small

**Business:** The Small Business Administration (SBA) defines a small business as a business that is independently owned and operated and not dominant in its field. Depending on the industry, eligibility is based on the average number of employees for the preceding 12 months or on sales volume averaged over a three-year period. Examples of SBA maximum size standards are:

**Manufacturing** - The maximum number of employees may range from 500 to 1500, depending on the type of product manufactured.

**Wholesaling** - The maximum number of employees may not exceed 100.

**Services** - Annual receipts may not exceed \$2.5 to \$21.5 million, depending on the particular service being provided.

**Retailing** - Annual receipts may not exceed \$5 to \$21 million, depending on the product being provided.

**General and Heavy Construction** - General construction annual receipts may not exceed \$13.5 to \$17 million, depending on the type of construction.

**Special Trade Construction** - Annual receipts may not exceed \$7 million.

**Agriculture** - Annual receipts may not exceed \$0.5 to \$5 million, depending on the agricultural product.

**Entrepreneur:** This term is often used interchangeably with “small business owner.” However there are differences between the two, especially as the terms are applied by practitioners or people who study business ownership and entrepreneurship.

According to Webster’s *New World Dictionary* an entrepreneur is “a person who organizes and manages a business and undertakes the risk for the sake of profit.” Although it mentions “risk,” this definition does not capture the essence of challenge and change inherent in entrepreneurship. In the *Montana Entrepreneur’s Guide* Paul Larson says entrepreneurs want growth and need to be challenged. In a review of the small business and entrepreneurship literature published in 1984 James Carland, Frank Hoy, William Boulton, and Jo Ann Carland found that entrepreneurs have significantly different personalities and behaviors than business owners. Entrepreneurs are not found only in their own businesses – they often are employed by organizations. In an article published in 1997 James Reynierse states that entrepreneurs are the “movers and shakers” in all walks of life. Reynierse also quotes Peter Drucker’s definition of an entrepreneur as a broad-based change agent who creates something new or different.

**Small Business Owner:** The *Montana Entrepreneur’s Guide* describes a small business owner as a person who seeks independence and a decent-paying job. So, according to these definitions, **an entrepreneur may be (but is not always) a business owner, and a business owner may be (but is not always) an entrepreneur.** As a vocational rehabilitation counselor, the important thing to remember is that one need not necessarily be an entrepreneur to be successfully self-employed.

**The Business Owner May (or May Not) be an Entrepreneur!**

After his accident Larry completed a business degree but, after a long search, he was unable to find a job in his community. He decided to create his own job and purchased a local shipping company which he has now operated successfully for 8 years.

Monte has owned several businesses since he became disabled. He currently operates a water recreation equipment business situated on a large lake. He is tiring of this business and has a great idea for a new business that he is convinced will do really well.

Who is the business owner? Who is the entrepreneur?

## Discussion Questions

1. Do the consumers you work with tend to be entrepreneurs or small business owners? Why?
2. Given the definitions for microbusiness and small business, which type of business are the consumers you work with likely to be interested in starting? Why?

## Chapter 2: Terms Study Guide

1. Self-employment is defined by the Department of Labor as working for profit or fee in one's own business for a minimum of \_\_\_\_\_ hours per week.
2. What two factors are used to determine if a person is self-employed?
  - a. \_\_\_\_\_
  - b. \_\_\_\_\_
3. Which of the following are characteristics of a microbusiness?
  - a. The business is a sole proprietorship, partnership, or family business
  - b. Fewer than 3 employees
  - c. Can get a bank loan
  - d. Initially borrows under \$15,000
  - e. a,d
4. According to the Small Business Administration the size of a small business varies depending on the industry but they are characterized as being \_\_\_\_\_ owned and operated and not dominant in their field.

# The Process

Starting a business is hard work. For a person with a disability working with a vocational rehabilitation agency it requires a deliberate, detailed process. Figure 2 represents a recommended **Self-Employment Process** for vocational rehabilitation agencies. This chapter briefly introduces each step of the process. Later chapters expand on key ideas and procedures. It was developed by researchers at the Research and Training Center on Rural Rehabilitation Services after analyzing 45 state VR agency policies/procedures on self-employment. The process evolved from working with self-employment consultants, VR counselors and administrators, and consumers. It incorporates VR practice with current state-of-the-art small business development practice.

Although not indicated on Figure 2 by a decision point, the decision to pursue or not to pursue self-employment can be made at any time in the process by either the consumer or the VR agency. Reasons for not continuing to pursue self-employment likely will vary according to where the process was halted.

### Step 1: **The Individual Expresses Interest in Self-Employment**

There are consumers who already have business ideas, know they want to be self-employed and will not hesitate to tell you this. Less-assertive people may have the potential for owning a business, but will not mention self-employment as a goal unless they are specifically informed that it is an option.

Others may not know what they want to do – they may have considered self-employment, but have made no decision, or they may not be able to find other suitable employment. In these situations, job exploration (including self-employment) is appropriate.

Many individuals with disabilities do not know that VR can help them become self-employed. Some agencies educate consumers on their range of services (including self-employment) either verbally or in pamphlets, booklets or other publications. Other agencies feel that listing a menu of options at intake might influence the outcome of the VR process.

We believe that to make an informed choice, consumers must know about *all* of the services and options available through VR, **including self-employment**. Some agencies fear that if VR tells people that self-employment is an option, there will be more people wanting to start businesses than the agency can handle. If consumers are informed, it *is* realistic to expect an increase in the number of people pursuing self-employment. National statistics bear this out. VR has traditionally closed **about 5,000 people annually, between 2.3% and 2.5%** of its

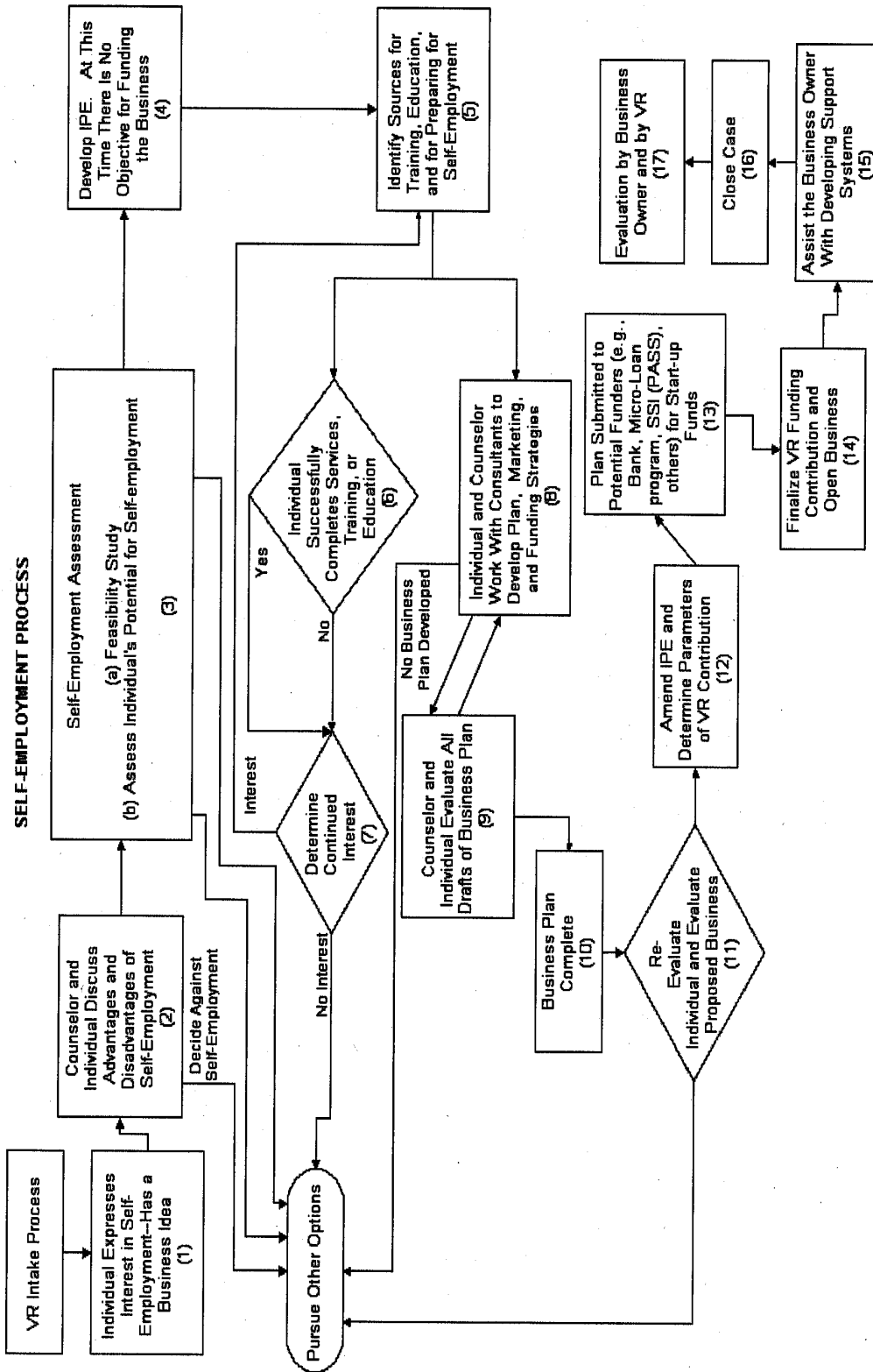


Figure 2

cases to self-employment. However, the 1990 Census self-employment rate for people with disabilities was **12.2%**, and the recent RSA-funded “CHOICE” demonstration projects reported a self-employment rate of **15% to 40%**. We do not anticipate that the VR rate will approach that of the “CHOICE” projects, but it *will* probably approach the Census rate.

Of course, although there may be more people asking about and pursuing self-employment in the future, just as with other options, not all will successfully work through the process.

## Step 2: **Counselor and Individual Discuss Advantages and Disadvantages of Self-Employment**

In this step, the counselor and individual begin a dialogue. The individual tells you about his or her business idea(s), and you get a feel for how realistic the individual is regarding the proposed business.

During this step you explain the steps for developing a business outlined in this chapter. You explain that the agency will not commit to fund any portion of a business until a viable business plan is developed. You also discuss the agency’s business funding policy, procedures, and guidelines so the individual understands the limitations that may be placed on the type or magnitude of the business he or she wishes to open. This may be foreign ground to the consumer, so you may need to reiterate the information throughout the counseling process.

Although the individual can decide against self-employment at this or any step along the way, many will decide not to pursue self-employment after this initial discussion.

Please remember that **most counselors are counselors — NOT entrepreneurs or potential business owners**. Most counselors are not and have never been self-employed. Many counselors think the best use of VR funds is to help an individual become employed by another rather than for him- or herself. Research indicates that these attitudes are due to VR self-employment policies and procedures, VR office atmosphere, and/or counselors’ own experience(s) with self-employment. As a counselor you should guard against negative biases at this point and support the consumer in making an informed choice.

### **ADVANTAGES OF SELF-EMPLOYMENT**

- **Independence — control over work setting and schedule**
- **Employment where/when outside opportunities are few**
- **Being The Boss**
- **Interacting with customers, suppliers, and others**

- Enjoyable work
- Sense of achievement/satisfaction if the business succeeds
- Control over job security
- Control of business decisions
- Better standard of living
- Feeling part of the community

### DISADVANTAGES OF SELF-EMPLOYMENT

- Pleasing the customer (the REAL boss)
- Long, hard hours with little free time
- Fluctuating income
- Unrelenting responsibility
- Possibility of business failure
- Stress on family/resource
- Possible exacerbation of health problems/disability

### Step 3: Self-Employment Assessment

We recommend a self-employment assessment consisting of two phases. During Phase I, the individual completes a feasibility study to develop the business idea into an initial draft of the business plan. During this step the business idea becomes more concrete and the individual begins to identify:

- What his or her business is.
- The business's market.
- The business's expected expenses and income.

The forms used in this step are *Beginning to Develop Your Business Plan* (Figure 3) and the *Monthly Personal and Living Expenses Worksheet* (Figure 4). They are described and discussed in Chapter 4, "Self-Employment Assessment."

Many consumers will be intimidated when confronted with this task of developing a more concrete business idea. Business development experts say that at this point many people decide not to pursue self-employment because they have difficulty moving beyond the conceptual to a more concrete stage. You will need to decide if an individual's inability to complete a feasibility study is because of his or her disability or another reason. Could the

person complete the study with your guidance and encouragement? Is some sort of assistive technology needed?

Phase II is an assessment of the individual's potential for self-employment. At this point you are not assessing the business idea or business plan – just the individual's potential for self-employment. This assessment discloses the consumer's strong and weak characteristics and highlights training or education to pursue. We recommend using Herzog and Goodman's *Business Assessment Scale* for this purpose. Chapter 4, "Self-Employment Assessment" provides a complete discussion of assessment.

#### Step 4: **Develop the Individual Plan of Employment**

The employment goal is identified after Step 3. If the decision is to continue and pursue self-employment, indicate in the Individual Plan of Employment (IPE) a *specific occupation or occupational grouping* based on the type of business the consumer wishes to start. **Self-employment IS NOT determined as the specific goal at this time**, however. This should have been explained to the consumer during step 2, and should be reiterated now.

#### Step 5: **Identify Sources for Training, Education, and for Preparing for Self-Employment**

Ideally, the assessment phase identified knowledge and skills that the consumer should pursue to enhance the business's success. Services, education, or training may help the consumer develop a business plan or remedy any deficiencies in skills or knowledge. Locating training resources in rural areas might be difficult – you and the consumer may have to be creative. For example, if he or she needs computer training but classes are not available locally, consider paying a local computer wizard to provide the training.

Other learning opportunities might include an apprenticeship or work in the type of business the consumer wishes to open. If the consumer has no small business experience, some business experts recommend that he or she spend as much time as possible observing or working in a similar business – of course the level of involvement and length of time is up to the business owner. The business owner should be willing to discuss his or her business practices and strategies.

## The Process

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### Step 6: **The Individual Successfully Completes Services, Training, or Education (Steps 6 and 7 can be completed concurrently with Steps 8 through 10.)**

If everything goes as planned, the individual will successfully complete needed services, training, or education. If the person does not successfully complete services, training, or education, then it is important to ascertain why. The individual may have been dissatisfied with the training or services – it may not have met his or her needs or may have been too academic. If so, perhaps another, less academic method should be explored. After spending time in a business or an apprenticeship, the individual may have realized that he or she does not want to start that type of business or work at the level needed to make the business a success. Perhaps another type of business could be pursued, or the person should consider working for someone else in the type of business described in the IPE.

In either case, proceed to step 7 and determine whether either the consumer or the VR agency is still interested.

### Step 7: **Determine Continued Interest**

This is an opportunity for the agency to re-evaluate the individual's initiative and drive, and to determine how invested he or she is in starting the proposed business. It also is an opportunity for the consumer to re-evaluate his or her desire to become self-employed.

### Step 8: **Individual and Counselor Work with Consultants to Develop Plan, Marketing and Funding Strategies**

If there is continued interest, the next step is to take the business plan from a draft to a comprehensive document. A good comprehensive business plan will be the new business's road map, can be used to obtain necessary funding, and is necessary for judging the potential for success.

Most people have no experience with developing business plans, so we recommend that a consultant help. There are many consultants available – Chapter 7, “Resources and Resource Partners” discusses consultants and business development resources. Chapter 5, “Who Does What in the Process?” discusses the consultant's role in developing the business plan. Chapter 6, “The Business Plan” discusses the business plan.

**Step 9: Counselor and Individual Evaluate All Business Plan Drafts**

With the consumer, evaluate all drafts of the business plan for completeness and thoroughness. After completing this manual, you will be able to evaluate a plan and request any necessary clarification and changes from the consumer.

**Step 10: The Business Plan is Complete**

A completed plan is necessary for step 11.

**Step 11: Re-Evaluate the Individual and the Proposed Business**

At this critical point in the process the agency evaluates both the consumer and his or her proposed business to determine if VR will provide support. We recommend administering the Business Assessment Scale a second time to evaluate both the individual and the business idea, in conjunction with previous assessment(s), the completed business plan, the business consultant's input, other sources (e.g., training placement), and your own experience with this person.

**Step 12: Amend the IPE and Determine Parameters of VR Contribution**

Up to this point, self-employment has not been formally identified as the employment outcome. If the agency has decided to support the business, amend the IPE and determine the level of VR funding for the business. In this step, the VR agency establishes a funding range and describes how funds are to be used (e.g., to purchase equipment, inventory, or marketing services). The agency's contribution is finalized **if** the business is so small that additional funds will not be sought.

VR establishes funding parameters at this time so its contribution can be reflected when the consumer applies for a loan or develops a Plan for Achieving Self Support (PASS). Often a consumer can use VR's contribution to leverage money from other sources.

A basic tenet of business development is that the potential business owner must contribute financially to the business. A personal investment is considered critical for instilling a sense of ownership and reducing the likelihood that the business owner will walk away if the business falters. The individual is serious about the business if he or she is willing to invest something valuable besides time.

## The Process

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How much should the consumer contribute from his or her own funds? Recommended amounts range from 10% to 30% of the startup funds. Some microloan organizations even accept such things as a car or wedding ring as collateral from low-income business owners who have no money of their own to contribute. There are some who think along different lines, they believe that because people with disabilities are at an inherent disadvantage, VR should provide total business funding whatever the cost. You should refer to your state's policies for guidance.

### Step 13: **The Plan is Submitted to Potential Funders for Start-Up Funds**

Potential funders include family, friends, banks, microloan programs, and Social Security Administration Plans for Achieving Self-Support (PASS). Chapter 7, "Resources and Resource Partners" discusses many possible sources of funding except PASS. Chapter 8 describes how to use a PASS plan for self-employment.

Some state VR agencies require that the business be turned down by other funding sources before VR will contribute its own funds. It is understandable that outside resources must be explored first before VR commits to funding a business. However, the approach is problematic. VR agencies must understand **why** a loan was turned down. Does the lender fund business start-ups and/or make small loans? Was there inadequate collateral or a poor credit history? Couldn't the applicant convince the funder that he or she could repay the loan? Was the likelihood of the business succeeding in the proposed location so questionable that the funder did not want to set the applicant up for failure? Did the applicant meet the funder's guidelines? Was there bias against a person because of his or her disability? These are all valid reasons, and you should explore them prior to a final decision.

There may be cases where available funds do not match start-up projections. When this happens, revise the plan and pare it down if possible. Perhaps the business owner can open on a smaller scale and grow the business. However, no matter how hard the VR agency, the counselor, and the consumer try, you all must accept that (as also happens to people without disabilities), sometimes businesses fail to open for many reasons – including inadequate funding.

### Step 14: **Finalize VR Funding and Open the Business**

Now that VR knows all the funding sources and amounts, you can reevaluate previously-established parameters, finalize VR's contribution and specify how start-up funds will be used.

Step 15: **Assist the Business Owner With Developing a Support System**

Although self-employment experts agree that follow-up support is important to business success, VR agencies do not generally offer long-term, ongoing supports. VR might provide support in a crisis, but not the day-to-day networking and consulting that business owners need. Before a business opens, contract with a consultant to review the business's monthly or bi-monthly financial statements, discuss the business with its owner, and report back to the agency. Encourage the business owner to develop his or her own support system such as finding a mentor or networking with other business owners.

Step 16: **Close the Case**

Generally, VR and the business owner mutually agree to close the case without having pre-defined or -delineated circumstances. However, some agencies have indicators for case closure. These include meeting the requirements of a core indicator, plus one additional indicator. Indicators may vary. In Alabama, the core indicator is that the individual has been in business for 90 days, has not been provided additional agency support, and has reinvested in the business to support ongoing expenses. Additional indicators include: terminated SSDI, decreased public benefits, realizing a net profit from the business, significant gross business income, or increased equity such as equipment or savings.

Step 17: **Evaluation by the Business Owner and VR**

Evaluation by both parties provides valuable information on the agency's services and their impact on the individual and the community. We recommend that the business owner evaluate the VR agency annually, for up to three years. This provides information to the agency on the effectiveness and usefulness of its services – information it can use to improve self-employment procedures. Conversely, we recommend that the agency evaluate the business annually for an unspecified period. Evaluations provide the agency with data on the effectiveness of its services and the return on the money and time it has invested in the business. Evaluations also assess how VR-funded self-employment start-ups affect the community, and chronicle the longevity and cycle of self-employment.

## Discussion Questions

1. Is it reasonable to expect a consumer to invest in his or her business? Why? If yes, how much?
2. What factors should be considered when determining whether or not VR will invest in a business?
3. How do you determine the amount of VR's contribution and how it will be used for the business start-up? How does this compare to the investment of your agency towards assisting a consumer with obtaining a college degree?

## Chapter 3: The Process Study Guide

1. To fully implement the philosophy of consumer choice in VR, consumers must be informed about all options and services available through VR, including \_\_\_\_\_.
  2. What are 3 advantages of being self-employed.
    - a. \_\_\_\_\_
    - b. \_\_\_\_\_
    - c. \_\_\_\_\_
  3. List 3 disadvantages of being self-employed
    - a. \_\_\_\_\_
    - b. \_\_\_\_\_
    - c. \_\_\_\_\_
  4. Many consumers feel intimidated when they must begin to develop the business plan and \_\_\_\_\_ the process. What is the counselor's role if and when this happens? \_\_\_\_\_
-

5. Once the counselor and consumer have reviewed assessment results, they should formally identify the specific \_\_\_\_\_ or occupational \_\_\_\_\_ for the IPE.
  
6. One outcome of conducting an assessment is identifying the consumer's \_\_\_\_\_ and \_\_\_\_\_ and determining the education or training that will help the consumer establish and run a successful business.
  
7. List three functions of a business plan.
  - a. \_\_\_\_\_
  - b. \_\_\_\_\_
  - c. \_\_\_\_\_
  
8. Sometimes, despite the best of efforts, a business may not get started because the consumer can not secure adequate \_\_\_\_\_.
  
9. As part of the self-employment process, the consumer and counselor should develop a plan for needed \_\_\_\_\_ support for the consumer once the business is launched.

## The Process

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# Self-Employment Assessment

Our research with VR agencies and counselors indicated their desire to incorporate assessments into the VR self-employment process. Assessments are conducted so both the consumer and the counselor can determine possible businesses to pursue or to identify a general career path if the consumer is unsure of the direction to take; to identify deficient areas to remedy with training, education, or experience; and to determine self-employment potential. Some self-employment consultants who work with VR agencies to develop policy do not endorse the use of assessments because they are concerned that assessments will be used inappropriately or misinterpreted to disqualify potential business owners and discourage the use of self-employment. They also are concerned that a low score might not be a good indicator of the individual's potential for success. It is imperative that assessments are appropriately used in the process. This chapter discusses currently-available assessment types including:

- The Feasibility Study
- Skills and Interest
- Tests for Evaluating Entrepreneurial Potential
- The *Business Assessment Scale*

The Feasibility Study focuses on the proposed business; whereas the Skills and Interest Assessment (p. 39) and Tests for Evaluating Entrepreneurial Potential (p. 42) focus on the potential business-person. The *Business Assessment Scale* focuses on both.

As warranted by the situation and the individual, you may also wish to use psychological and vocational assessments.

## The Feasibility Study

As part of the assessment process, the feasibility study often is the first time the consumer thinks concretely about the proposed business and puts his or her ideas on paper. Similarly, it is the VR counselor's first opportunity to evaluate the business idea and the consumer's ability to articulate it. The study looks at the business's potential and how realistic the consumer is about it. Often it is the first time the consumer thinks about certain aspects of the business such as the reasons why customers would use his or her product or services over those of another business,

## Self-Employment Assessment

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or about the monthly sales needed to make a living and a profit. Although the feasibility study is important it is only an initial estimate of the business's likelihood of success.

There is no one acceptable format for a feasibility study. Some feasibility studies are very time consuming and complicated requiring a complete market analysis, complex calculations or projections such as monthly operating expenses, cost of goods sold, gross profit margin, and monthly sales required. Sometimes feasibility studies are conducted by an independent business consultant. Others consist of a series of questions about the business.

We recommend conducting a feasibility study using the *Beginning to Develop Your Business Plan* questionnaire (Figure 3) and the *Monthly Personal and Living Expenses Worksheet* (Figure 4). If your state is a licensed user of the Goodman, Herzog & Associates *Business Assessment Scale* (discussed later in this chapter), we recommend including this in the feasibility study too.

Completing the *Monthly Personal and Living Expenses Worksheet* complements the *Beginning to Develop Your Business Plan* questionnaire because it is an opportunity for both the consumer and counselor to evaluate the consumer's monthly expenditures in relation to the business. Additionally, this provides an opportunity for the counselor and consumer to discuss the need for a business to pay taxes and provide benefits for the owner and employees.

Many potential business owners have a difficult time answering the following *Beginning to Develop Your Business Plan* questions, however. So the consumers you work with may require your help. Their answers might be unclear and they might overestimate things like anticipated income or the expected number of customers. Because feasibility study is one of the main tools you will use to decide whether or not to proceed, you may ask the consumer to rethink his or her answers and conduct more research until you are satisfied. Many people do not move beyond this stage and decide not to pursue self-employment. You will need to decide the reasons for not completing this step. Is it due to the individual's disability? Could he or she complete the feasibility study with more guidance from you or another? Or is some sort of assistive technology needed?

Because the feasibility study may be new to many people, you may want to encourage the consumer to take advantage of agencies and organizations that conduct educational programs on developing a feasibility study: Small Business Development Centers, Entrepreneurial Education Foundation's *Premiere FastTrac* program, the Disabled Businesspersons Association and educational programs offered by many business schools and colleges. Others such as consultants, CPAs, and accountants who focus on small businesses also may be able to assist consumers with conducting a feasibility analysis.

## Chapter 4: Self-Employment Assessment: The Feasibility Study Guide

1. The feasibility study gauges the business's \_\_\_\_\_ and how \_\_\_\_\_  
\_\_\_\_\_the consumer is about it.
2. The \_\_\_\_\_ estimates the likelihood of the business's success.
3. \_\_\_\_\_ may provide loans on a feasibility study alone.

Figure 3

### **BEGINNING TO DEVELOP YOUR BUSINESS PLAN**

Answer the following questions in writing for review by your vocational rehabilitation counselor. For some questions, you may need to talk to business owners or do some research at the library. Your answers will help both you and your counselor clarify your business idea. Your answers are the beginning of your Business Plan and may help your counselor determine whether you and Vocational Rehabilitation should work together toward the goal of self-employment.

1. What business would you like to start?
2. Who will use your service and/or buy your product(s)?
3. Where are your customers located?
4. How many customers do you think you will have during the first year? During the second year?
5. How much money do you think you will make during the first year? During the second year?
6. How will you tell potential customers about your business?
7. Is there another business like the one you want to open operating in the area you want to serve? Is it successful? Why or why not?
8. Why do you want to start this type of business?
9. What qualifications do you already have for running this business?
10. What will you need to learn to be able to operate this business?
11. Will you hire employees? What skills should they have? How much will you pay them?
12. If you were a potential customer, why would you use this business?
13. If you were a customer, what features would keep you coming back?
14. Who will do the ordering, customer contact, and bookkeeping for your business?

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## Self-Employment Assessment

15. What hours and days will you operate?
16. Where will your business be located?
17. What equipment will you need? Do you need it right away? If not, when will you need it? Do you need to own it or can you rent it?
18. Will your disability pose any barriers to your operating this business? If yes, what are they? What are your ideas for overcoming these barriers?
19. How much money will you need to start the business? How much money can you contribute? Who can loan you money? What do you think are likely sources of money for starting your business?

**Self-Employment Assessment**

Figure 4

**Monthly Personal and Living Expenses**

Enter actual expenses for the past 4 months from your records and keep track of expenses for this and the next month. Label the months in the spaces provided at the top of the table.

Month							Total
<b>Dwelling:</b>							
Rent Payment							
House Payment							
Property Tax							
House Repair							
Miscellaneous Expenses (lawn mowing, cleaning, snow shoveling)							
Homeowner's Association Dues							
Insurance							
Furniture/Appliance Payments							
<b>Transportation</b>							
Car Payment(s)							
Other Vehicle Payment(s)							
Vehicle Upkeep/Repair							
Fuel							
Insurance							
License(s)							
Public Transportation							

**Self-Employment Assessment**

<b>Month</b>							<b>Total</b>
<b>Utilities</b>							
Telephone							
Gas							
Electricity							
Water							
Trash							
<b>Personal</b>							
Groceries							
Dining Out							
Entertainment							
Tobacco Products							
Medical/Dental/ Vision Insurance							
Clothing							
Laundry/Dry Cleaning							
Medical/Dental/ Vision/Hospital Exp.							
Prescriptions							
Education							
Credit Card Payments							
Loan Payments							
Pets							
Dues & Subscriptions							

**Self-Employment Assessment**

Month								Total
Gifts								
Donations								
Travel								
Cable TV								
Personal								
Hobbies/Crafts								
Music								
Personal Assistant								
Assistive technology purchase, payments & maintenance								
Internet Access								
Other:								
<b>Total</b>								

Average Expenses per Month (Total ÷ 6 months) \$\_\_\_\_\_

Sources of Income:

<u>Source</u>	<u>Amount per Month</u>
_____	_____
_____	_____
_____	_____

## Skills and Interest Assessments

These may be **informal** or **formal**.

### Informal Assessments

While the Feasibility Study focuses on the proposed business, here attention is shifted to the potential business-person's skills and interests. These assessments are nonstandardized – the person being assessed is not measured against a scale or others who have taken the same test. A vocational evaluator or rehabilitation counselor can administer them, or the individual can self-assess. It is usually a self-discovery process. For example, a vocational evaluator and consumer might discuss the person's experience and education, skills and abilities, financial situation, likes and dislikes, current needs, desirable settings/locations, and need for additional education or training. The goal is to discover one or more possible business(es) to pursue.

Michael LeBoeuf, author of *The Perfect Business*, describes a different process:

Step 1. Discover a person's passions, because passions motivate people. LeBoeuf asks a series of guided-discovery questions.

Step 2. Ascertain a person's strengths. LeBoeuf presents a framework for this.

Step 3. Assess the marketability and income-potential of a person's passions and strengths.

Step 4. Read and learn all that is possible about the potential business(es).

Step 5. Focus on the business — Select one business, develop a mission statement, create a vision statement, and define reasons for getting into the business.

In their book, *The Best Home Businesses for the 90s*, Paul and Sarah Edwards say that “selecting a business from among the many that are viable requires finding a match between two things” a person's interests and capabilities and what people in the community will pay for. This match is vital to the business's success. They also point out the importance of a person enjoying his or her business, and of using “interests, talents, likes, and dislikes as a filter” for examining business opportunities. Their discovery process uses five exercises:

1. The potential business owner identifies his or her:
  - Education and Experience
  - Hobbies, Enjoyable Activities, Particular Skills
  - Need to be Involved with Others

## Self-Employment Assessment

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- Desired Number of Working Hours per Week
  - Required Salary
  - Available Resources
  - Business Preferences (such as franchise vs. start-from-scratch)
2. The potential business owner selects activities he or she likes to do from three categories:
    - Information-oriented Work
    - People-oriented Work
    - Thing-oriented Work
  3. The individual makes two lists:
    - A. Strongest Skills, Talents, Abilities, Capabilities, or Aptitudes
    - B. Subjects/Fields of Greatest Knowledge, Competency, Experience and Expertise
  4. Each list is then shortened to three skills and three subjects.
  5. The individual indicates income requirements, need for contact with others, desire to learn new skills, and amount of money required and available to start a business.

The results from these five exercises should be used to compare an individual's characteristics and preferences with those required by businesses under consideration.

## Formal Assessments

There also are many formal assessment tools. Generally these are standardized questionnaires that measure the individual against a scale or others who have answered the questions in a certain way. Those listed here are primarily interest and skills inventories used to help someone identify one or more careers to pursue. For self-employment, these inventories identify a general career path, but do not usually identify a specific type of business to start. Although specific businesses are not identified, these inventories are very useful to help someone focus on one career path and explore the types of business opportunities on that path.

Some of these assessments must be administered and interpreted by an authorized test administrator. Many of these assessments may be available through vocational evaluators. Or you might contact your agency's Human Resources department for information on them. You are probably already familiar with many of these tools and use them with consumers for identifying potential careers. These assessments include the following:

***Strong Interest Inventory:*** Assesses an individual's interests and compares them to people reporting satisfaction in a particular career.

***Career Assessment Inventory:*** Compares an individual's interests to people in occupations requiring two or fewer years of post-secondary education or training (similar to the *Strong Interest Inventory*).

***Campbell Interest and Skill Survey:*** Assesses interests and skills, or confidence in a particular skill.

***System of Interactive Guidance and Information:*** Computerized assessment tool includes a self-assessment, search of majors and occupations, specific information about required skills and preparation, help with career choices, and recommended further steps.

***Career Occupational Preference System (COPSystem) Interest Inventory:*** Yields job activity interest scores based on 14 career clusters. It can be used in conjunction with:

*Career Orientation Placement & Evaluation Survey* to measure personal values and increase career development self-awareness; and

*Career Ability Placement Survey*, which measures mechanical and verbal reasoning, numerical ability, language usage, word knowledge and manual speed and dexterity.

***Myers-Briggs Type Indicator:*** Indicates how an individual views events and makes decisions. The Myers-Briggs places people into one of 16 personality types and ranks them on extroversion/introversion, sensing/intuition, thinking/feeling, and judging/perceiving. James Reynierse (1997) compared *Myers-Briggs* samples of entrepreneurs and small business owners. He found that as a group:

- Entrepreneurs exhibited relatively high rates of extroversion, intuition, and thinking,
- Small-firm entrepreneurs had higher rates of perceiving;
- Fast-growth entrepreneurs had higher rates of judging;
- Small business owners exhibited relatively high rates of extroversion, sensing, thinking, and judging.

# Tests for Evaluating Entrepreneurial Potential

Many professionals who assist others with starting businesses report that after helping a few people start businesses, they develop a good “sense” of whether or not a person has what it takes to be a successful business owner. However, you may not work with very many self-employment cases. In order to justify your decisions and actions, you probably will feel more comfortable using a more-objective way of identifying self-employment potential.

There are many readily-available tests in magazines, on the world wide web, and in books that purport to determine whether or not an individual possesses entrepreneurial traits or is ready to start a business. Unfortunately, most have been developed primarily through interviews with successful entrepreneurs rather than business owners (business owners and entrepreneurs tend to possess different characteristics, please refer to the discussion in Chapter 2). Also few of these have been tested to validate their effectiveness. Business development and marketing professionals caution against using unvalidated tests to determine whether or not to proceed with a proposed business. Examples of these tests the, *Entrepreneur’s Inventory* (Figure 5) and the *Rate Your Entrepreneurial Potential* (Figure 6) follow. These tests may be useful as a springboard for discussions about self-employment interest, skills, or for discussing characteristics or readiness. They should not be used to determine support for an individual’s proposed businesses by VR. Please use caution if you decide to use them.

Before you use one, judge it for yourself using the following criteria:

- Generally the questions are transparent or leading, so people who want to start a business can easily figure out the correct response and appear as if he or she possesses entrepreneurial traits.
- Many of the tests require dichotomous responses – either yes-no or true-false. This is problematic because (a) if a person has done something even just one time, he or she can answer “yes”; (b) it does not measure how strong a person’s trait is (e.g., a person possesses a trait but may not rate it highly on a scale of 1 to 5); and (c) there is no opportunity for a person to explain his or her answer.
- Many of the traits attributed to entrepreneurs may not accurately reflect those of all entrepreneurs or business owners. Generally the traits recognized on these assessments were developed through interviews and surveys of Caucasian males between 30 and 40 years old. These assessments are culturally and sexually biased – use caution when interpreting their results.

Figure 5 Nonstandardized Test (example 1)

## ENTREPRENEUR'S INVENTORY

This inventory helps determine your potential for success as an entrepreneur

**A. Life Experience Index:** Circle the number that matches your response.

	<b>True</b>	<b>False</b>
1. I have a close relative who is, or was, in business for him/herself.	1	2
2. I have friends who own and operate a business.	1	2
3. I have worked in a small business where I had close contact with the owner.	1	2
4. I have owned or been a part-owner in a previous venture.	1	2
5. I have worked in a small division of a large business where I had close contact with the division chief.	1	2
6. As a child, I was involved in money-making projects such as lemonade stands, paper routes, babysitting, etc.	1	2
7. I have lived in three or more cities in my life.	1	2
8. I have been fired or quit because of disagreements with my boss.	1	2
9. I have work experience in a variety of areas.	1	2
10. I have had bosses reject my "better mousetrap" ideas.	1	2
11. I am between 30 and 40 years of age.	1	2
12. My spouse or family supports my work.	1	2
13. My subordinates respect me and work hard for me, even if they do not like me.	1	2
14. I find it easy to get along with people.	1	2
15. When a problem arises, I usually figure out a way to solve it.	1	2
16. I like to do things rather than plan things.	1	2
17. What happens to me is what I make happen, not the result of luck or fate.	1	2

## Self-Employment Assessment

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**B. Personality Index:** Circle the number on the scale of 1-5 that corresponds to your reaction to each statement.

Compared to others . . .	<b>Strongly Disagree</b>		<b>Strongly Agree</b>		
1. I have a high level of energy and drive.	1	2	3	4	5
2. I am self-confident.	1	2	3	4	5
3. I usually do not get uptight in ambiguous or uncertain situations.	1	2	3	4	5
4. I set long-term goals and stick to them.	1	2	3	4	5
5. I set realistic but ambitious goals for myself.	1	2	3	4	5
6. I like to set my own standards for performance when I undertake a task.	1	2	3	4	5
7. I like to get feedback on my performance.	1	2	3	4	5
8. I do not believe in perfect solutions, only in the best solution for the situation.	1	2	3	4	5
9. I get as much information as possible before making a decision.	1	2	3	4	5
10. I prefer games of skill over games of chance.	1	2	3	4	5
11. I do not get overly anxious about the consequences of my decisions.	1	2	3	4	5
12. I view failure as a learning experience and am not too discouraged by it.	1	2	3	4	5
13. I like solving challenging problems.	1	2	3	4	5
14. Routine and repetitive tasks bore me.	1	2	3	4	5
15. I ask for help if I need it to accomplish my goals.	1	2	3	4	5
16. My success depends on my performance.	1	2	3	4	5
17. I enjoy situations that require my initiative and depend on me for their success or failure.	1	2	3	4	5
18. I am self-reliant.	1	2	3	4	5
19. I am a self-starter.	1	2	3	4	5
20. I feel money is more important as a measure of my success than for what it can buy.	1	2	3	4	5

## Self-Employment Assessment

**C. Motivation/Accommodation Index:** Circle the number on the scale of 1-5 that corresponds to your reaction to each statement.

Compared to others . . .	<b>Strongly Disagree</b>			<b>Strongly Agree</b>	
1. I am willing to make work my first priority, ahead of my family and friends.	1	2	3	4	5
2. I am willing to invest (and possibly lose) my life savings.	1	2	3	4	5
3. I am willing to change my standard of living to accommodate the financial needs of my business.	1	2	3	4	5
4. I see building and running a business as an all-consuming way of life.	1	2	3	4	5
5. I like finding creative ways to do things.	1	2	3	4	5
6. I do not like to just do things <i>better</i> , I like to find <i>new</i> ways to do things.	1	2	3	4	5
7. I like working as a team with other people.	1	2	3	4	5
8. I feel comfortable being the boss.	1	2	3	4	5
9. I like to profit from the work of my employees.	1	2	3	4	5
10. I have a firm sense of business ethics.	1	2	3	4	5
11. I value honesty, dependability, and reliability over making a quick buck at the customer's expense.	1	2	3	4	5

## Self-Employment Assessment

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**D. Business Readiness Index:** Circle the number on the scale of 1-5 to indicate your knowledge and/or readiness in the areas addressed.

	<b>Low</b>				<b>High</b>
1. How right are the times are for starting your business? How would you rate the current economic climate?	1	2	3	4	5
2. How much do you know about the operations of the kind of business you want to start?	1	2	3	4	5
3. How well do you know your goals for the size and profitability of your business in years 1-5?	1	2	3	4	5
4. How sure are you that a market exists for your product or service?	1	2	3	4	5
5. How well do you know your competition and why customers will choose you over them?	1	2	3	4	5
6. How well can you identify your target market?	1	2	3	4	5
7. How knowledgeable are you about the buying habits of your customers?	1	2	3	4	5
8. How clear are you about the amount of money you will need to start and operate your business for the first year?	1	2	3	4	5
9. How clear are you about the amount of money you will need to make from the business to support your family?	1	2	3	4	5
10. How certain are you of the amount of estimated start-up capital you can raise from your savings and other assets?	1	2	3	4	5
11. How clear are your estimates for the amount of money you will need to run the business in years 2 and 3?	1	2	3	4	5
12. How sure are you that the business can give you an adequate return on your investment of time and money?	1	2	3	4	5
13. If you could make twice as much money working for someone else as running your own business, how certain are you that you would start the business?	1	2	3	4	5
14. How would you evaluate your credit rating and financial reputation in your community?	1	2	3	4	5

## SCORING KEY

**A. Life Experience:** Count the number of “true” answers (1's) you gave and find your score below.

<u>Number of TRUEs</u>	<u>Score for Section A</u>
13-17	5
10-12	4
7-9	3
4-6	2
0-3	1

**B, C, & D: Personality, Motivation, and Readiness:** Add the circled numbers in each section and calculate their average to determine your score for B, C, & D.

B. Personality: total score \_\_\_\_\_  $\div$  20 = \_\_\_\_\_ average score

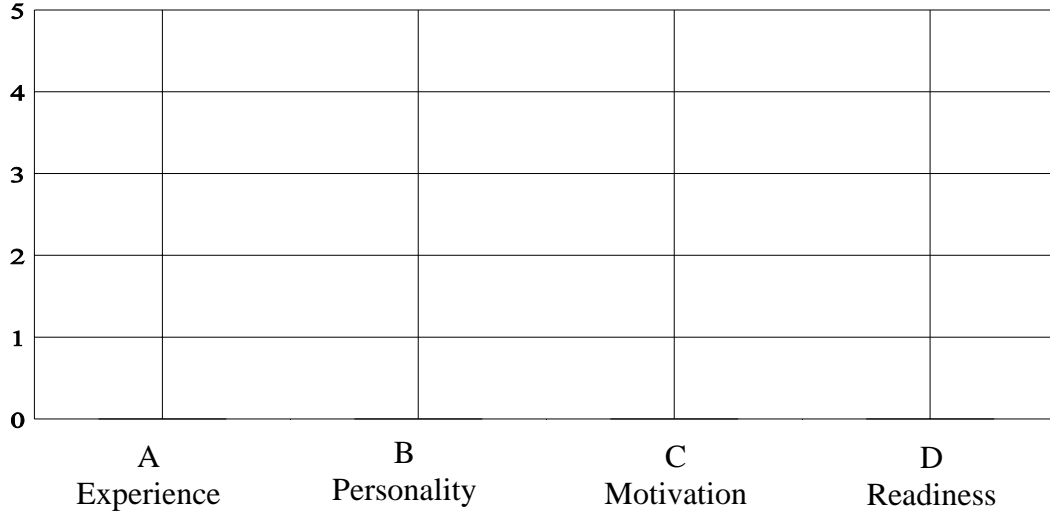
C. Motivation: total score \_\_\_\_\_  $\div$  11 = \_\_\_\_\_ average score

C. Readiness: total score \_\_\_\_\_  $\div$  14 = \_\_\_\_\_ average score

## Self-Employment Assessment

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Now use the diagram below to graph your **Entrepreneurial Profile**:



### HOW YOU STACK UP

Successful entrepreneurs come in all shapes and sizes. This inventory gives you an idea of how you stack up on the factors experts think are most important. Your profile is one indicator of your readiness to start a business, but it cannot predict success. In fact, no test can tell the whole story! Whether or not you have what it takes to make it in business for yourself is ultimately UP TO YOU!

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Figure 6 Nonstandardized Test (example 2)

## RATE YOUR ENTREPRENEURIAL POTENTIAL

### A. Rate Your Personal Characteristics

Rate yourself using the following scale. Give this assessment to two other people who know you well and have them rate you using this scale. Compare your answers with theirs.

1      2      3      4      5      6      7      8      9      10  
Not at All Always

I am a leader. \_\_\_\_\_

I like to make my own decisions. \_\_\_\_\_

Others turn to me for help with making decisions. \_\_\_\_\_

I enjoy competition. \_\_\_\_\_

I have will-power and self-discipline. \_\_\_\_\_

I plan ahead. \_\_\_\_\_

I like people. \_\_\_\_\_

I get along well with others. \_\_\_\_\_

I take responsibility. \_\_\_\_\_

I complete projects and tasks once I start them. \_\_\_\_\_

### B. Identify Your Physical, Emotional, and Financial Status

Answer the following questions. Give this to two other people who know you well and have them answer the questions **about you** as well. Compare your answers with theirs.

How many hours a day can you work? \_\_\_\_\_

Will you work on Sundays and holidays? \_\_\_\_\_



## The Business Assessment Scale

The *Business Assessment Scale (BAS)*, is a self-employment assessment developed specifically for use by vocational rehabilitation agencies. It was developed by Goodman, Herzog & Associates, Inc., Traverse City, Michigan and is available from them through a license agreement. To insure proper use, this instrument must be administered only by professionals who have been trained by Goodman and Herzog.

The *BAS* evaluates the person who already has a business idea. It currently is undergoing further validation, but in a retrospective study of Michigan self-employment outcomes conducted by two Michigan Rehabilitation Services supervisors and Herzog it correctly classified 87.5% of the self-employment cases. Their study used the records of 24 businesses that had been funded for two or more years before the analysis. The *BAS* predicted that 12 of the businesses would be successful and 12 would not. The records showed that 10 of the 12 businesses predicted by the *BAS* to be successful actually were successful and only one of the 12 predicted as unsuccessful was a success.

The *BAS* evaluates both the market demand and the individual's characteristics: management expertise and skills; his or her commitment, desire and persistence; technical skills and work experience; and personal credit and financial solvency.

The counselor and consumer each complete the *BAS* independently. The counselor evaluates the consumer and the consumer self-evaluates. Where appropriate, documents should be supplied to support each factor's ratings. Differences are discussed to reach consensus on each factor. The final score is discussed and next steps determined. Scores should not be used as the sole indicator of an individual/business's potential for success—they are considered in conjunction with other information such as evaluations, the business plan, recommendations of the business development expert, and counselor observations of and experience with the consumer.

### Advantages of the *Business Assessment Scale*

**Consistency:** It evaluates each person on the same measures, eliminating any tendency of the decision-maker to consider some and ignore other equally important qualifications.

**Defensibility:** Choices based on the *BAS* are defensible to the decision-maker and others because the bases for choices are explicit and valid and because the decision maker has used all of the information in a consistent manner.

**Efficiency:** The *BAS* gathers information of proven importance, so VR professionals do not waste time, energy, and other resources on irrelevant aspects of the process.

## Use the *BAS* twice during the self-employment process:

### ■ **First Use: As Part of The Feasibility Study, Before Developing The IPE**

We recommend using the *BAS*, *Beginning to Develop Your Business Plan*, and the *Monthly Personal and Living Expenses Worksheet* (see Figure 7) as a preliminary feasibility study. When used early in the self-employment process, the *BAS* targets those individuals whose current status predisposes them to success; suggests the knowledge, skills, and experience that others should acquire before continuing to pursue self-employment; and it identifies individuals likely to fail even with additional training. Answering the *Beginning to Develop Your Business Plan* questions requires thinking about the business in a realistic way and it requires conducting some minimal research. Completing the questions in conjunction with the *Monthly Personal and Living Expenses Worksheet* provides a clear picture of monthly living expenses in relationship to anticipated business income. It also gives you, the VR professional, the opportunity to evaluate how realistic the consumer is about the proposed business. His or her answers and worksheet figures help identify areas where more thought is necessary before both parties can identify self-employment as the employment outcome on the IPE.

**At this stage you are not evaluating whether the business is likely to be successful.** That determination will be made later while the business plan is being developed or after it is completed.

### ■ **Second Use: After Training and the Business Plan Are Completed**

Administer the test again after the business plan is developed but before VR commits to contributing funds to the business. This second use of the *BAS* predicts the likelihood of success of both the individual and the business. At this point the *BAS* might indicate the individual is a good candidate for self-employment, but **not** in the business he or she has proposed.

**To ensure proper use, the *Business Assessment Scale* is licensed and administered only by professionals who have been trained by Goodman, Herzog & Associates, Inc.**

Figure 7: Business Assessment Scale

## ***Business Assessment Scale*** Abridged Version: For Promotional Purposes Only

The *Business Assessment Scale* is intended as an early assessment of the likelihood that an individual will be able to establish a successful enterprise.

The *Business Assessment Scale* has been developed to assist an individual, counselor, or funder in evaluating the individual in terms of five attributes/factors, which research has shown contribute to successful operation of a business. The *Business Assessment Scale* can also help identify key areas where additional planning or effort will be needed.

### **The *Business Assessment Scale* can be used:**

- to evaluate applicants for a loan fund;
- to evaluate clients as candidates for a self-employment program;
- as a pre-screening tool prior to developing a business plan;
- in conjunction with a business feasibility assessment.

The individual will need to provide initial information regarding the proposed business. The individual should also be prepared to discuss his/her credit status. Finally, the individual will need to make arrangements with employers and trainers to verify skills and experiences.

Follow the steps listed below to complete the *Business Assessment Scale*:

- The organization representative or “counselor” and the applicant or “client” reviews the purpose of the assessment scale – and definitions used. The review should include a discussion of the importance of the client providing specific, behavioral examples for each factor or attribute.
- The counselor and client should complete the assessment scale independently.

## Self-Employment Assessment

- Differences between the counselor and client ratings should be discussed and a consensus reached on each factor. The counselor should ensure that there is evidence to support the ratings on each factor (e.g., work history, education).
- The final score should be discussed and next steps determined.
- The client and counselor should plan to spend two to three hours completing the assessment scale.

Definitions of each factor or attribute appear later in this promotional copy. For each definition, use the descriptions, levels, and benchmark scores to determine any appropriate score from 0 to 100. Once you decide on a score for each factor, write in the scores on the corresponding line in the Client Initial Assessment table.

Jane Doe has no market data but has talked with several business people in the area who have indicated that “they think there may be some demand for her proposed service.” Because Jane Doe has no market data, but has some initial suggestion of demand the score should be greater than zero but less than 50. A score of 15 might be appropriate because the information is very general.

John Doe has national market data for Franchise X, but no local market data. A score of 20 probably is appropriate because national and state trends are not necessarily indicative of local demand.

### Management Expertise/Skills

The degree to which the individual possesses the expertise to manage people and finances. Consider knowledge of, or expertise in, sales/marketing, operations, finance/accounting. If acquired pre-injury, individual must continue to demonstrate these skills/abilities.

### Commitment/Desire/Persistence

The degree to which the individual exhibits the following behaviors:

- Commitment of time, personal resources, and skill acquisition directed toward operating a business.

- Desire to operate a business demonstrated by initiative to research information, network with individuals and business organizations, and independently seek professional consultation; and
- Persistence in resolving problems and overcoming obstacles.

### **Technical Skill/Work Experience**

The degree to which the individual demonstrates technical skills and knowledge of the industry based on work experience and/or training.

### **Market Demand**

The degree to which information supports the need for the proposed business. The feasibility of the business must be assessed in the context of the product/service, target market, competition, and market trends. Evidence of market demand includes: an existing customer base, letters of intent to purchase the product/service, customer surveys, and demographic and industry data. An independent feasibility assessment may also be obtained to evaluate the demand for the proposed business.

### **Personal Credit/Financial Solvency**

The degree to which the individual demonstrates the ability to maintain a positive credit rating. In evaluating a negative rating, consider:

- Reason for poor credit rating (e.g., disability-related issues);
- Patterns of indebtedness or bankruptcy (frequency/recurring problem, duration of indebtedness, length of time since last credit problem); and
- Evidence of recent solvency.

After recording the scores for each factor, multiply the score by the normalized weight and record the weighted score. (The normalized weight is a statistical expression of the relative weight of each factor.)

Add the weighted scores to obtain the total score. Discuss the results with the client or applicant.

## Self-Employment Assessment

The following issues should be considered in evaluating the total score:

- A total score of 61 to 100 suggests that the individual and/or proposed business possess the characteristics which contribute to a successful business operation.
- A total score of 41 to 60 suggests that the individual and/or proposed business possess some of the characteristics which contribute to a successful business operation, but may require additional skill-building or planning.
- A total score of 0 to 40 suggests that the individual and/or proposed business do not possess the characteristics which contribute to a successful business operation,

### Client Initial Assessment

Client/applicant's Name \_\_\_\_\_

Attributes/Factors	Normalized Weight	Score	Weighted Score
1. Management Exp./Skill	.218 x		
2. Commitment/Desire	.226 x		
3. Technical Skill/Work Exp.	.166 x		
4. Market Demand	.236 x		
5. Credit/Financial Solvency	.154 x		
		(Sum of all weighted scores) Total Score:	

Scores are not to be used in isolation or as the sole indicator of whether a business enterprise vocational objective is appropriate. All scores should be reviewed in the context of other evaluations, including functional evaluations, business feasibility studies, and market analysis.

Scores of 60 or lower may serve as the basis for additional planning. The Business Assessment Scale can identify areas where the client needs to gain experience or make other changes before he/she is prepared to start and run a business successfully. Applicants may be able to improve their ratings by resolving credit problems, gaining work experience, and acquiring management expertise.

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## Chapter 4: Self-Employment Assessment Study Guide

1. List 4 reasons for conducting assessments as part of the self-employment process.

- a. \_\_\_\_\_
- b. \_\_\_\_\_
- c. \_\_\_\_\_
- d. \_\_\_\_\_

2. Most of the assessments for evaluating self-employment potential are \_\_\_\_\_.

3. Why are business development and marketing professionals concerned about using many of the available tests for determining self-employment potential?

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4. List and explain 3 advantages of using the *Business Assessment Scale* in the self-employment process.

- a. \_\_\_\_\_
- b. \_\_\_\_\_
- c. \_\_\_\_\_
- d. \_\_\_\_\_

5. The *Business Assessment Scale* should be used twice in the self-employment process. When? and Why?

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# Who Does What in the Process?

Business development experts stress the importance of consumer initiative and ability to complete a task. They tell us that people who are likely to be successfully self-employed should not have to be “spoon fed.” However, taking initiative does not preclude being provided with direction, rationale, and support. Developing the business plan requires a wide range of skills and knowledge. Most potential business owners you will work with have not developed a business plan before. Many are capable of developing a plan but their skills are undeveloped. That is why we recommend they work with a business development consultant who will guide them with developing their business plan. Possible sources of assistance are listed in Chapter 7, “Resources and Resource Partners.” In this chapter, we outline appropriate roles for the consumer, counselor, and business development consultant.

## The Consumer’s Role

The potential business owner ultimately is responsible for:

- Deciding what business to pursue
- Conducting a feasibility study
- Developing a business plan
- Obtaining necessary permits, licenses, and insurances
- Hiring employees
- Securing business start-up funds
- Developing customers
- Locating suppliers
- Starting the business.

## The Counselor’s Role

In addition to the counseling relationship, your role in the self-employment process also includes:

- Explaining VR’s, the consumer’s, and any other organization’s (e.g., business development consultant) role in the self-employment process
- Clearly communicating the self-employment process that will be followed including how agency decisions will be made for pursuing self-employment
- Communicating whether and how the agency will help with training, developing a business plan, and VR funding of the business
- Helping the consumer decide which business to pursue
- Deciding which assessments, if any, will be used

## Who Does What in the Process?

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- Guiding the feasibility study including conducting or co-conducting any assessments and interpreting the results to determine whether or not to proceed
- Providing information necessary to assist the consumer with developing a business plan
- Supporting the consumer and being the liaison between him or her and consultants and lenders
- Reviewing the final business plan to determine the agency's contribution, if any

## The Business Development Consultant's Role

The business development consultant:

- Does not develop the business plan, but guides the consumer through the process with expertise and a realistic perspective
- Recommends potential funding sources
- May help assemble a funding package
- Readies the consumer for meeting potential funders
- Suggests marketing strategies
- May conduct a feasibility analysis
- May make recommendations on the viability of the proposed business

The consultant should have experience in developing business plans. Be aware, however, that this does not ensure that he or she will develop a realistic, quality plan. You should ask for an individual's or organization's credentials, interview past customers, and talk with local bankers or lenders. Counselors should not expect a consultant to rubber-stamp a business plan without explanation or involvement on the consultant's part. When asked to do this, a small business consultant *may* provide some feedback and recommendations, but will be concerned about his or her business' reputation and liability.

**What Would You Do?**

A Case Example

The feasibility study indicated that Arnold was a promising candidate for self-employment; however, his disability and education level made written and spoken communication very difficult. Jo, Arnold's VR counselor, understood the importance of having the consumer take responsibility for writing his or her own business plan but she doubted Arnold's ability to develop a business plan. She did, however, believe that Arnold knew what he wanted to do, knew how to do it, and had the ability to do it. The ideas were in his head and he simply needed help in transforming them into a written plan so that others could see the merit of his proposal.

Jo's schedule and state guidelines, did not permit the level of involvement she thought was needed in this case. Her solution was to recruit people from Arnold's support system, and hire a business consultant with whom she had worked before. Arnold's sister, Barb, agreed to assist Arnold and acted as a facilitator between him and the consultant. She sat in on Arnold's next meeting with Jo. At that time, Jo explained to both of them what a good business plan should include and suggested sources for gathering the information Arnold would need. Jo also explained that Arnold should provide the ideas and whenever possible, he should do the research himself and do his own writing of ideas and findings.

During the consulting interview, Barb helped Arnold draw out the key points of his proposal, the consultant recorded them and asked his own clarifying questions. Barb made sure Arnold understood the consultant's questions, and she made sure the consultant limited his role to only helping clarify and articulate Arnold's ideas.

Together, Arnold, the consultant, and Barb were quite a good team. From Arnold and Barbs' materials, the consultant produced a concise and well-written document; Barb facilitated the flow of communications and supported Arnold in researching and writing when necessary. Arnold initiated ideas, did research and writing, and made decisions. Jo was satisfied that the resulting business plan met VR standards and very importantly, it was Arnold's plan.

### Case Studies

**Case 1:** As a new consumer of VR services Celia came to her first VR meeting knowing she wanted to be self-employed as a dog groomer. Her feasibility study, which included the *Beginning to Develop Your Business Plan* questions, the *Monthly Personal Living Expenses Worksheet*, and the *Business Assessment Scale*, indicated she was a good candidate for pursuing self-employment. Although she was able to answer the preliminary questions about her proposed business her confidence flagged at the prospect of developing a complete business plan on her own.

Understanding this apprehension, Celia's counselor, Ben, gave her a copy of the VR agency's business plan guidelines and an example of a good business plan. He explained that her community houses an organization that teaches people to develop business plans and that this same organization would work with her to develop her business plan. He gave her the organization's address and phone number. She contacted the agency, signed up for and completed the classes. Using the organization's library, the community library, other sources, and with guidance from both Ben and the business development consultant, Celia developed a viable business plan and a successful business.

**Case 2:** Felicia came to her first VR meeting knowing she wanted to own an aquarium and speciality fish store. Like Celia, Felicia's feasibility study was positive and she displayed the same lack of confidence in her ability to develop a business plan. But in this case, Felicia's counselor, Carol, told her they could not go any further in the process until Felicia returned with a business plan. Felicia left without any further guidance.

Determined to follow through, Felicia called her bank and visited the commercial loan banker who gave her a business plan outline and forms to complete but did not explain the forms or their purpose. The banker was very discouraging about how much collateral she would need and about the possibility of the bank funding her small start-up business. She worked through the forms as best she could and developed a plan that she submitted to Carol.

Carol said the plan did not meet the agency's criteria for committing to a business, but she did not provide an example of an acceptable business plan. Carol made two suggestions: that Felicia try again to develop an acceptable business plan, or that Felicia seriously consider another employment goal. Carol also expressed her opinion that Felicia did not have the capability to start or run her own business. Feeling defeated, Felicia took a job as a receptionist/office worker for an insurance agency.

**Case 3:** After a few meetings with VR, Habib reported to his counselor, Mark, that he had thought a lot about self-employment and thought that was what he wanted to do. He did not know exactly the kind of business he wanted to start but thought he might want to try publishing an newsletter for outdoor enthusiasts. Habib believed that because of his disability, a head

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## Who Does What in the Process?

injury, and because he had to stay at home to care for his ill wife, he could not work for anyone else, but that he thought it would work to be self-employed so he could determine his own hours.

Mark had worked in the community for some time and had established a large network of contacts. Because this was how he had worked in the past with others who wanted to be self-employed and because Habib was reluctant to initiate phone calls to strangers, Mark began calling all the people he could possibly think of who could help Habib. He explained all about Habib to his contacts and set up meetings so Habib could talk about his idea. The contacts provided Habib with advice on how to open such a business, names of other people and organizations to contact, and suggestions for reading materials.

Armed with all this information, both Habib and Mark were enthusiastic about the possibilities. Mark was ready to start following the leads, but he had been cautioned by one of the contacts to lay low and let Habib take control from this point on because this was to be Habib's business. Habib needed to start taking control because Mark would not be there after the business opened. This was hard for Mark to accept because he thought he was just assisting by opening doors for Habib. However, Mark respected the advice and explained why from this point on Habib would be expected to take the lead, but that he would be there to provide encouragement and suggestions when Habib needed them.

Habib contacted some of the people. When some did not return his phone calls, he contacted Mark and complained, but would not make follow-up calls himself. He wrote for information on publishing, called the school to take a computer class but did not sign up, and got some of the books on developing a small business from the local Small Business Development Center but did not read them. After several meetings with Mark during which they discussed Habib's next steps and Mark provided prompts and encouragement, nothing changed. Mark told Habib it appeared he would not be a successful business owner and that they should start looking at other options. Habib subsequently found work as an editor for a local publishing firm. He was able to arrange part-time in-home care for his wife so he could work both at home and in the publishing firm's office.

## Case Discussion

Celia, the dog groomer, had everything going for her. She had initiative. Her counselor, Ben, facilitated the process by showing her what the agency expected, by giving her a copy of a good business plan to review, and by suggesting a resource in the community to contact. Celia contacted that agency, registered for and attended the classes it offered, and used the agency's resources to help her develop her business plan. By taking advantage of the agency's resources and guidance she educated herself and develop a strong business plan and ultimately a successful business.

## Who Does What in the Process?

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Although she also demonstrated initiative, Felicia was not as fortunate. She worked hard to develop a business plan, but neither her counselor, Carol, nor the banker provided guidance on how to start a business. Even though she knew Felicia was apprehensive Carol's attitude of "If she is qualified to run a business, she will figure it out" helped set Felicia up for failure. Felicia's attempt to develop a business plan was punished by Carol. In a different situation, it is likely Felicia would have succeeded.

Mark was doing what he had done in the past to help someone be self-employed. Mark began the process with Habib in tow, but later when told that it was best for Habib to control the process, Mark retreated to the role of advisor, supporter, and liaison. However, Habib did not take initiative or complete the activities needed to develop a business plan. After realizing Habib's inability to take initiative or complete activities necessary to develop a sound business, Mark suggested it was time to look at other options.

## Chapter 5: Who Does What in the Process? Study Guide

1. The \_\_\_\_\_ develops the business plan.
2. Three of the main functions of the counselor in the self-employment process are \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_.
3. The counselor must be able to read and understand a business plan because in most cases he or she:
  - a. Reviews the final business plan
  - b. Evaluates the business plan to determine if the agency will or will not support it
  - c. Determines the agency's contribution
  - d. All of the above
  - e. None of the above
4. Consumer initiative and ability to complete the steps in the self-employment process are indicators of potential success. True \_\_\_\_\_ False \_\_\_\_\_
5. In most cases consumers should (work with a consultant/work on their own) to develop a business plan.

# The Business Plan

## Introduction

*“If you don’t know where you’re going, any road may get you there. The question is, is it where you want to go?”* – Unknown

The business plan is like a road map. The process of writing a business plan helps the consumer make good decisions and reach his or her goal or destination.

If the consumer answered *Beginning to Develop Your Business Plan* questions, he or she has already done some of the initial development. In most cases, you will not be working directly with the consumer while he or she develops the plan. Although your VR agency’s process may differ, usually the consumer works with a consultant to develop the business plan. **It is important to stress to both the consumer and the consultant that the business plan must be developed by the consumer.** The consultant’s role is to guide the development of the business plan. The consultant assists with sources for conducting marketing research, problem solving, presentation and format of the plan, and funding.

### Why develop a Business Plan?

The number one reason businesses fail is **lack of planning!** Instead of making mistakes on paper, business owners too often make them with real money and real customers. That is why most business funding institutions and agencies require business plans and refuse to fund business start-ups that cannot provide a well-developed plan.

Entrepreneurs pride themselves on being active and optimistic. They identify a niche and are driven to fill it. They invent new products, processes, or services to manufacture and/or sell. To them, planning is an academic exercise for large corporations, classrooms, or consultants. In reality, planning is key to the success of any small business.

Marketplace or economic change has a greater impact on small businesses than on large corporations. Planning is the dynamic process that prepares small businesses for the future. A business manager/owner has four basic functions: plan, organize, staff, direct and control the business’s operation. Each function must take place in the order listed. Planning is the *first* activity, and all other activities are premised upon it.

### Benefits of Planning

- It requires that the business owner evaluate the *entire* business. Daily decision making often involves resolving a series of seemingly unrelated problems. Planning identifies the underlying reasons for recurring daily problems.
- The business plan contains written information that can be useful to employees, investors, creditors, and other interested parties. It is difficult to communicate an informal, unwritten business plan to others.
- The business world increasingly is becoming competitive. In order to survive, a small business owner must find a well-defined market niche. He or she can not compete on price, and therefore must serve that market in a customer-oriented, cost-effective manner. Planning forces the entrepreneur to address these issues and enhances the likelihood of success.
- Small business products, services, and delivery systems are constantly changing. Change is a state of uncertainty, but it also presents opportunities to the **prepared** business owner. Planning is a systematic way to identify and capitalize on new opportunities.
- Planning does not end with completion of a written plan – the process is continuous. The business owner must constantly evaluate how the business is doing versus what had been planned. Ongoing comparison of planned to actual results provides a terrific opportunity to continuously improve the business.

The steps in the business planning process are the same for all businesses, but the results differ for each one. A manufacturing company specializing in high-quality custom orders, a fast-food restaurant, a clothing retailer, and an organic herb farm all have very different plans. Each business plan is tailored to the individual business and business owner.

### Parts of the Business Plan

This book provides a general business plan format and describes the necessary information for each section. We have included a sample business plan at the end of the book. We encourage you to look at corresponding sections of the sample plan as you study the remaining sections of Chapter 6. This will help you understand how each section pertains to a business, so you can evaluate business plans that are submitted to you. In general, the information contained in a business plan should be consistent with this format, although section titles and order can show some variety. A business consultant may use a slightly different format – that is OK. However, **the following information should be included in every business plan:**

- I. Executive Summary
- II. The Business Description
  - A. The Business
  - B. Business History
  - C. Form of Ownership
  - D. Ownership Interest
  - E. Industry Trends
  - F. Background Information About the Owners
- III. The Marketing Plan
  - A. Products and Services
  - B. The Target Market
  - C. Business Location
  - D. Competition
  - E. Advertising and Promotion Strategies
- IV. The Operations Plan
  - A. Inputs
  - B. Facilities
  - C. Operating Costs
  - D. Licenses, Permits, Zoning, Insurance, Taxpayer Number, Corporation Status
  - E. Capital Equipment
  - F. Production Methods
  - G. Management Methods
  - H. Employees
  - I. Outside Services
- V. The Financial Plan
  - A. Need for and Sources of Cash
  - B. Equipment List
  - C. Income Statement
  - D. Break Even Analysis
  - E. Cash Flow Statement
  - F. Balance Sheet (or Personal Financial Statement)
  - G. Supporting Documents
- VI. Attachments

## Business Plan Checklists

Business Plan Checklists are a useful tool for evaluating the business plan and for informing the consumer how you will evaluate the completeness and contents of the plan. Examples of the Business Plan Checklists are included at the end of this chapter after all components of a business plan are discussed. Business Plan Checklists for your use and for the potential business owner are also included in the section labeled Forms.

### Chapter 6: The Business Plan: Introduction Study Guide

1. The business plan can be likened to a road map because it helps the consumer make \_\_\_\_\_ and reach his or her \_\_\_\_\_.
2. A main reason many businesses fail is because they do not \_\_\_\_\_.
3. Developing a business plan is more than an exercise for the business owner. List three benefits of developing a plan.
  - a. \_\_\_\_\_
  - b. \_\_\_\_\_
  - c. \_\_\_\_\_
4. The steps in a business plan are (the same/different) for all types of businesses.

## Executive Summary

The executive summary is the first and most important section of a business plan. Its purpose is to convince investors, including the counselor and vocational rehabilitation agency that this business is worthwhile. This “opening argument” must capture and hold the intended reader’s attention and direct it to a specific purpose. Is the consumer applying for a loan, trying to obtain investors, or educating employees? Each requires a different executive summary. The executive summary should avoid industrial jargon – the reader may lose interest. Use the “Three Cs” to determine if the summary is **clear**, **concise**, and **convincing**. Although the executive summary appears first in the plan, usually it is the *last* section written.

### Chapter 6: The Business Plan: Executive Summary Study Guide

1. The Executive Summary is the business plan’s \_\_\_\_\_.
2. The Executive Summary’s purpose is to convince the audience the business is \_\_\_\_\_.

## The Business Description

### The Business

This section describes the business clearly and concisely. It discusses the business's name and its significance, the form of ownership, the business location, the service or product to be sold, and projections for the future.

### Business History

This section describes the history of an existing business or need for a new business. It describes how and why an existing business was founded or why a new business is needed. For an existing business, it should discuss the growth of the business on a local and regional level or beyond if appropriate. For a new business, it should discuss the industry on a local and regional basis and the projected growth of the business.

### Form of Ownership

This section specifies and discusses the rationale for the type of business ownership. It includes documents or agreements between partners or shareholders. It discusses how the potential business owner determined the appropriate form of ownership for his or her business. The Secretary of State's office in the state where the consumer wishes to open the business can help. In Montana, for example, the *We Mean Business* booklet contains the filing forms necessary to start a business and the information needed to determine the appropriate form of ownership. It details the array of legal steps necessary to start, maintain and/or dissolve a business.

A potential business owner should also contact a certified public accountant or a business consultant to discuss the appropriate form of ownership for his or her particular business. Figure 8 describes the advantages and disadvantages of each type of ownership.

Figure 8

<b>Type</b>	<b>Advantages</b>	<b>Disadvantages</b>
Sole Proprietorship	<ul style="list-style-type: none"> <li>■ Low start-up costs</li> <li>■ Greatest freedom from regulation</li> <li>■ Owner in direct control</li> <li>■ Minimal working capital requirements</li> <li>■ Tax advantage to small owner</li> <li>■ All profits go to owner</li> </ul>	<ul style="list-style-type: none"> <li>■ Unlimited liability</li> <li>■ Lack of continuity</li> <li>■ Difficulty in raising capital</li> </ul>
Partnership	<ul style="list-style-type: none"> <li>■ Ease of formation</li> <li>■ Low start-up costs</li> <li>■ Additional sources of venture capital</li> <li>■ Broader management base</li> <li>■ Possible tax advantage</li> <li>■ Limited outside regulation</li> </ul>	<ul style="list-style-type: none"> <li>■ Unlimited liability</li> <li>■ Lack of continuity</li> <li>■ Divided authority</li> <li>■ Difficulty in raising additional capital</li> <li>■ Difficulty in finding suitable partners</li> </ul>
Limited Partnership	<ul style="list-style-type: none"> <li>■ General partners manage the business</li> </ul>	<ul style="list-style-type: none"> <li>■ More closely regulated than a general partnership</li> <li>■ Limited partners cannot manage the business</li> <li>■ General partners share full personal liability</li> </ul>
Limited Liability Partnership	<ul style="list-style-type: none"> <li>■ Operates in the same manner as a general partnership</li> <li>■ Partners only liable to the extent of their original investment</li> <li>■ Partners not responsible for errors or negligence of persons they are not supervising or directing</li> </ul>	<ul style="list-style-type: none"> <li>■ Periodic LLP renewal</li> </ul>

## The Business Plan

Type	Advantages	Disadvantages
Limited Liability Company	<ul style="list-style-type: none"> <li>■ Protects from personal liability similar to corporation</li> <li>■ Favorable tax treatment similar to partnership</li> <li>■ Each member's liability limited to investment amount</li> <li>■ May have all members manage the business equally</li> <li>■ Permits unlimited duration</li> <li>■ Permits corporations as members</li> <li>■ Provides flexibility in contributions and distribution of assets</li> </ul>	<ul style="list-style-type: none"> <li>■ Consideration of duration is required for tax purposes</li> <li>■ Restricts transfer of interest without approval of membership</li> <li>■ States' rules and regulations may vary</li> </ul>
C Corporation	<ul style="list-style-type: none"> <li>■ Limited liability</li> <li>■ Specialized management</li> <li>■ Transferable ownership</li> <li>■ Continuous existence</li> <li>■ Legal entity</li> <li>■ Possible tax advantages</li> <li>■ Ease of raising capital</li> </ul>	<ul style="list-style-type: none"> <li>■ Close regulation</li> <li>■ Most expensive form to organize</li> <li>■ Charter restrictions</li> <li>■ Extensive record keeping</li> <li>■ Double taxation</li> </ul>
S Corporation	<ul style="list-style-type: none"> <li>■ No double taxation</li> <li>■ Stockholders deduct any net operating loss on individual tax returns</li> </ul>	<ul style="list-style-type: none"> <li>■ Stockholders pay taxes on corporate income</li> <li>■ Additional accounting costs to set up over sole proprietorship</li> </ul>
Franchise	<ul style="list-style-type: none"> <li>■ Smaller-than-usual capital investment</li> <li>■ Less working capital than normally required</li> <li>■ Prior public acceptance of product/service</li> <li>■ Management assistance</li> <li>■ Better than average profit margins</li> </ul>	<ul style="list-style-type: none"> <li>■ Possible high franchiser fees, supplies and charges</li> <li>■ Some loss of independence</li> <li>■ Possible difficulties in canceling contracts</li> </ul>

Figure 8 Sources:

Adapted from Gary L. Kuebbeler's, *Going Into Business for Yourself*. Columbus: Ohio Distributive Education Materials Lab, The Ohio State University and from the *Montana ... We Mean Business: Business Filing Guidelines and Forms*, Office of the Secretary of State, Helena, Montana.

## Ownership Interest

This section lists all owners, such as major shareholders or partners. It also documents owners' or shareholders' willingness to provide personal guarantees for any financing.

## Industry Trends

This section discusses the current trends of the proposed (or existing) business and the industry. It describes whether or not the demand for the product or service exceeds current supply.

## Background Information About the Owners

This section provides information about the owner(s), describing any experience in the industry or with managing a small business. This section also contains information about any business advisors other than lawyers or CPAs.

## Chapter 6: The Business Plan: Business Description Study Guide

1. The plan describes why the business is needed. True \_\_\_\_\_ False \_\_\_\_\_
2. For both a new and an existing business, the plan should discuss any anticipated growth of either the business or industry. True \_\_\_\_\_ False \_\_\_\_\_
3. The Business Section contains a description of the form of ownership for the business and a rationale for the form of ownership. True \_\_\_\_\_ False \_\_\_\_\_
4. This section includes a description of any relevant experience the owner(s) have for operating the business. True \_\_\_\_\_ False \_\_\_\_\_

# The Marketing Plan

The marketing plan convinces the reader that an opportunity exists and that the proposed enterprise can capitalize on it. The consumer **must** demonstrate a thorough knowledge of market demands, trends, competition, and customers. To complete this section of the business plan, the consumer must conduct research to determine who will buy the product or service, how much to charge, how and where to distribute/sell the product or service, and how to package and promote it.

## Products and Services

This section describes the product or service. The consumer discusses the currently-unsatisfied market need or desire and describes how his or her product or service will meet that need or desire.

## The Target Market

This section describes the market and the customer. These resources (many available at public libraries) provide data on markets and customers:

- County and City Data Book
- Statistics for States and Metropolitan Areas
- *Statistical Abstract of the United States*
- Trade Association Publications
- *A Guide to Consumer Markets*
- *Editor & Publisher Market Guide*
- *Sales & Marketing Management Survey of Buying Power*
- *Sales & Marketing Management Survey of Buying Power, Part II*
- The Internet (use search engines such as Excite, Lycos, Webcrawler, Infoseek, etc., to gather information on a specific industry)
- Locale-specific directories such as the *Montana Business Directory*
- Small Business Administration
- State Departments of Labor
- Consumer-conducted surveys or focus groups
- Interviews with noncompeting owners of similar businesses or the same type of business

The consumer references all information sources and describes the method used to gather target market data. He or she describes the geographic market including its physical size, history, and trends (e.g., growth); and the proximity and relevance of potential customers. This section should also contain an estimate of the potential market, the number of customers the business expects to serve immediately after opening, the rate of expansion, and possible expansion into other markets.

If the potential customer is an individual rather than a business, this section describes customer demographics such as gender, age, education and income levels, residence location, and how they will access the business. If pertinent, it describes customers' hobbies, where they shop, what they read, and what they buy.

If the potential customer is a business, this section describes customer demographics such as type of business, size, business location, how it will access the consumer's business, and other services or products it purchases.

## **Business Location**

If the business's location is integral to its marketing activities, the "Marketing" section briefly describes the location and the reason for its selection. In some business plans, the complete description may be in this section, but in others a more complete description will be included in the "Operations" section of the business plan. Please see the "operations" description for a comprehensive discussion of business location.

## **Competition**

This section describes others who are competing for the same market. It should state what they charge, their weaknesses and strengths, how the consumer's product or service differs from theirs, and the features and benefits of the consumer's service or product versus the features and benefits of competitors' service or product. Describe the methods used for gathering this information.

The consumer should describe how he or she will gain market share. For example, will people patronize the business because of price, technical sophistication, image, superior product or service, location, or sales and/or marketing techniques? It is important to remember that a small business can rarely compete on the basis of price, because larger businesses' economies of scale and efficiencies allow them to offer lower prices.

**Most Small Businesses Compete on  
The Basis of Quality & Service**

### Crumbs Pastry Shop

Crumbs Pastry Shop owners Sue Hanneman-Williams and Kelly Bauer Bakkum decided right from the start to market their wholesale/retail dessert business to clients who wanted high-quality desserts. Sue and Kelly recruited their wholesale accounts by promising both quality and reliable, timely service. After servicing their new accounts for one month, they discovered a competing bakery undercutting their prices to attract the same accounts. They were tempted to reduce quality and lower prices.

*“We considered it, but not for very long. We asked ourselves if we wanted to make these inferior products for the rest of our lives. But all our future plans relied on high quality.”*

Crumbs communicated its position clearly to the lost accounts and proceeded to find new customers. Now the owners find orders from these original accounts slowly coming back. Crumbs' experience shows the importance of a microbusiness not competing on the basis of price.

## Advertising and Promotion Strategies

This section describes how the message about the product or service will be communicated to the users. It should describe the business owner's philosophy about customer service. It also describes the image the consumer wishes to portray about his or her product through packaging, brochures, letterhead, business cards, displays, and the behavior/dress of employees.

This section discusses all promotional activities. It answers the following questions: What advertising media will be used – newspaper, radio, television, the Internet, windshield handouts, magazines, mailings, billboards, demonstration sites? What is the frequency of advertising – daily, weekly, monthly, bi-monthly? Will promotions (giveaways, discounts) be used? Who will contact customers – in-store sales staff, sales representatives, telemarketers? How will customers be contacted – by telephone, in-person cold-calls, trade shows, e-mail? Will a website be created?

This section should also discuss how customer satisfaction will be assessed. For example, through questionnaires, focus groups, repeat business, and/or referrals to others.

## More on Marketing and Advertising

“Marketing” describes everything a business owner does to present his or her product to potential customers. Advertising is *part* of a marketing plan. Marketing also includes designing a logo and written materials such as brochures, business cards, letterhead, packaging, web page – anything that is disseminated to the public about the business, product, or service. Marketing can also include developing a mailing list, and researching potential customers and their needs, and public relations activities.

The terms “promotion” and “advertising” often are used interchangeably, however, they are not the same. Promotion includes a range of activities including advertising (a paid announcement to sell a product), public relations (resulting in understanding of and goodwill towards a person or firm), direct mail, telemarketing, one-on-one selling, trade shows, and flyers or posters.

### Promotion Serves Three Purposes:

- Promoting awareness of a business and its product or service
- Stimulating sales
- Establishing or modifying a firm’s image

You will be asked to evaluate whether the type of promotional activity selected is appropriate for the business, if it will produce projected sales by reaching the targeted customers, and if it fits reasonably into the business’s budget. The following will assist you with evaluating proposed promotional activities.

Common types of paid advertising include radio, TV, print (newspaper, magazine, yellow pages, trade directory, billboard, and weekly shopper), direct mail ads (newsletters, flyers, postcards, brochures), and Internet/website advertising.

Promotional opportunities also include follow-up services (checking on customer satisfaction or rectifying customer complaints), in-person contact, sales promotions, point of-purchase displays, shared advertising, and free samples.

Public relations is an often overlooked but effective promotion method – especially for new or start-up companies. Public relations activities include news releases; magazine or journal articles; attending or providing seminars and workshops; sponsoring community activities; providing services or goods to community organizations as a door prize or to be auctioned off; or speaking engagements.

## “Reach” and “Frequency” — Two Important Advertising Attributes:

**“Reach”**: The total number of unduplicated people to whom the advertiser delivers a message. “Effective reach” is determined by the number of people exposed to advertising who have some degree of recall. For example, if 100 people are exposed to a radio ad and 75 of them remember the ad and the product, then the effective reach is 75%. To increase reach, an ad must use different media. For example, running an ad on two radio stations, each with a different music format increases the number of people exposed to the ad.

**“Frequency”**: The number of times the audience is exposed to a promotion over a period of time. “Effective frequency” is the number of times people are exposed to an ad until they have some level of recall. One rule of thumb says that three exposures constitute the **minimum** frequency level. Frequency increases by running an ad more times within a time period, such as three times per hour instead of one, or by placing an ad in a newspaper four times per week instead of two.

## Each advertising venue has its advantages and disadvantages:

**Radio** - Radio stations have fairly clearly defined audiences. This portable medium goes where the audience goes. However, there are no visuals – audio must carry the message, and the advertiser must rely on the announcer’s skill to relay the message.

**Radio effectively repeats brief messages and refers listeners to other sources for more information.**

**Television** - TV creates a visual image that reinforces a message. The main disadvantage is cost. Another disadvantage is that homemade ads compete with well-produced, slick ads and programs – a reasonably good ad requires professional help.

**Television can have a strong audio and visual impact, and may reach a large, varied audience.**

**Personal Contacts and Meetings** - Personal contacts allow trust to be established fairly easily, control of the content, and immediate feedback. There is a give-and-take with the audience, and communication can be lengthy and detailed. Finally, personal contact is especially important in rural areas. The disadvantages are that it is difficult to provide visual information and it is difficult to reach many people.

**Use personal contacts and meetings when establishing integrity and making a human connection are important.**

**Mass Mailings of Brochures and Flyers** - These are mailed directly to an individual, business, or agency. The disadvantage is that the mailings compete with other mail – the audience may not read all (or any) of the message.

**Mass mailings generally are inexpensive and the documents can be filed for future reference.**

**Posters and Billboards** - This is a cheap method with great potential for reaching large audiences. The disadvantages are that posters and billboards compete with other visual stimuli and passers-by do not stop to read them, so messages must be brief and eye-catching. Sites should be selected for their potential to reach the intended audience. For example, motel billboards on the major highways entering a city have greater potential for reaching potential customers than billboards within the city.

**Newsletter Announcements and Advertisements** - These are inexpensive and reach specialized audiences with identified interests. However, a newsletter editor may cut or rewrite an article. Production times may also be sporadic. To ensure an ad or article's timeliness, the business owner should allow plenty of lead time for publication.

**Newspaper Advertisements** - Newspapers generally reach a large, varied, mostly-adult audience. Longer messages are possible. However, advertisements compete with other information in the publication.

**Magazine Advertisements** - The potential audience is large and usually targeted. Like newspapers, longer messages are possible but advertisements compete with other information in the publication. Advertisements in popular publications are expensive. Identify the magazine's readership to be sure the ad reaches its targeted audience.

## The Business Plan

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**Internet/Website Advertising** - The worldwide web is good for reaching a large audience – in fact it has a global reach with most people residing outside a business's trade area. Potential customers can read about a company 24-hours a day. On the web, the potential customer must be looking for a particular type of product or manufacturer to view the site; readers do not go to a site involuntarily and read or hear about the product like a radio/tv/newspaper/magazine advertisement. Potential customers must be able to locate a company on the web. Therefore the business must register with a search engine such as *Yahoo!*. Also because search engines read the entire site and compile the number of times specific words appear in the site it is important to have a complete description of the business's services and products on the web page. Advertising on the web is a good medium for orders that can be shipped or where potential customers can order a catalog. The site should contain product descriptions and on-line ordering capability for either a product or for more information. Also to assure customers will return a site must be continually maintained and changed. The web is not for every business – some businesses such as a barber, tire repair shop, or sheet rocker likely will not benefit. The web page also must include the business's address and telephone number.

(Adapted from *The WEDGo Small Business Planner*)

## Chapter 6: The Business Plan: Marketing Plan Study Guide

1. When developing the marketing plan the potential business owner (must/may) conduct research to determine who are likely to be potential customers.
2. The marketing plan is where the consumer demonstrates a thorough knowledge of
  - a. Market demands
  - b. Product Pricing
  - c. Product Sources
  - d. All of the above
3. Because research is difficult to conduct, it is acceptable for the consumer to identify his or her target market based on the reaction of some people he or she has talked to.  
T\_\_\_\_\_ F\_\_\_\_\_
4. Offering lower prices than the competition is the most effective way that small businesses can gain market share. T\_\_\_\_\_ F\_\_\_\_\_
5. Small start-up companies generally do not benefit by conducting public relations activities. T\_\_\_\_\_ F\_\_\_\_\_
6. The worldwide web is an effective way to reach potential customers in the local trade area. T\_\_\_\_\_ F\_\_\_\_\_

## The Operations Plan

The operations plan explains how the work will be done, how the business will be managed, and the business's location. It also describes the manufacturing process including materials used in the process and employees and their duties.

### Inputs

“Inputs” are materials, suppliers, and arrangements with suppliers. This section describes them and lists prices, volume discounts, and payment options that might influence the decision to trade with a higher-priced vendor.

### Facilities

“Facilities” include location of the business and its physical layout. This section describes the location, features of the building and site, ownership, lease arrangement, remodeling needed (and costs), other businesses in the area, and zoning. It discusses why the location was selected and its advantages and disadvantages. It should include a floor plan. Questions that should be answered here include: Is the business located outside of the home? Is parking adequate? Are modifications necessary to accommodate the business owner's disability or to ensure ADA compliance?

Although many people want to work from their homes, even service businesses can benefit from an outside location. When drop-in traffic is important (as with toy or clothing stores), it is often better to pay higher rent for a good location because the owner can save money on advertising.

**Advertising can not overcome a poor location.**

### Operating Costs

This section describes, and lists costs for, all utilities (heat, light, telephone and water) to be used by the business for production and operation.

### **Licenses, Permits, Zoning, Insurance, Taxpayer Number, and Corporation Status**

The types of licenses, permits, insurances, and taxes paid vary according to the business. But it is likely that a business will require one or more of these to operate. Some neighborhoods do not allow home-based businesses, while others allow them if there is not a large increase in neighborhood traffic. Some business locations are unable to handle operations that discharge large amounts of water. City, county, state, or federal permits may be required for discharging water or smoke into the environment. Many businesses need federal and state tax identification numbers. Businesses with employees must pay workers' compensation. It is wise to insure the business and business vehicle(s) against fire, theft, robbery, vandalism, accident liability, product liability, and disability. An incorporated business must have state corporation status.

### **Capital Equipment**

Capital equipment includes permanent items that the business keeps and uses for many years. These include equipment, furniture, and fixtures needed to start and run the business. This section describes each piece, discusses why it is necessary, and lists its cost and supplier.

### **Production Methods**

This section describes both the tools used for making the products or performing the service and the work space(s), including the amount of room needed for each employee; the labor needed to produce the product or provide the service; methods for monitoring quality; and methods for complying with environmental and safety regulations.

### **Management Methods**

This section describes how the business will be managed. It discusses the business owner's knowledge, skills and experience for completing day-to-day business functions and obtaining specialized services.

Many of your consumers will have the knowledge and skills needed to provide a service, produce a product, or consult on a topic but may also lack the daily organizational and management skills needed to run a business (e.g., managing inventory, composing and processing correspondence, scheduling appointments and assignments, answering phones, filing, meeting payroll, or bookkeeping). Some business owners will develop adequate skills; but others either will need to hire employees, engage a professional service, or prevail upon experienced, skilled family members.

Another option for acquiring needed skills is to develop a partnership with someone who possesses complementary skills. Certain specialized business functions such as writing contracts, obtaining leases, and preparing taxes may require professional help.

## Employees

This section describes staffing requirements for both production and business management. It discusses the type of work to be done, qualifications needed for the job(s), recruitment plans for filling open positions, wage rates, and benefits package(s).

## Outside Services

This section describes the types and costs of outside services provided by non-employees, such as lawyers, bookkeepers, CPAs, and business managers.

## Chapter 6: The Business Plan: Operations Plan Study Guide

1. Only manufacturing businesses should be discussed in the Operations section.  
T\_\_\_\_\_ F\_\_\_\_\_
2. Working at home provides many benefits for a fledgling business and for people with disabilities. This arrangement is the best choice for businesses owned by people with disabilities. T\_\_\_\_\_ F\_\_\_\_\_
3. Selecting the right location is critical to a business's success when drop-in traffic creates sales. T\_\_\_\_\_ F\_\_\_\_\_
4. In order for a person to run a business, he or she should have the following skills
  - a. Keep the books
  - b. Do the filing
  - c. Place orders
  - d. All of the above
  - e. None of the above—the owner can arrange for others to do these tasks
5. The operations plan (does not/does) discuss staffing requirements and job qualifications.
6. The business's location always should be described in the "Operations Plan" even if the location is one of its marketing tools. T\_\_\_\_\_ F\_\_\_\_\_

## The Financial Plan

This section discusses the investment required, sources of funds for the business, and financial statements. The financial statements are discussed in the remainder of this chapter. They include:

- Need For and Sources of Cash (p. 88)
- Equipment List (p. 89)
- Income Statement (p. 90)
- Break-even Analysis (p. 94)
- Cash Flow Statement (p. 99)
- Balance Sheet (p.105)
- Supporting Documents (p. 108)

Developing these financial statements is one of the most difficult tasks facing a fledgling business owner, because in most cases there is no history for reference. Unless the consumer proposes to purchase an existing business, these statements will be based on projections. The consumer develops the Income Statement, Cash Flow Projections, and Balance Sheet statements for the first 2-3 years of business operation. First-year cash flow is projected monthly. Years 2 and 3 cash flow projections are quarterly rather than monthly.

### Financial Plan Definitions:

**Accounts Payable** - Debts owed to another individual or business for goods purchased or services received.

**Accounts Receivable (A/R)** - Payment owed by a customer for goods purchased or services received. Accounts receivable are *income*.

**Balance Sheet** - This financial statement illustrates the business's assets and liabilities on a particular date. It includes cash on hand, accounts receivable and payable, inventory, and equipment. A balance sheet as of the closing date of the Income Statement is provided for an existing business. A new business may be asked to provide an opening balance sheet. In some cases a balance sheet may combine personal and business assets and liabilities or a personal financial statement may be used in lieu of a balance sheet.

**Cash** - Cash, checks, or credit cards – hard currency or something that can be converted to hard currency.

**Cash Flow or Pro Forma Cash Flow Statement** - This is an estimate of how much money will flow in and out of the business during a designated period of time. It helps identify when

cash is expected to be received and when it must be used to pay bills and debts. Cash flow statements account only for cash transactions, not for depreciation, accounts payable, and accounts receivable.

**Collateral** - One or more asset(s) assigned to a lender in return for a loan. The collateral becomes the lender's property if the borrower cannot repay the loan.

**Cost of Goods Sold (COGS)** - Cost of the merchandise or inventory sold by a business. This includes raw materials, labor, or the price of manufactured goods used in the finished product. It does not include items such as rent or utilities.

**Credit Report** - The credit report verifies the information on outstanding debts from the consumer's Personal Financial Statement. Most important, a credit report shows the lender how the borrower has paid past debts – payment history indicates his or her future payment commitment. If there are current or recent delinquencies, the consumer may not be able to obtain a business loan until the problems are resolved or a payment history is established with other small loans.

**Current Asset** - Appears on the balance sheet. A current asset is cash or anything that can be converted to cash within one year such as investments, accounts receivable, inventory, and prepaid expenses.

**Current Liability** - Appears on the balance sheet. A current liability is a debt a company has agreed to pay within one year such as accounts payable and accrued expenses payable (e.g., taxes, salaries, interest, insurance).

**Depreciation** - Spreading the cost of a piece of equipment over its life. There are various methods for depreciating a piece of equipment. Depreciation influences financial statements and is used in the income statement.

**Expenses** - All monies paid out by a business.

**Fixed Asset** - Appears on the Balance Sheet. Fixed assets, such as buildings and equipment, are expensive items that generally cannot be converted to cash within a year's time and that have several years of potential use by the business.

**Gross Profit or Margin** - The difference between an item's selling price and its cost. This figure is important because it is the amount available to cover other business expenses after paying for the product. The income statement includes this.

$$\text{Selling Price} - \text{Cost} = \text{Gross Profit}$$

## The Business Plan

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**Income** - Money received by a business in any given period of time from retail or wholesale sales, sales of services, interest or dividend income, or miscellaneous income.

**Income Statement or Profit and Loss Statement** - The income statement shows a business's financial activity over a period of time. A lender will typically ask an existing business to provide an income statement for the previous year. A new business may be asked to provide an opening income statement.

**Labor** - What the owner or employees are paid per-hour or per-piece for producing a product.

**Long-Term Liability** - This appears on the Balance Sheet. A long-term liability is a large sum of money that is to be paid back over several years.

**Net Profit or Loss After Taxes** - This is the "Bottom Line" – the actual amount of money the business made or lost. It is the difference between all revenues and the total cost (including taxes) of operating the company. This is used in the Income Statement.

$$\text{Revenues} - \text{Costs} = \text{Net Profit or Loss}$$

**Operating or Fixed or Overhead Expenses or Costs** - Costs not directly related to producing goods or providing services. These include rent, supplies, insurance, administration, and sales. The Income Statement includes these.

**Other Expenses** - Non-operating expenses such as interest on a bank loan. This is used in the Income Statement.

**Owners' Equity or Net Worth** - Appears on the Balance Sheet. This is the difference between current and fixed assets and current and long-term liabilities.

$$\text{Assets} - \text{Liabilities} = \text{Owners' Equity}$$

**Personal Financial Statement** - This document provides a picture of the business owner's current financial condition. It provides information about personal assets and outstanding loans, current monthly income, and expenses. Most often this is used by a lender to determine if the borrower is able to repay a debt.

**Pre-Tax Profit or Loss** - Gross profit less total expenses. This figure is used to determine the amount of taxes owed and is used in the Income Statement.

$$\text{Gross Profit} - \text{Total Expenses} = \text{Pre-Tax Profit or Loss}$$

**Pro Forma** - Financial projections.

**Pro Forma Cash Flow Statement** - See “Cash Flow Statement.”

**Profit and Loss Statement** - See “Income Statement.”

**Revenue** - Total sales.

**Security** - See “collateral.”

**Sources and Uses of Cash Statement** - This form describes sources of money to run a business and how this money will be used.

**Total Sales** - Revenue from the sale of products or services.

**Variable Expenses** - These are expenses directly related to producing a product or providing a service. Costs can include labor, shipping, and vehicle expenses. These are used in the Income Statement.

**Working Capital** - Money used to operate the business until it generates enough cash from sales for paying bills.

## Need For and Sources of Cash

This statement lays out how much cash the business will need to open its doors and to operate until it is profitable. Like all other financial statements this is a mix of known and anticipated costs. Most of this information will come from other parts of the business plan. It should include the following information.

Figure 9

### Need For and Sources of Cash

#### Cash Needed:

- Pre-Opening Inventory
- Pre-Opening Capital Equipment
- Supplies
- Property
- Renovations
- Pre-Opening Marketing
- Building/Other Deposits
- Other Pre-Opening Expenses

- Working Capital
- Contingency Funds

- Post-Opening Capital Equipment
- Post-Opening Inventory
- Post-Opening Marketing
- Other Post-Opening Expenses

Total Cash Needed

#### Sources of Cash:

- Savings
- Loans
- Other

Total Cash Available

## Equipment List

This is a list of each item of business equipment and its value. Generally equipment on this list is any major item used to provide a service or sell, store, deliver, or manufacture a product. The items should have a useful life of one year or longer. The lender may want a lien against this equipment as collateral or may want the business to insure this equipment and name the lender as the insured. When considering equipment needs, you and the consumer should consider whether or not to purchase or lease equipment. The advantage of leasing is low initial capital outlay. The disadvantage is that at the end of the lease the consumer does not own the equipment and may pay a large sum to purchase it.

### Study Guide

1. Developing financial statements is one of the most difficult tasks that a new business owner will undertake. Why?

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2. Financial statements are developed for the business's first \_\_\_\_\_ year(s).
3. For the first year (quarterly/monthly) financial projections are made.
4. Financial projections are made (semi-annually/quarterly) for subsequent years.
5. The following statements should be included as part of the financial plan.

	True	False
Need For and Sources of Credit	_____	_____
Equipment List	_____	_____
Credit Flow Projections	_____	_____
Balance Sheet	_____	_____
Personal Credit Statement	_____	_____

6. A major item with an expected life of at least one year, that is used to provide a service or sell, store, deliver, or manufacture a product, should be listed on the Equipment List.  
T\_\_\_\_\_ F\_\_\_\_\_

## The Income Statement

The income statement shows a business's financial activity over a period of time to determine if the business made or lost money. It matches expenses with business revenues. The Income Statement includes total sales, cost of goods sold, gross profit, indirect expenses, other expenses, pre-tax profit or loss, taxes, and net profit or loss. Each component is explained below.

**Sales** - Most financial planning begins with projecting sales – some experts think that it is the most difficult financial projection to make. Sales projections are an estimate of the amount of sales the business will make. The business owner does *not* work backward from costs to determine the amount of sales needed to make a profit. Sales projections are derived from market research and must be justifiable. A consumer should provide you with the assumptions on which he or she based the sales projections. Unfortunately, many people never get beyond this point of their business plan.

Sales may be calculated in various ways. The consumer can get sales figures from similar businesses in non-competing locations, from industry publications that outline average sales, or from a former owner's records (if purchasing an existing business). Other calculations rely on a per-square-foot basis for a geographic location, or on an estimate of market share.

**Cost of Goods Sold** - This is subtracted from Total Sales. This is one of the easiest projections to calculate for retail, wholesale, or manufacturing businesses. The business owner simply determines how much it costs to produce, acquire, or create the projected sales. It is important to include *all* expenses in this category. A retail business would include the cost of shopping bags and packing boxes. A manufacturing business would include all the costs of raw materials, labor, and manufactured items needed to manufacture one item. A service business would include expenses for directly providing the service.

$$\text{Total Sales} - \text{Cost of Goods Sold} = \text{Gross Profit}$$

**Operating Expenses** - These include rent, telephone, utilities, salaries and payroll taxes, advertising, insurance, office supplies, repairs and maintenance, and depreciation. Other expenses that occur whether or not a product or service is sold may also qualify. They are fairly easy to estimate, but the consumer should provide justification for these as well.

**Other Expenses** - This usually is interest.

**Taxes** - Although not necessary, especially if the business owner understands and can correctly figure taxes owed, most businesses – even very small ones – hire an accountant to determine the taxes owed on pre-tax profit.

**Net Profit or Loss** - This is what is left over – it reveals whether the business is profitable. It is OK for a business to be unprofitable for a year or more as long as it has the cash or income to continue. Although a business is not making a profit, its owner may take a personal draw and have an income. However a business that does not look good on paper probably will not be successful after it opens either.

**A business owner can increase his or her net profit by increasing gross profit, by decreasing expenses, or by doing both at once.**

## The Business Plan

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Figure 10

### Income Statement 1/1/98 - 12/31/98

Total Sales		\$25,000
Cost of Services/Goods Avail./Sold		
Beginning Inventory	\$ 8,000	
Materials	4,000	
Labor	4,000	
Other	<u>1,000</u>	
Cost of Goods Avail. for Sale	\$17,000	
Less Ending Inventory	<u>(10,000)</u>	
	\$ 7,000	<u>( 7,000)</u>
Gross Profit		\$18,000
Expenses		
Salaries and Wages	\$ 4,000	
Payroll Taxes & Benefits	900	
Rent	4,800	
Utilities	600	
Advertising & Promotion	1,000	
Office Supplies	400	
Postage	380	
Telephone	1,200	
Professional Fees (accounting, legal)	1,000	
Car/Travel	700	
Depreciation	100	
	<u>\$15,080</u>	
Other Expenses		
Interest Expense	600	
Total Operating Expenses	\$15,680	<u>(15,680)</u>
Pre-Tax Profit (Loss)		\$ 2,320
Taxes		<u>( 100)</u>
Net Profit (Loss)		\$ 2,220

\*Include any notes to the statement.

## Chapter 6: The Business Plan: Financial Plan Study Guide

1. An Income Statement shows actual or projects a business's profit or loss over a period of time. T\_\_\_\_\_ F\_\_\_\_\_
2. The beginning point for most financial planning is to project \_\_\_\_\_
3. The best way to project sales is to determine the cost of a product or service and work backward to project the amount of sales needed to make a profit. T\_\_\_\_\_ F\_\_\_\_\_
4. Sales are projected by conducting \_\_\_\_\_
5. Sales projections must be \_\_\_\_\_ and the consumer should provide you with the (assumptions/resources) he or she used to determine the projected sales.
6. When determining Cost of Goods Sold, include (all expenses/as many expenses as possible) in the calculations.
7. Gross profit is the amount of Total Sales left over after subtracting the costs of producing, acquiring, or creating the projected sales from Total Sales.  
T\_\_\_\_\_ F\_\_\_\_\_
8. Operating Expenses are different that Cost of Goods Sold because they are expenses that are incurred whether or not a product or service is sold. T\_\_\_\_\_ F\_\_\_\_\_
9. On an Income Statement, Net Profit/Loss — the amount that is left over after subtracting all other expenses from Total Sales — shows whether the business (was profitable/has cash left).
10. A magazine advertisement is an example of a(n) (variable/operating) expense.

## Break-Even Analysis

The Break-Even Analysis helps the business owner determine the success of a business before it begins. It describes the number of units of a product or how many hours of a service must be sold to break even or to make a profit, or the effect that changing a product's price or reducing expenses has on profitability. This simple formula determines the break-even point or the point where the business will begin to show a profit:

$$\text{Break-Even Point} = \text{Fixed Expenses} \div \text{Gross Profit per Unit}$$

Let's look at Jean whose experience with craft fairs has helped her decide to make and sell earrings. We will calculate her fixed expenses, gross profit, and the break-even point. Here are her variable and fixed expenses:

**Variable Expenses** for producing one pair of earrings:

Labor = .33 hours @ \$9/hour	\$3.00
Materials:	
Silver	6.00
Semi-precious stone	4.00
Shipping	.35
Box/Packaging	.15
Total Variable Expenses	<u>\$13.50</u>

**Monthly Fixed Expenses:**

Rent	\$335.00
Utilities	50.00
Phone	50.00
Office Supplies	30.00
Insurance	25.00
Advertising, Promotion	40.00
Taxes	40.00
Owner's draw	300.00
Craft Fair Expenses	<u>75.00</u>
Total Fixed Expenses	\$945.00

Based on her variable expenses, Jean will certainly charge at least \$13.50 for a pair of earrings, but how much more should she charge to cover her monthly fixed expenses and make a profit? She must first calculate her gross profit, then determine her break-even point. Her research of the local market showed that comparable earrings sell for \$20-30 per pair, so she calculates her gross profit based on three sales prices between \$20 and \$30 using the following formula:

<b>Price - Variable Expenses = Gross Profit per Unit</b>			
--	--	--	--

Price	\$20.00	\$25.00	\$30.00
Less Variable Expenses	(13.50)	(13.50)	(13.50)
	\$ 6.50	\$11.50	\$16.50
<b>Gross Profit per Unit</b>			

Clearly, by charging more Jean earns more money to meet her projected monthly fixed expenses (\$945), but she must calculate *how many* pairs of earrings she must sell per month. Jean is ready to determine her *break-even point*.

Monthly Fixed Expenses	\$945.00	\$945.00	\$945.00
Divided by Gross Profit	\$ 6.50	\$ 11.50	\$ 16.50
	146	83	58
<b>Break Even Point (No. of Units to Sell)</b>			

At a selling price of \$20, Jean must sell 146 pairs of earrings per month to break even, at \$25, she must sell 83, and at \$30 she must sell 58. In a month when she sells more than the break-even number for her chosen price, she makes a profit. In a month when she sells fewer pairs, she loses money.

### Determining a Sales Goal Based on Desired Profit

In addition to breaking even, Jean wishes to earn \$150 profit each month to invest in upgrading her equipment and buying a van. She can calculate how many pairs of earrings over the break-even point she must sell by using this sales goal formula:

<b>Profit Sales Goal = Profit Goal ÷ Gross Profit</b>
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## The Business Plan

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Here are Jean's calculations:

Profit Goal	<u>\$150.00</u>	<u>\$150.00</u>	<u>\$150.00</u>
Divided by Gross Profit	\$ 6.50	\$ 11.50	\$ 16.50
<b>Profit Sales Goal (Additional Units to Sell)</b>	<b>24</b>	<b>14</b>	<b>10</b>
<b>Plus Break-Even Number to Sell</b>	<b>146</b>	<b>83</b>	<b>58</b>
<b>Total Needed to Sell</b>	<b>170</b>	<b>97</b>	<b>68</b>

If Jean sells her earrings for \$20 she has to sell an additional 24 pairs over her break-even point to make a \$150 profit, at \$25 she must sell an additional 14 pairs, and at \$30 she must sell an additional 10 pairs.

## Pricing

Once variable costs, fixed costs, gross profit, the break-even point, and sales goals for profits are calculated, the consumer can decide on price. The numbers alone will not dictate the right price. The consumer's previous work on positioning and competition will help set the price. He or she must also consider personal and long-term business goals. For example, how much of a personal draw and/or profit does the business owner need to make a living?

## Pricing a Service

Pricing a service is not always as mathematically clear as pricing a product. For example in a home-based accounting or business management business, materials, labor, and overhead costs may be ill-defined. In such cases, prices are for time and generally the business owner must charge close to the prevailing rate for the area. The potential business owner's research must investigate industry charges for comparable services, method of billing – per hour or per project, and who pays for materials – the customer or the business owner.

The consumer must still compute a break-even point and profit sales goal for a service business. He or she should select two or three rates and compute the number of billable hours (or jobs) needed to cover fixed costs and profit needs at each rate.

## Evaluating the Break-Even Analysis

Although a consultant should have guided the business plan's development, you as the VR counselor must review it to determine whether your agency will provide support. While evaluating the plan's potential, consider:

- Whether the market and consumer research inspire confidence that customers exist who will buy the product at the chosen price?
- If the price is much higher than competitors' prices, does the consumer substantiate the product's extra value? If the price is much lower, does the consumer explain?
- Does the consumer (and his or her family) seem committed and able to meet the production and promotion goals necessary to support his or her chosen price?
- Can he or she meet the goals without additional personnel? If not, does he or she plan to hire employees?

## Chapter 6: The Business Plan: Break Even Analysis Study Guide

1. The break even analysis shows
  - a. How much cash the business will collect each month.
  - b. How many units or the number of hours must be sold each month to break even.
  - c. How many units or the number of hours must be sold each month to make a profit.
  - d. How a change in expenses effects a business's net profit or loss.
  - e. All of the above
  - f. b, c
2. If Stan's Variable Expenses for manufacturing a dresser are \$175, what is his Gross Profit if the sales price is \$200 \_\_\_\_\_
3. How many dressers must Stan sell each month if his Sales Price is \$200, his Gross Profit is \$25, and his Fixed Expenses are \$800/month? \_\_\_\_\_
4. Stan sells his dressers for \$275, his per unit Variable Expenses are \$175, and his Fixed Expenses are \$800. He wants a \$400/month profit.

What is his Break-Even Point? \_\_\_\_\_

What is his Profit Sales Goal? \_\_\_\_\_

## The Business Plan

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5. The Break-Even Point and Profit Sales Goal are all that need to be calculated to determine a sales price. T\_\_\_\_\_ F\_\_\_\_\_
6. The same calculations are computed for developing a Break-Even Point and Profit Sales Goal for a service business. T\_\_\_\_\_ F\_\_\_\_\_
7. Often when determining the price to charge for a service business, many expenses are ill-defined so the business owner charges for his or her time using a prevailing rate for the area. T\_\_\_\_\_ F\_\_\_\_\_

## Cash Flow Statement

The consumer has calculated total operating expenses, a break-even analysis, a sales goal, and a price for the product or service. Now he or she can develop a *Cash Flow Statement*. Cash is even more important to a business than profits – a profitable business may still be unable to pay its bills. The Cash Flow Statement shows when the business will receive cash and when cash must be available to pay bills. Cash covers pre-opening expenses, pays bills, purchases equipment, and covers unexpected expenses. The Income Statement contains much of the information on the Cash Flow Statement. However, the Cash Flow Statement shows when the cash *actually will be received* and the expenses *actually paid*.

This should not be confused with the consumer's *personal* cash flow statement completed earlier in the self-employment assessment phase. The personal statement shows the amount of money the individual needs to live and cover monthly expenses. The business Cash Flow Statement predicts when the business will need cash and when cash will be available.

The Cash Flow Statement has two sections. The top section shows how and when cash will be received by the business. The bottom section shows how and when the money will be used to pay bills. Unlike the Income Statement, the Cash Flow Statement shows money coming in *only when the business actually receives it* and going out *only when the business actually pays a bill*.

Jake's **Ace Auto** projects sales of \$1,000 on January 2<sup>nd</sup> (See Figure 11). Although owed this amount, Jake can not enter it as January revenue *until the money is received*. This makes Cash Flow Statement projections somewhat difficult for this fledgling business, but Jake can project receivables based on the experiences of similar businesses or on an industry standard. Other mechanics tell Jake that half of their accounts receivable are paid within two weeks, three-quarters within four weeks, and the remainder within eight weeks. Therefore, Jake can project \$500 from receivables in January, \$250 in February, and another \$250 in March. Ace Auto also projects that it will do \$500 worth of monthly cash business – this cash is entered immediately into the Cash Flow Statement.

Now with one month's projections under his belt, Jake must repeat this for each ensuing month. If he thinks Ace will do \$1200 of billed business during February, he projects receiving \$600 in February, \$300 in March, and the final \$300 in April. Cash from other sources such as loans, grants, Vocational Rehabilitation, dividends or interest, credit card debt, family members, equity or venture capital, and from owners must also be entered when received.

Cash Flow Statement expenses are handled in the same way as cash received. For example, Jake buys a carburetor and installs it in a customer's car two months later. The "cost of goods sold" category shows payment for that carburetor *when the part actually was paid for* — not the

## The Business Plan

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date of its order or when sold to a customer. Jake enters his quarterly tax payments and business-related insurance premiums when he writes the checks.

### Things to Watch For and Consider When You Review the Cash Flow Statement:

- Surplus or deficit amounts must be carried forward to the next month.
- It is OK for all numbers to be rounded to the nearest \$5 to \$10.
- All income and expenses must be justified and documented. For Ace Auto, Jake's Cash Flow Statement should explain how and why he determined that 50% of accounts receivable would be collected in the first month after billing and 25% in each of the two following months.
- The consumer should not use straight line projections if they do not reflect the reality of the business. Seasonal fluctuations in income and expenses should be reflected because they may affect the amount(s) of loans or VR funds.
- For projected expansion of the business, the consumer should justify the expansion if he or she shows more than a 10% growth in annual sales.
- Sales and inventory should change in appropriate relation to each other. If the consumer projects increased sales volume, make sure that he or she also shows increased inventory purchases (unless the business is a service business).
- To be safe, it is best to overestimate expenses and underestimate income.
- "Other" or "miscellaneous" categories should be small. If either is substantial, the amounts should be allocated into more-specific categories.
- Research should be "real world," such as:
  - Calls to the phone company for installation prices, monthly fees, and cost for yellow page listing(s);
  - Calls to suppliers for prices and credit procedures;
  - Interviews with owners of similar businesses in other communities for projecting sales volume, collection history, and bad debt; and

- Industry research to determine the percentage of gross sales usually spent on advertising.
  
- Cumulative cash flow for most businesses will be negative for at least the first six months. The business owner should prepare a cash flow projection each month for at least the first year, continuing until there is an upward trend.

Figure 11

**Ace Auto Cash Flow Projections**

Month of	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Total
BEGINNING CASH	8,000												
<b>RECEIPTS</b>													
Sales (cash)	500	500	500	500	600	600							
Sales	500	850	1150	1200	1350	625	325						
Capital Contribution													
From Savings													
<b>TOTAL RECEIPTS</b>													
<b>DISBURSEMENTS</b>													
<b>Cost of Sales</b>													
Labor													
Materials & Supplies													
Other													
<b>Total Cost of Sales</b>													
<b>Expenses</b>													
Advertising													
Auto													
Bank Charges													
Dues & Subscriptions													
Insurance													
Interest													
Maintenance & Repair													
Material & Supplies													
Miscellaneous													
Office Supplies/Expense													
Printing													
Professional Services													
Rent													
Returns/Allowances													
Taxes & Licenses													
Telephone													
Travel													
Utilities													
Wages													
<b>Total Expenses</b>													
<b>Other Disbursements</b>													
Debt Payments													
Capital Loan													
Capital Expenditure													
Draw													
Taxes													
<b>Total Other</b>													
<b>TOTAL DISBURSEMENTS</b>													
<b>SURPLUS/ (DEFICIT)</b>													
<b>ENDING CASH</b>													

## Chapter 6: The Business Plan: Cash Flow Statement Study Guide

1. Cash is (more/less) important to a business than profits.
2. Why?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
3. The Cash Flow Statement shows when the business
  - a. actually or expects to receive and disburse cash
  - b. sells a product or service regardless of when money is received
4. When projecting when cash will be received, estimates can be based on
  - a. a good guestimate of when the money will be received
  - b. the experience of similar businesses
  - c. on an industry standard
  - d. all of the above
  - f. b, c
  - g. a, b
5. When the business purchases stock to resale, it is entered as an expense on Cash Flow Statement when
  - a. it is ordered
  - b. it is paid for
  - c. it is sold to a customer
  - d. none of the above
6. When reviewing the Cash Flow Statement the counselor should watch for and consider the following

	True	False
Always use straight line projections	_____	_____
Justify a growth in annual sales greater than 10%	_____	_____
Underestimate income	_____	_____
Underestimate expenses	_____	_____
Other or miscellaneous categories should be small	_____	_____

## Balance Sheet

The Balance Sheet is a snapshot of a business at a particular point in time. It shows a business's *assets* (what the business owns), *liabilities* (what the business owes), and owner's *equity* (what the owner is worth). A new business gets its first Balance sheet when the business starts. It is updated annually thereafter, usually at year's end. The Balance Sheet shows the business's financial status and stability, and if the owner's equity is increasing. It consists of two parts: Assets and Liabilities and Owner's Equity. The total of one part equals the total of the other part:

**Total Assets - Total Liabilities = Owner's Equity**

**Or**

**Total Liabilities + Equity = Total Assets**

**Or**

**Total Assets - Equity = Total Liabilities**

For many home-based, service businesses, or businesses where the owner has no credit rating separating personal and business assets and liabilities is difficult. When this is the case, a personal financial statement may be used in lieu of the balance sheet or the balance sheet should reflect personal assets, liabilities, and owner's equity mixed with those of the business.

Figure 12

**Balance Sheet**  
**1/1/99 - 12/31/99**

**Assets**

Current Assets		
Cash	\$ 2,000	
Accounts Receivable	1,000	
Inventory	5,000	
Prepaid Expenses	<u>400</u>	
Total		\$ 8,400
Fixed Assets		
Equipment	\$ 5,000	
Less Accumulated Depreciation	<u>(500)</u>	
Total Fixed Assets		<u>4,500</u>
Total Assets		<b>\$12,900</b>

**Liabilities + Equity**

Current Liabilities		
Accounts Payable	\$ 1,950	
Accrued Expenses	<u>425</u>	
Total		\$ 2,375
Long-Term Liabilities		
Notes Payable		<u>3,000</u>
Total Liabilities		5,375
Equity		<u>7,525</u>
Total Liabilities +Equity		<b>\$12,900</b>

## Chapter 6: The Business Plan: Balance Sheet Study Guide

1. A balance sheet is created for a new business when it (opens/has operated for 6 months).
2. Subsequent balance sheets are created at (the beginning/the end) of each subsequent year.
3. The Balance Sheet shows a business's
  - a. financial status
  - b. stability
  - c. expense to equity ratio
  - d. Ratio of expenses to income
  - e. All of the above
  - f. a, c, d
  - g. a, b, c
  - h. a, b
4. It is OK to combine personal assets and liabilities with the business's assets and liabilities on the Balance Sheet. T\_\_\_\_\_ F\_\_\_\_\_

## Supporting Documents

This section includes other documents necessary for supporting and validating the business and business plan. These include a cost-of-living budget and personal balance sheet for the business owner(s), resume(s), credit reports, contracts, legal documents, leases, job descriptions, letters of support and reference, letters from potential customers stating they will buy from the business when started, contracts, and other documents that bolster confidence in the proposed business.

### Chapter 6: The Business Plan: Supporting Documents Study Guide

1. Supporting Documents are like an Appendix and can be left out of the business plan.  
T\_\_\_\_\_ F\_\_\_\_\_
2. Supporting Documents \_\_\_\_\_ and \_\_\_\_\_ the business plan.

# Franchises

Franchises are quite popular and some consumers may want to open this type of business. In *How to Open a Franchise Business*, Mike Powers says that franchises have a greater chance of success than either purchased businesses or those started from scratch. Franchises offer a proven type of business. People patronize them because their products are recognized and trusted, and they have a larger customer base because of name recognition. Many franchisers also provide training in start-up, running, and marketing the business; training for updating the skills of franchise owners and employees; supply record keeping systems; and conduct advertising and marketing campaigns on behalf of all franchisees. Some sell supplies to franchisees at reduced costs, and some can finance or arrange financing for franchisees.

As with everything franchising has a downside. Franchises tend to require more research than starting a business from scratch because both the market and the franchise itself need to be evaluated. Generally, they are more expensive to open, typically requiring an investment of \$20,000 or more. Many cost quite a bit more – in the \$100,000 to \$300,000 range. The franchise owner answers to customers and to the franchiser and must operate his or her business according to the terms specified in the franchise agreement. This may mean that the business's location and exterior/interior design, product mix and prices, work attire, and advertising are under the franchiser's, not the franchisee's, control. The franchisee may be required to regularly file financial reports and be subject to inspection and audits. Also, the franchisee makes regular payments to the franchiser.

In a franchise arrangement the franchiser and franchisee develop a binding agreement that is renewed periodically. There are many steps to take before this occurs and the business opens. Most are the same steps one takes to open a business from scratch and none should be bypassed. They include:

- Research industries and types of franchise arrangements for those industries
- Conduct a self-evaluation
- Identify and evaluate possible franchisers and their franchise systems
- Evaluate franchiser's products
- Contact and visit other franchisees
- Identify the market and evaluate its income potential
- Identify opening and operational expenses and develop income projections

Because franchise agreements are written to protect the franchiser, it is necessary to hire a lawyer with franchise expertise. He or she will explain and negotiate the franchise agreement and may recommend changes. The lawyer also can provide expertise on state and federal regulations, can negotiate and develop leases, and can deal with any other legal arrangements required for opening a business. Hiring an accountant is also a good idea because the financial

statements and reporting requirements for a franchise usually are more complex and rigorous than those for a from-scratch business. The accountant will prepare financial statements, evaluate business costs, and work with the franchiser's accounting system.

Chapter 7, "Resources and Resource Partners" lists books and worldwide web pages on franchising. The individual interested in opening a franchise should read and refer to these resources, which provide detailed discussions and tips on franchising, the purpose of the franchise offering circular, and rules and regulations governing franchising. They also list questions to ask and answer while researching franchises, provide lists of franchise associations, and discuss the franchiser/franchisee relationship.

## **Chapter 6: The Business Plan: Franchise Study Guide**

1. Franchises have a greater chance of success than businesses started from scratch.  
T\_\_\_\_\_ F\_\_\_\_\_
2. Because they are an already established business type, franchises tend to require less research than starting a business from scratch. T\_\_\_\_\_ F\_\_\_\_\_
3. The cost of starting a franchise is pretty reasonable, and within the reach of most consumers of VR services who might want to start a business.  
T\_\_\_\_\_ F\_\_\_\_\_
4. The franchisee essentially has two bosses. They are \_\_\_\_\_ and \_\_\_\_\_.
5. In researching a franchise the \_\_\_\_\_ and the \_\_\_\_\_ need to be evaluated.

Figure 13

## Business Plan Checklists

Business Plan Checklists are a useful tool for evaluating the business plan and for informing the consumer how you will evaluate the completeness and contents of the plan. We recommend providing the consumer a copy of these checklists when he or she begins developing the business plan. They should become part of the consumer's file.

### Overall Content and Style

	Yes	No
Language is fluent and commonplace		
Industry jargon is explained adequately		
Plan avoids repetition and includes only information relevant to the target audience		
Plan targets the reader		
The plan is in an active voice		
Uses words like "will" instead of "may"		

### Business Description Checklist

Item	Needed	Included
List of owners		
Personal financing guarantees		
Current industry trends		
Supply of and demand for product or service		
Potential owner's(s') background information (including management/industry experience)		
Business advisor's(s') information		

### Target Market/Marketing Checklist

Item	Needed	Included
Business owner's customer philosophy		
Business' image described		
Market's(s') unsatisfied need for product or service		
Geographic description of the market		
History and projected trends (e.g., growth)		
Demographics of potential customers		
Rationale for business's location		
Competitor's(s') weaknesses and strengths		
Compares proposed business's product/service with competitor's(s')		
Methods for gaining market share		
Message communicated to potential customers about the product or service		
Discusses all promotional activities		
Rationale for selecting proposed advertising media, including estimated cost and effectiveness		
Methods for assessing customer satisfaction		

## Operations Plan Checklist

Item	Needed	Included
Materials description and supplier relationships		
Business location and reason for its selection		
Operation costs		
Addresses need for and includes if appropriate necessary licenses, permits and zoning, insurance, tax ID, and ownership forms		
Capital equipment list, description, and costs		
Describes production methods including labor projections, safety precautions and environmental safeguards		
Describes the management format and organizational structure		
Describes staffing requirements, staff qualifications, and wage rates		
Lists any services, such as bookkeeping or cleaning, that will be outsourced		

### Financial Plan Checklist

Item	Yes	No
Projected Income Statement for 2-3 Years		
Projected Balance Sheet for 2-3 Years		
Projected Cash Flow Statement for 2-3 Years		
Break-Even Analysis		
Personal Financial Statements		
Credit Report		
Need for and Sources of Cash Statement		
Equipment List		
Supporting Documents List: <hr/> <hr/> <hr/> <hr/> <hr/>		

### Break-Even Analysis Checklist

Item	Yes	No
Does the market and customer research inspire confidence that customers who will buy the product exist?		
Does the research inspire confidence that customers will pay the product's price?		
Is the product's price justified?		
Does the production schedule and marketing plan support the product's price?		
Does the description of current and future employees appear adequate to meet current and projected production goals?		
Does the description of current and future employees appear to support the product's price?		
Are supporting documents included		

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# CHAPTER 7

## Resources and Resource Partners

### Introduction

This chapter contains information on sources of business development assistance and possible sources for funding. We diverge slightly from providing strictly resource information to provide information on why VR should become involved in a community's economic development efforts and on some suggestions for doing this. The chapter continues by describing minority self-employment resources. It closes with a listing of community resources, books, and organizations.

The chapter begins by describing the Small Business Administration because it is the most prominent and widely disbursed source of business assistance in the U.S. today.

### Small Business Administration

Created by Congress in 1953, the U.S. Small Business Administration (SBA) is one of the main sources of small business assistance and funding in existence. Today, SBA's offices in every state, the District of Columbia, the Virgin Islands, and Puerto Rico offer finance guarantees (in the form of loan guarantees rather than direct loans or grants), training, and advocacy for small firms. In addition, the SBA works with thousands of lending, educational, and training institutions nationwide. The U.S. Small Business Administration recently refocused its efforts to provide customer-oriented, full-service programs and accurate, timely information to the entrepreneurial community.

SBA programs and services include business counseling and training; lending programs; and special focus programs for international trade assistance, women business owners, and Native American Business Owners. Each of the programs is discussed where appropriate in the following sections of this chapter.

### **Working With a Local Small Business Administration Small Business Development Center**

Most SBA staff are not experienced with working with people who have disabilities and their resources may not be accessible to people with special needs. Publications may not be brailled, computers may not have large print readers or talking software and there may not be interpreters/communication support for persons who are deaf or hard of hearing. Therefore, it is important that you visit your local SBA Small Business Development Center (SBDC), acquaint

## Resources and Resource Partners

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yourself with the facility and resources, and meet the staff. Assess their accessibility or lack of it and determine the supports a consumer would need to use its services. A consumer might need you to accompany him or her on one or more visits to the SBA.

## Sources of Business Development Assistance

A consumer should always make an appointment before going to a business counselor and allot one to two hours for the initial visit. Before the appointment the consumer and/or counselor should check to see if the building is physically accessible, whether a sign language interpreter is needed, and whether a note-taker or tape recorder is necessary. A business development consultant may require that the consumer fill out statistical information on an intake form and that he or she also be prepared to take notes during the visit. The consumer should gather brochures, business plan outlines, or any other information the consultant may have available.

**Business Information Centers (BICs)** - As the SBA's technology toolbox, the business information center contains business development reference materials manuals, computers and business development software, access to telecommunications, and counselors to help small businesses get started and grow. BIC counseling and training are provided by SCORE (the Service Corps of Retired Executives). There are nearly 40 BICs nationally.

**One-Stop Capital Shops (OSCSs)** - The One-Stop Capital Shop is the SBA's contribution to the Empowerment Zones/Enterprise Communities Program (EZ/EC), a federal interagency initiative that provides a variety of resources to designated socially and economically distressed communities. OSCSs offer centralized access to a full range of SBA financial and technical assistance, other federal agencies, state and local governments, and the private sector. Within the OSCSs, Business Information Centers offer the latest high-tech hardware, software, interactive videos, telecommunications, and other tools to help the small business owner plan, develop spreadsheets, and access market research databases. Counselors train people on starting, running, and/or growing a small business.

**Service Corps of Retired Executives (SCORE)** - This free SBA program matches almost 13,000 volunteers with small businesses needing advice. The volunteers' collective experience spans the full range of American enterprise; they share their management and technical expertise with present and prospective small business owners and managers. There are 388 chapters and 800 other locations.

**Small Business Development Centers (SBDCs)** - The SBA administers SBDCs to help current and prospective owners develop and manage their small businesses. SBDCs are a cooperative effort of the SBA, private sector, educational community, and state and local

governments. There are over 950 SBDCs located primarily at colleges and universities in all 50 states.

**Tribal Business Information Centers (TBICs)** - Eighteen TBICs serve Native American reservation communities in the states of Montana, North Dakota, South Dakota, Oregon and the Navajo Nation. TBICs are SBA resource partners, offering computers, one-on-one business counseling services, and business management workshops to small business owners.

**The Women's Demonstration Program** - This SBA program trains and counsels women in all aspects of owning or managing a business, including financial, management, marketing, technical assistance, and procurement. There are 60 women's business centers nationally.

**Women's Network for Entrepreneurial Training (WNET)** - This SBA program is available through SCORE and SBDCs. It is a year-long, one-on-one program where established women business owners serve as mentors to proteges who are ready to expand their businesses. There also is a WNET Roundtable that mentors and supports women business owners in a group setting.

### **Funding Sources for Business Start-up or for Expanding or Operating an Existing Business**

**Commercial Lending Institutions (banks and credit unions)** - These loans generally are hard to get. A potential business owner is expected to contribute a minimum of 10% towards the business before the bank considers a loan. A bank also requires collateral (e.g., real estate, vehicle) or co-signer for the loan.

Many commercial lending institutions offer the following SBA guaranteed loans. However, one author (Zuckerman, L. 1990) states that most banks will not make an SBA guaranteed loan for less than \$100,000.

**Program: 7(a) Loan Guaranty** - Through 7(a) the SBA guarantees loans to small businesses unable to obtain financing at reasonable terms through normal lending channels. The program promotes small business formation and growth with loans for many business purposes, such as real estate, expansion, equipment, working capital or inventory. Terms are:

- SBA guarantees 75% of the loan amount up to \$750,000
- SBA guarantees 80% for loans of \$100,000 or less
- The maximum interest rate is 2.75% over the prime lending rate
- Loan periods are up to 10 years for working capital and up to 25 years for fixed assets

## Resources and Resource Partners

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### The 7(a) Program offers the following loans:

- **Low Documentation Loan (LowDoc)** - This program reduces paperwork for loans of \$100,000 or less. In order for the lender to request a LowDoc guaranty, the applicant must submit a one-page application and meet all of the lender's requirements. Approval relies on the strength of the applicant's character and credit history.
- **CAPLines** - CAPLines finances a small businesses' short-term, cyclical working-capital needs. CAPLines funds five types of short-term working capital loans: the Seasonal, Contract, Builder's, Standard Asset-Based, and Small Asset-Based. Under CAPLines, the SBA generally can guarantee up to \$750,000.
- **SBAExpress** - Makes it easier and faster for lenders to provide small business loans of \$150,000 or less, allows lenders to use their own forms and processes to approve loans guaranteed by the U.S. Small Business Administration, provides a rapid response from the SBA--within 36 hours of receiving your complete application, lets lenders take advantage of electronic loan processing, and helps lenders provide smaller revolving. Lenders participating in *SBAExpress* can use their own forms and processes to approve loans in amounts up to \$150,000, and provide minimal paperwork to the SBA to obtain a 50 percent guaranty on the loan, and may approve unsecured lines of credit up to \$25,000. The maximum loan amount for *SBAExpress* is \$150,000.
- **Minority and Women's Prequalification Loan** - This program allows the SBA to pre-qualify a guaranty for loan applications of \$250,000 or less before the applicant goes to a bank. The program evaluates an applicant's key financial ratios, business history, loan request terms, character, credit, experience, and reliability rather than assets. Designated intermediaries work with the business owner to review and strengthen the loan application. SBA offers this program through a number of its district offices nationwide — contact your nearest SBA district office to find out if it is available in your area.
- **Certified Development Companies** - A Certified Development Company is a nonprofit corporation contributing to its community's or region's economic development. Nationwide, approximately 290 CDCs work with the SBA and private-sector lenders to finance expansion or modernization of small businesses. Each CDC covers a specific area, providing long-term, fixed-rate financing to small businesses for real estate, machinery, and equipment. At least 10% of the loan amount is provided by the borrower, 50% by an unguaranteed bank loan, and the remainder by an SBA-guaranteed debenture (a maximum of \$1 million).

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## Resources and Resource Partners

- **Disabled Assistance Loans** - There is no funding for this SBA program. However, people with disabilities may qualify for other SBA programs.

**Equity Financing** - This is where business funds are provided in return for part ownership. Ownership might be:

- A general partnership where the individual participates in management, decisions, and profit;
- A limited partnership where there is no say in the management or decision making and liability is limited to the investment;
- Stock ownership in a corporation where the investor purchases shares of the company.

**Family and Friends** - Family and friends are the most frequently-used source of business financing. Often family and friends are co-signers for bank loans.

**Grant Money** - Currently there is no stable and consistent resource for grant monies for people with disabilities who want to start businesses.

**Loan Pools or Peer Lending** - Peer lending loans are made based on an individual's integrity and character — not on assets or collateral. Each of the 4 to 7 people in the “borrowing group” is a business owner. Each must prove to the group that he or she can repay his or her own loan, and all loans must be current before anyone can borrow more. The group provides monitoring, networking, and support.

For example, Women's Economic Growth (WEG) in Weed, California, was formed in 1988 to improve the economic self-sufficiency of women in Siskiyou County, California. BankAmerica Community Economic Development Initiative funds support WEG's peer lending program. WEG offers training and technical assistance (in lending and borrowing), peer support, and step-up loans (\$1,000 maximum for the first loan, \$2,000 maximum for the second loan, etc., based on the group's repayment history and overall performance). WEG prepares borrowers to move on to other public and private lenders. Peer lending groups complete a six-week certification process so they may act as their own loan committees. Each group resolves its members' business problems and deals with delinquencies. This labor-intensive approach reduces the risks for both WEG and the borrower.

**Microloan Organizations** - These nonprofit agencies usually make loans that are less than \$10,000 to targeted populations. However, some agencies provide larger loans — up to \$25,000. These organizations include:

## Resources and Resource Partners ---

- **SBA's Microloan Program** - This SBA program is offered through many microloan organizations. Please see the discussion under "Small Business Development Center."
- **Minority and Women's Prequalification Loan** - This SBA program is offered through many microloan organizations. Please see the discussion under "Commercial Lending Institutions."

**Nontraditional Lenders** - These include sources such as The Money Store, AT&T Financial Corp, credit cards, etc.

**Owner's equity** - This is the owner's investment in the business.

**Partnership** - The business owner partners with one or more others to provide financial support for the business and/or allow each to share complementary strengths. For example, a talented electrician with limited telephone, ordering, organizational, scheduling, customer service, office, and bookkeeping skills might partner with someone skilled in those areas.

**Purchase Order Loan** - This short-term loan provides working capital to a business. The lender loans money for eligible costs against a signed purchase order.

**Small Business Development Centers (SBDCs)** - Administered by the SBA, SBDCs help current and prospective small business owners develop and manage their businesses. The SBA, private sector, educational community, and state and local governments cooperate to offer SBDC services. There are over 950 SBDCs located primarily at colleges and universities in all 50 states. Some SBDCs are participating in a pilot Microloan Program that provides short-term, small business loans of up to \$25,000 for machinery and equipment, furniture and fixtures, inventory, supplies, and working capital. The money can not be used to pay existing debts.

**Small Business Innovation Research Program (SBIR)** - This SBA program allows qualified small businesses to propose innovations that meet the Federal Government's specific research and development needs. Applicants compete for awards to study the feasibility and scientific and technical merit of an idea. These "Phase I" awards are awarded for up to 6 months. Competitive "Phase II" awards expand on the Phase I results and are granted for periods of up to 2 years. "Phase III" awards commercialize the Phase II results with private sector or non-SBIR federal money.

**Small Business Investment Company Program (SBIC)** - Privately-owned SBIC's invest in, or loan capital to, small businesses. These for-profit programs invest their own money, plus that from SBA guaranties and/or from sales to the SBA of preferred stock. Although many SBICs invest in a wide variety of businesses, some specialize in certain fields or businesses with new products or services that have strong growth potential.

**Social Security Administration (SSA)** - In 1994, the social Security Administration developed Social Security Work Incentive Programs to (1) increase employment of current and future SSA disability beneficiaries, (2) increase self-sufficiency, and (3) reduce dependency on SSA benefits. While most of these work incentives are used when a person with a disability works for someone else, two programs — the Impairment Related Work Expense program (IRWE) and the Plan for Achieving Self-Support (PASS) program can be used for people who want to start their own businesses. Of the two programs PASS plans are used most often for self-employment. For those who qualify, the PASS plan provides an additional source of business funding that is not accessible to people without disabilities.

- **Impairment Related Work Expenses (IRWE)** - An IRWE enables recipients of SSI benefits to recover some of the costs of work-related expenses incurred as a result of the disability.
- **Plan for Achieving Self-Support (PASS)** - Under this Social Security Work Incentive Program a person may set aside income and/or resources over a specific period of time to fund necessary goods and services to establish a business or to become a partner in an existing business. PASS funding may be used in conjunction with conventional loans and other business finance sources. The Social Security Administration reviews written PASS and business plans before authorizing a PASS.

**Venture Capital** - Venture capitalists invest in businesses whose owners are “experts in their fields.” The businesses must have proven markets and high profit margins and growth rates.

**Veterans Administration** - The Veterans Administration offers vocational rehabilitation services for veterans whose disability is service connected. Veterans with serious employment handicaps may receive self-employment assistance. Veterans who qualify for assistance, typically people with the most severe disabilities, are considered to require self-employment to achieve a positive rehabilitation outcome. These veterans may receive comprehensive training; minimum stocks of inventory or supplies; essential equipment; technical assistance through the period of start up, and incidental services such as business license fees.

**Vocational Rehabilitation** - Depending on an individual’s needs VR agencies may use Section 110 funds to assist with opening a business. Amounts vary depending on the type of business. Another use of VR funds distributed in this manner is that they can be used to leverage funds from other sources such as a microloan program.

## The Loan Process

**Lenders will not give a person special consideration for loans because of his or her disability.**

Lenders will not give a person special consideration for loans because of his or her disability. However, a woman or minority individual with a disability may be given special consideration (as discussed in the previous two sections). The lender will ask the consumer about his or her personal financial situation, credit history, assets, and collateral (10-33% of the total cash needed to start the business), how much money will be needed, and how it will be used.

Karla Benson wants a \$50,000 loan. She has good credit, ample collateral, and an investment of 20% of the total cash needed to start her business.

- Karla completes a brief (two-page) financial statement to determine whether the bank will approve the loan. The bank considers her character and credit rating, ability to make scheduled payments and repay the loan, capitalization of her business (to ensure that it is not undercapitalized), and Karla's investment.
- The bank does not always request a business plan, but likely will require one if Karla's business appears financially weak or if it needs more information.

Lenders, other than banks, with special programs for financing potential or established businesses usually require a business plan. Compared to banks these lenders give smaller loans and have more lenient lending requirements. They need a business plan because, unlike banks, many of these organizations do not require that loan seekers have large assets and equity. A well-written business plan where the business looks feasible may reduce the risk of start-up. Banks, which tend to fund existing businesses, focus on financial strength. Other lenders tend to focus on the feasibility of the new business.

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## Resources and Resource Partners

Funder aside, many think that a business plan is essential to help a person “think through” his or her business idea and examine key considerations prior to embarking on the venture. The lender will expect the borrower to answer some questions such as:

- Who is your target market?
- How will you reach your target market?
- What research did you do to see if people are interested in your product or service?
- Why do you think your business will be viable?
- What is the state of this industry?
- Who is your competition?
- What are your credentials?
- What are the credentials of your managers?
- What will you use the loan for?
- Will it cover costs?
- Will the business be capitalized adequately?

Many places, including the SBA’s SBDCs and SCORE, help develop business plans. Most cities also have economic development resources, programs, and organizations with unique local services and/or perspectives. Outside metropolitan areas these resources may be limited, however.

A borrower’s presentation to the lender can make or break the loan. The financing plan should have been reviewed so that the lender’s copy is professional, accurate, and error free. The business owner should have prepared the proposal with confidence that he or she can answer any of the lender’s questions and defend all assertions. The borrower should dress and speak professionally. There may be questions about the person’s disability and his or her ability to run the business. Answering is at the borrower’s discretion, but a verbal explanation or a written statement in the business plan may help the lender understand the impact the disability has on the business.

**In a nutshell:** The applicant goes to the bank. The lender asks for either a business plan or a personal financial statement. The lender either is interested in making the loan (based on ample assets, collateral, good credit, etc.), or is uncomfortable and wants a guarantee. If the lender is interested, the application goes through various committees at the bank for approval — the time this takes varies among banks. If the bank is uncomfortable with making the loan, the lender routes the application through SBA to get a government guarantee, which usually takes two weeks. Based on SBA’s response, the lender either approves or rejects the loan.

If the loan is rejected by the bank but the applicant is determined to start a business, it is time to approach other lenders such as a microloan program.

## Resources and Resource Partners

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### Working With Lenders

Like the SBA, many lenders have not worked with people with disabilities. It might be helpful for the counselor and/or advocate to anticipate the lender's questions and role-play the situation with the consumer prior to his or her meeting with the lender. You also might accompany the consumer to the loan interview, providing support appropriate to his or her needs. You can relay information for the person whose speech is difficult to understand, or offer calm encouragement to the person with an emotional disability. Your familiar presence can help a person who has been unemployed for a long time overcome his fear of the unknown. If the lender has questions about business accommodations for disabilities, you can also provide technical information.

**The counselor is an advocate and provides support for the applicant without interfering in the dialogue between the applicant and lender.**

## Programs for Minorities

### The Small Business Administration

The Small Business Administration funds the Minority Enterprise Development (MED) program. This 8(a) program helps socially and economically disadvantaged small business owners access a variety of business development services. These include the opportunity to receive sole-source or limited-competition federal contracts. Under 8(a), SBA enters into prime contracts with federal departments and agencies who then subcontract with eligible disadvantaged small businesses. Eligible program participants (i.e., people who are developing their businesses) can receive sole source and competitive 8(a) contract support, U.S. surplus property and technology grants, and training in business principles. Transition-stage 8(a) participants (i.e., those moving to competitive markets) receive sole source and competitive 3(a) contract support, U.S.-owned technology and surplus property grants, business principles skills training, help with forming joint ventures, and training/technical assistance in business planning.

### U.S. Department of Commerce

The U.S. Department of Commerce's Minority Business Development Agency (MBDA) promotes the establishment and growth of competitive minority-owned businesses. MBDA is committed to wealth creation in minority communities. The agency's mission is to promote the growth and competitiveness of large, medium, and small minority business enterprises. To do this MBDA coordinates and leverages public and private sector resources. MBDA funds a network of Minority Business Development Centers, Native American Business Development Centers, and Business Resource Centers located throughout the nation. The centers provide assistance with writing business plans, marketing, management, technical assistance, and financial planning. MBDA also hosts a Minority Business Internal Portal, which provides access to tools and business information to help businesses grow and thrive in the digital economy. It also hosts the Phoenix Database of descriptive information on minority business enterprises and matches firms with contract opportunities. Additionally MBDA has available a variety of publications for public research and review. For more information visit the agency's web site at: [www.mbda.gov](http://www.mbda.gov).

### U.S. Department of Transportation (DOT)

The DOT's Office of Small and Disadvantaged Business Utilization (OSDBU) promotes customer satisfaction through successful partnerships that result in an inclusive and effective small business procurement process. OSDBU provides a wide range of assistance for small businesses owned by socially and economically disadvantaged individuals, including minorities and women, in participating in contracting opportunities in the following areas: (a) advocacy to expand opportunities for all businesses, especially small women-owned, and disadvantaged

## **Resources and Resource Partners**

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businesses; (b) outreach to provide transportation-related business opportunity information and assistance to the small business community and (c) financial services through the short-term lending program and the bonding assistance program.

### **Office of Disability Employment Policy**

In the FY 2001 budget, Congress approved an Office of Disability Employment Policy for the Department of Labor. Programs and staff of the former President's Committee on Employment of People with Disabilities have been integrated in this office. The Office of Disability has identified many programs and activities including a cultural diversity initiative and self-employment for people with disabilities. For more information contact The Office of Disability Employment Policy by mail at 1331 F Street, N.W. Suite. 300, Washington D.C. 20004; by phone at 202-376-6200 (voice) or 202-376-6205 (TTD), by FAX at 202-376-6219, or check out their web page at <http://www.dol.gov/odep/>.

## Resources

Besides the programs discussed above, each community, county, and state has a variety of other resources that may be tapped to assist with business development and retention and with community economic development efforts. These resources include local libraries, chambers of commerce, industry and trade associations, manufacturers or suppliers of products and services, and the resources listed below. This section is not exhaustive, but provides examples of what may be available for the people you assist with achieving self-employment and to your agency. In addition, this section contains just a small sampling of helpful books and worldwide web pages. Again, these are provided to assist as a springboard for discovering other available resources.

### Business Development Directories

Most states or regions within a state publish statewide or regional directories. They may have different titles but look for something similar to the *Montana Business Assistance & Community Development Resource Directory* or the *Business Resource Directory: A Practical Guide to Financing and Business Development Services in Southwestern Pennsylvania*. Generally they provide program descriptions so individuals can locate the services or organizations that can address their specific question or need.

For example, the Montana directory contains an index of agencies, organizations, and programs; then divides the programs into finance and tax incentive programs, technical assistance programs, industry and government associations, and local office listings for statewide and regional programs. Then local resources are provided. First is an alphabetical list of organizations by name followed by the resources that are available in each county. Brief descriptions of each program are provided.

The *Southwestern Pennsylvania Directory* is organized so business owners searching for a particular service or financing tool can find what they need by referring to a business resource matrix. This is followed by program descriptions.

Some of the resources listed for the Pittsburgh area in the *Southwestern Pennsylvania Directory* include:

- Pittsburgh Vision Services Business
- Enterprise Venture
- Ben Franklin Technology Center
- University of Pittsburgh-SBDC
- Duquesne University-SBDC
- SCORE (local chapter)

## Resources and Resource Partners

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- Allegheny County MBE/WBE Certification Program
- Small Business Administration
- Urban Redevelopment Authority of Pittsburgh
- Minority Enterprise Corporation of Southwestern PA
- Minority Business Administration, City of Pittsburgh
- Community Loan Fund of Southwestern PA

## Programs or Organizations Specifically for Persons With a Disability

There are programs across the United States that specifically serve individuals with disabilities or have programs within their agency or organization that are dedicated to individuals with disabilities who are considering business ownership. These programs can serve as model programs and provide technical assistance to you or your agency. They include:

- **BOLD Consulting Project (Businesspeople Overcoming Limitations from Disabilities)**

Alice Weiss Doyel  
12136 W. Bayaud Avenue, Suite 100  
Lakewood, Colorado 80228-2115  
877.746.4324)  
email: bold@bold-owners.com  
<http://www.bold-owners.com>

BOLD Consulting Group provides resources, consulting services, and training for organizations that want to start, modify or expand entrepreneurship programs for people with disabilities; works with government and non-profit organizations on the development and management of entrepreneurship programs for people with disabilities; is dedicated to providing persons with disabilities the opportunity to explore entrepreneurship as an employment option.

■ **Disabled Businesspersons Association**

Urban Miyares  
San Diego State University, Interwork Institute  
5850 Hardy Avenue, Suite 112  
San Diego, CA 92182-5313  
619.594.8805  
[e-mail:info@disabledbusiness.com](mailto:info@disabledbusiness.com)  
<http://www.disabledbusiness.com>

The Disabled Businesspersons Association (DBA) is a national 501(C)(3) nonprofit, public charity and educational organization founded in 1991 to help disabled entrepreneurs and professionals maximize their potential in the business world, and to encourage the participation and enhance the performance of the disabled in the workforce.

■ **Iowa's Entrepreneurs with Disabilities Program**

Patti Lind  
101 E. Van Buren  
Centerville, IA 52544  
641.856.5573  
1.888.472.6055  
[e-mail:ewd@jetnetinc.net](mailto:ewd@jetnetinc.net)  
<http://www.iowaewd.org>

Iowa's Entrepreneurs with Disabilities Program can provide information on enabling legislation, administrative rules, and program materials available to state government organizations.

■ **Partnership Development Group**

Morris Tranen  
1215 Annapolis Road, Suite 202  
Odenton, MD 21113  
410.519.7333 (voice)  
410.519.1208 (fax)  
410.519.1209 (TTY)  
e-mail: tranen@risepartners.com  
<http://www.tpdgroup.com/RISE/>

Partnership Development Group is a national consulting firm that focuses on self-employment for persons with disabilities. Services include program planning and design, regional and local market analysis, entrepreneurship training, staff development, client tracking and evaluation.

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### Rural Institute on Disabilities

Nancy Arnold  
Room 52 Corbin Hall  
The University of Montana  
Missoula, MT 59812  
406.243.2469  
<http://ruralinstitute.umt.edu/>

The Research and Training Center on Rural Rehabilitation Services works with vocational rehabilitation agencies and Independent Living Centers to promote the use of self-employment and economic development activities within those programs. As a result of research it has developed a model state VR policy, implementing procedures, and a counselor curriculum.

### ■ The Small Business and Self-Employment Service

Job Accommodation Network  
P.O. Box 6080  
Morgantown, WV 26506-6080  
800.526.7234 (voice)  
304.293.5407 (FAX)  
<http://www.jan.wvu.edu/SBSES>

The Small Business and Self-Employment Service (SBSES) is a service of the U.S. Department of Labor's Office of Disability Employment Policy. SBSES provides comprehensive information, counseling, and referrals about self-employment and small business ownership for people with disabilities.

## Books

Many books on starting a business or on developing a business plan are available at bookstores and libraries. The following lists just a few of those books.

- *On Your Own: A Woman's Guide to Building a Business (2nd Ed)*, Laurie B. Zuckerman, Upstart Publishing, Inc.
- *The Business Planning Guide (6th Ed)*, Book & Software. David H. Bangs, Upstart Publishing, Inc.
- *Anatomy of a Business Plan (3rd Ed)*, Linda Pinson & Jerry Jinnett, Upstart Publishing, Inc.
- *How to Really Create a Successful Business Plan: Step-by-Step Guide (3rd Ed)*, David E. Gumpert, Inc. Publishing.
- *Directory of U.S. Microenterprise Programs* published by the Self-Employment Learning Project of the Aspen Institute, 133 New Hampshire Avenue, NW, Suite 1070, Washington, D.C.

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## Resources and Resource Partners

- *Business Plans for Dummies: A Reference for the Rest of Us*, Paul Tiffany & Steven D. Peterson, IDG Books Worldwide.
- *Government Giveaways for Entrepreneurs II (4th Ed)*, Matthew Lesko, Information U.S.A.
- *Starting and Operating a Business in (State): A Step-by-Step Guide*, PSI Research, The Oasis Press/PSI Research, Grants Pass, Oregon.
- *The Best Home Businesses for the 21<sup>st</sup> Century: The Inside Information You Need to Know to Select a Home-Based Business That's Right for You*, Paul and Sarah Edwards, Penguin Putnam, Inc.
- *The Perfect Business*, Michael LeBoeuf, A Fireside Book Published by Simon & Schuster.
- *No More Job Interviews! Self-Employment Strategies for People with Disabilities*, Alice Weiss Doyel, Training Resource Network, Inc., St. Augustine, Florida.

### Small Business Resources

#### ■ Canada/British Columbia Business Service Center

<http://www.sb.gov.bc.ca/>

Hosted by the BC government, this site is full of practical advice, exploring tips on small business opportunities, and how to become an employer.

#### ■ Costco

Costco Connection

999 Lake Drive

Issaquah, WA 98027

425.313.8510

<http://www.costco.com/>

Costco publishes *Costco Connection*, a lifestyle magazine for small businesses.

#### ■ Internal Revenue Service

<http://www.irs.gov/business/small/index.html>

Visit the IRS website or call 1.800.829.3676 for information on a variety of products developed for small business/self-employed.

## Resources and Resource Partners ---

### ■ Service Corps of Retired Executives

409 3<sup>rd</sup> Street, SW, 6<sup>th</sup> Floor  
Washington, DC 20204  
1.800.634.0245  
<http://www.score.org>

The Service Corps of Retired Executives (SCORE) is a resource partner with the U.S. Small Business Administration. SCORE is dedicated to aiding in the formation, growth, and success of small business nationwide.

### ■ Small Business Administration

409 3<sup>rd</sup> Street SW  
Washington, DC 20416  
1.800.827-5722  
<http://www.sba.gov>

SBA offers training, advocacy, and loan guarantees for small firms in every state and works with thousands of lending, educational, and training institutions.

### ■ Women's Business Center Online

email: [virtual@onramp.net](mailto:virtual@onramp.net)  
[http://www.onlinewbc.gov/about\\_us.html](http://www.onlinewbc.gov/about_us.html)

The goal of the WBC is to provide entrepreneurial women with the information and expertise they need to plan their economic independence through owning their own business. WBC's online forums, message boards, resource database, links, and informative articles are tools offered free of charge.

## Invention/Innovation Assistance

There are programs that evaluate inventions. For example, many states have a center located at a University that evaluates an invention's marketability.

One such program is the **Wisconsin Innovation Service Center**, at the University of Wisconsin, Whitewater. It conducts market and technical feasibility assessments of new product ideas. WISC offers an affordable way for inventors and entrepreneurs to have their ideas evaluated and get enough information to make well-informed decisions on the further development of their products. To order more information about the Wisconsin Innovation Service Center, contact them at 262.472.1365, 402 McCutchen Hall, Whitewater, WI 53190, or on the worldwide web at <http://academics.uww.edu/business/innovate/innovate.htm>.

Another program is conducted by the **Inventions & Innovation Program (I&I)**, U.s. Department of Energy. The Inventions and Innovation Program provides financial and technical support to inventors and businesses for promising energy-saving concepts and technologies. I&I selects technologies to receive grants through a competitive process. To learn more visit <http://www.eere.energy.gov/inventions>.

## Colleges and Universities

Many colleges, community colleges, and universities house programs that assist prospective or current business owners with business development activities. For example, many business schools conduct classes where the students work with a business owner to conduct market analyses, feasibility studies, or to develop business plans, or will assist a business with similar activities once it is operating. Business school interns also are a possible resource to assist with business development. Small Business Development Centers are aligned with units of higher education. Many schools house business assistance centers such as **Montana Business Connections**, which is located at the University of Montana or technology assistance centers such as the **Wisconsin Innovation Service Center**, discussed under the invention/innovation assistance section above.

## Franchise Information

### Book

- *How to Open a Franchise Business*, Mike Powers, Avon Books.

### Web Sites

- **The Franchise Doctor**

<http://www.franchisedoc.com/evaluate.html>

- **State Franchise Information Guidelines**

<http://www.smartbiz.com/sbs/arts/frb4.htm>

Although all franchises are subject to the Federal Trade Commission regulations, many states have additional laws governing franchises and similar business opportunities. This site provides state-by-state information on state franchise and business opportunity statutes; laws affecting franchise transfers, renewals, and terminations; state franchise law enforcement offices; and state advertising filings and review procedures.

## Resources and Resource Partners ---

### ■ Entrepreneur Magazine

<http://www.entrepreneur.com>

This web site lists *Entrepreneur Magazine's* top 500 franchise rankings. Only franchise companies that submitted complete U.S. *Uniform Franchise Offering Circulars (UFOCs)* or Alberta, Canada disclosure documents and whose information *Entrepreneur* verified from the disclosure documents were eligible to receive a listing in the magazine and online database.

### ■ FranInfo

<http://www.franinfo.com/default.html>

FranInfo's purpose is to provide as much information regarding all aspects of franchising as it can within certain limits that constrain all commercial endeavors. Its site alphabetically lists telephone numbers of the most frequently asked about franchises and a page of "Outstanding Franchises Home Pages."

### ■ United States Postal Inspection Service: Distributorship and Franchise Fraud

<http://www.usps.gov/websites/depart/inspectemplmenu.htm>

Lists some things to watch out for when investigating a franchise opportunity.

### ■ The Franchise Handbook On-Line

<http://www.franchise1.com>

*Enterprise Magazines, Inc.* franchise page. Among other features contains lists of featured franchises, a directory of franchise opportunities, the latest news about the franchise industry, articles on franchising, list of worldwide franchise associations, and links to franchise information on the web.

## Minority Resources

### African American Resources

#### ■ African-American Web Connection

<http://www.aawc.com/aawc.html>

This site provides a doorway to "Afrocentric" web resources.

### ■ **Black Business Connection**

Wright Side Up, Inc.  
405 Tarrytown Road, Room 376  
White Plains, NY 10607  
<http://blackamerica.tripod.com>

Wright Side Up Inc. is an online marketing and publishing firm based in Westchester County, New York. It helps small businesses and independent consultants gain exposure and market their product/services effectively for very little cost. The web site, *BlackBusiness*<sup>SM</sup>, is the main vehicle through which they accomplish this goal. They do in-house graphics/layout work and offer these services to other businesses. They firmly believe in the entrepreneurial spirit and support those in realizing the American Dream. If you have any suggestions for this web site, contact them.

### **Hispanic Resources**

#### ■ **HISPANIC Magazine**

98 San Jacinto Boulevard, Suite 1150  
Austin, TX 78701  
512.476.5599  
<http://www.hispaniconline.com/magazine/>

HISPANIC Magazine's web site highlights articles from back issues and provides links to other Hispanic web sites.

#### ■ **HispanicBiz-Business Resources**

Instant Communications  
7654 Coral Way  
Dublin, CA 94568  
510.828/7350 ext. 3  
<http://www.hispanicbusiness.com/>

This site provides a one-stop information services for small businesses, professionals, and students in California and worldwide.

## Resources and Resource Partners

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### ■ **The Latino Economic Development Corporation, Inc.**

2316 18<sup>th</sup> Street NW  
Washington, DC 20009-1815  
202.588.5102  
<http://www.ledcdc.org>

Helps low income Latinos obtain housing by using government funds and directs Latinos to nonprofit organizations that procure funds for business development.

### ■ **United States Hispanic Chamber of Commerce**

2175 K Street NW, Suite 100  
Washington, D.C. 20037  
202.842.1212  
202.842.3221 (fax)  
<http://www.usbcc.com>

The U.S. Hispanic Chamber of Commerce advocates, promotes, and facilitate the success of Hispanic businesses.

## Native American Resources

### ■ **American Indian Chamber of Commerce**

Use a search engine (like Google) to search for American Indian Chamber of Commerce.

### ■ **Oklahoma Native American Business Development Center**

616 S. Boston Ave., Suite 304  
Tulsa, OK 74115  
918.592.1113  
918.592.1212 fax  
<http://www.indiansbusiness.org/>

Provides free business start-up, financial management, financial analysis, marketing management, business plans, and procurement assistance for Native Americans.

### ■ **Tribal Credit Programs**

Some tribes have initiated credit programs to serve members. In many instances, interest rates are very attractive and offer an alternative funding source for persons seeking to start their own business.

■ **Bureau of Indian Affairs**

The Indian Financing Act of 1974 provides guaranteed loans, direct loans, and grants to tribes, tribal members, and Indian organizations for establishing, expanding, or purchasing a business on or near a reservation when financing is not available from normal sources. Programs include.

- **Guaranteed Loan Program** - These are loans made by private lenders, usually commercial banks, on which payment is guaranteed for up to 90% of the unpaid interest and principal balance in event of default by the borrower. The purpose of the guarantee is to assist the borrower in obtaining loans from private lenders by providing additional collateral needed to secure the loan.
  
- **U.S. Direct Loans** - Direct loans are made directly from the U.S. government through the Bureau of Indian Affairs. Direct loans are made under the following criteria: Applicants must demonstrate they are unable to obtain funds from other sources, including the BIA loan guaranty or grant programs; the maximum amount is \$350,000 for individuals; and the applicant must have equity equal to 20% of the total cost of the business to be financed.

**Chapter 7: Resources and Resource Partners Study Guide**

1. The Small Business Administration loans money to small businesses.  
T\_\_\_\_\_ F\_\_\_\_\_
  
2. The Small Business Administration is one of the \_\_\_\_\_ sources of assistance and funding available to small businesses.
  
3. Counselors should visit the local SBA office to determine it's \_\_\_\_\_ and the \_\_\_\_\_ a consumer would need to use its services.
  
4. There are many grants available for people with disabilities to start a business.  
T\_\_\_\_\_ F\_\_\_\_\_
  
5. For people with disabilities, family and friends most often are the people who provide financing for a start-up business.  
T\_\_\_\_\_ F\_\_\_\_\_
  
6. A woman or a minority individual with a disability may be given special consideration for loans because of being a woman or a minority. T\_\_\_\_\_ F\_\_\_\_\_

## Resources and Resource Partners

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7. When seeking a business loan, the business owner should be prepared to \_\_\_\_\_ any of the lender's questions and defend all assertions.
8. VR funds can be used to leverage funds from other sources. These funds may count towards the 10-33% equity some lenders require. T\_\_\_\_\_ F\_\_\_\_\_
9. It is appropriate for a VR counselor to participate in the loan interview. The counselor can advocate for and provide support by explaining accommodations for or providing information about a disability. T\_\_\_\_\_ F\_\_\_\_\_
10. List and explain two sources of assistance for minority entrepreneurs.

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# Social Security Work Incentives

Self-employment including partnerships, business resource ownership, and limited partnerships are progressive, beneficial tools that enhance the economic lives of the people served and the towns in which they live. People with disabilities are increasingly a focal point for entrepreneurial activities because so many have access to small business start-up money, or investment funding for established enterprises, that is not available to others. Social Security Work Incentive Programs including Plans to Achieve Self-Support (PASS Plans) are examples of this available funding. A Plan for Achieving Self-Support allows a person with a disability to achieve a work goal by setting aside income and/or resources for a specific period of time. Any SSI recipient or eligible applicant can have a plan. A 1996 Government Accounting Office report stated that 34.2 percent of the 10,000 PASS Plans in operation had set aside money for self-employment opportunities. Social Security recipients used this money to buy real estate, business equipment, tools, computers, vehicles, clothing, livestock, and other items and services so they could become working, contributing community members. Their businesses' chances of success were also enhanced if the available funding allowed leverage of other resources (SBA loans, bank and credit union loans). PASS plans are an excellent and workable part of the funding mix.

**PASS Plans can augment VR dollars.**

**When considering a PASS, a benefits analysis should be conducted to determine the feasibility and impact the PASS will have on any other benefits the person is receiving or will receive.**

This chapter discusses PASS plans, Impairment-Related Work Expenses (IRWEs), and Subsidies. Although these could be the topics of daylong (or longer) workshops, our goal here is just to provide a basic description of how work incentives apply to self-employment.

## Social Security Work Incentives

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### Acronyms and abbreviations used in this chapter:

**BWE** - Blind Work Expense

**DAC** - Disabled Adult Child

**EPE** - Extended Period of Eligibility

**FBR** - Federal Benefit Rate

**IRWE** - Impairment Related Work Expense

**PASS** - Plan for Achieving Self-Support

**SGA** - Substantial Gainful Activity

**SSDI** - Social Security Disability Insurance

**SSI** - Supplemental Security Income

**Title II** - Legislation Outlining Social Security Disability Insurance and Social Security for Disabled Adult Children

**Title XVI** - Legislation Outlining Supplemental Security Income

**TWP** - Trial Work Period

## A Social Security Perspective on Work Incentives

The Social Security Administration understands that people with disabilities often see disability programs as barriers to employment. Even with programs and provisions such as the Trial Work Period, Employment Subsidy, extended Medicaid coverage, IRWE, and Plans for Achieving Self-Support, very few beneficiaries leave the benefit rolls and return to work.

In 1994, the Social Security Administration began a concerted effort to increase employment of current and future SSA disability beneficiaries, to increase their self-sufficiency and reduce dependency on the benefit rolls. As a result of meetings and focus groups with other Federal agencies, people with disabilities, and members of the community, SSA instituted policy changes and education concerning employment of people with disabilities.

**SSA addressed barriers to employment, such as:**

- The perceived security of regular monthly checks versus the insecurity of lost benefits;
- Lost medical coverage;
- Periodically-unstable employment markets;
- Young enrollees with few or non-existent employment skills;
- Complex benefit program rules, regulations and practices that are difficult to understand.

**In developing a strategy to encourage employment, SSA assumed that:**

- Many people with disabilities can and want to work.
- SSA can help people with disabilities begin or return to work.
- When supports are in place, beneficiaries can work despite barriers.

**Social Security Work Incentive Programs** (including PASS) promote employment and independence for people entering or re-entering the workforce. Both Title II (SSDI) and Title XVI (SSI) have work incentive programs that allow people to work without the fear of losing their benefits.

**Title II Work Incentive Programs include:**

- **Trial Work Period (TWP)**, which allows people to try work without losing medical and financial benefits; and
- **Extended Period of Eligibility (EPE)**, for beneficiaries who remain medically disabled and may need extended Medicare coverage or purchase of Medicare following return to work, and reinstatement if earnings fall below SGA.

**Title XVI Work Incentives include:**

- Ongoing Medicaid benefits when a person's income precludes SSI benefit checks (1619 (a) & (b));
- **IRWE**, an incentive enabling a person to recover impairment related expenses incurred while working toward economic self-sufficiency; and
- **PASS**, also an incentive enabling a person to recover expenses incurred while working toward economic self-sufficiency.

### Social Security Benefit Programs

These programs include Title II Social Security Disability Insurance (SSDI), Title XVI Supplemental Security Income (SSI), Impairment Related Work Expenses (IRWE), and programs for people with blindness. Each is discussed on the following pages.

**Title II - Social Security Disability Insurance (SSDI)** - To be eligible for Title II, an individual must have worked long enough to achieve *insured status*. Insured status for benefits requires that an individual worked and paid Social Security taxes for 20 quarters in the 10 years prior to the onset of disability. A person disabled before age 31 needs less work time to qualify. To be eligible for SSDI benefits, an individual must:

- Be determined medically disabled;
- Be unemployed or earning under SGA (in 2004, defined as \$810 or \$1530 if blind), and;
- Have insured status as a former worker.

An adult with a disability who does not have enough work quarters to qualify for insured status may receive Title II benefits based upon a parent's insured status. This is called Social Security for Disabled Adult Children (SSDAC). To be eligible for SSDAC benefits a person must be:

- 18 years of age or older;
- Totally and permanently disabled before age 22;
- A dependent of an insured worker who is either disabled, retired or deceased; and
- Not married.

SSA Title II Medicare provides medical services to Title II beneficiaries, but there is a waiting period for each. Cash benefits begin five months *after the month of the onset of the disability*. Medicare coverage does not start until *24 months after disability cash benefits begin*.

For a PASS, Title II benefits are viewed as **unearned** income. In many cases, SSDAC or SSDI benefit amounts are below the Federal Benefit Rate of \$564 in 2004. As a result, recipients of SSDAC or SSDI very often receive checks from *both* Title II and Title XVI to reach the 2004 \$564 Federal Benefit Rate.

**Example:**

SSI Benefit Calculations:	
SSDAC Benefit	\$450
Minus General Exclusion	<u>-20</u>
Total Countable Income	\$430
FBR	\$564
Minus Total Countable Income	<u>- 430</u>
SSI Cash Benefit	\$134
Income Available:	
SSDAC	\$450
Plus SSI Cash Benefit	134
General Exclusion	<u>20</u>
Total Usable Income	\$604

**Title XVI - Supplemental Security Income (SSI)** - SSI is an economic **need-based** program that supplements a person's income to ensure that he or she has a minimum level of income. SSI-eligible individuals must meet the income and resource test and belong to one of the following categories:

- Disabled (Disability Determination Services determination);
- Blind: 20/200 or less in the better eye with correction, or field of vision less than 20 degrees, or;
- Aged 65 or older

Each January, Congress establishes the FBR, which is the maximum monthly SSI benefit an individual or couple can receive. The FBR for 2004 is \$564. The monthly amount is affected by the following factors:

- Living arrangement and in-kind support;
- Unearned income (Title II benefits, VA, deemed income from a non-disabled spouse, etc.);
- Use of Work Incentives such as IRWE and PASS, and;
- Earned income (wages from work).

## Social Security Work Incentives

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### Income and Resource Test

The SSI benefit program has resource limits on real or personal property and cash that are set by statute. At the beginning of each month, resources must not exceed a specified amount—currently \$2,000 for individuals and \$3,000 for couples. **Limits do NOT** apply to: the person's dwelling and its site; household goods and personal property not exceeding \$2,000 in value; burial spaces for the person and his or her immediate family; burial funds for the person and his or her spouse valued at \$1,500 or less or irrevocably set aside; life insurance policies with a combined face value of \$1,500 or less per person; retroactive Title XVI or Title II checks received within the first six months; resources for an approved PASS; property in a trust that is inaccessible to the SSI recipient; crime victim aid to the recipient (or spouse); one automobile if necessary for work, medical treatment, modified, or necessary due to climate, terrain, distance, or similar factors to perform essential daily activities.

### This formula determines the amount of an SSI payment:

Monthly Gross Earned Income  
- \$20 (General Exclusion)  
- \$65 (Earned Income Exclusion)  

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**Difference**, which is divided by 2 to determine the Total Countable Earned Income amount.  
This amount is subtracted from the FBR of \$564 to determine the SSI Cash Benefit.

#### Example:

##### Countable Earned Income Calculations:

Monthly Gross Earned Income	\$635
Minus General Exclusion	- 20
Minus Earned Income Exclusion	- 65
Total Countable Earned Income	<hr/> \$550
Total Countable Earned Income	\$550
Divide by 2	<hr/> ÷ 2
Revised Total Countable Income	<hr/> \$275

##### SSI Benefit Calculations:

Federal Benefit Rate	\$564
Minus Revised Total Countable Income	- 275
SSI Cash Benefit	<hr/> \$289

Monthly earnings of \$635 reduce the SSI Cash Benefit to \$289. The individual receives an SSI check for \$289. However, the \$275 Total Countable Earned Income is **available for use in a PASS plan**.

## Title XVI PASS Rule

The amount of reduction of the SSI check due to earned or unearned income (after deducting the \$20 General Exclusion from either the earned or unearned income) is the amount that can be used to fund goods and services in a person's PASS. The person with no source of income or resources other than Supplemental Security Income (e.g., Title XVI recipient), *must be working* in order to have a PASS.

## In-Kind Support

A person living in someone else's home without paying for food or shelter is the recipient of *full in-kind support*. This person will have his or her SSI check reduced by one-third the FBR amount. In 2004 this amount is \$376 (\$564 - \$188).

## PASS Requirements

Anyone may help develop a PASS, (e.g., vocational counselors, social workers, case managers, employment specialists, or employers). SSA especially encourages VR counselor involvement because it indicates oversight and blends public resources.

**Without evidence to the contrary,  
SSA PASS Specialists presume that an  
occupational goal is feasible  
and a PASS is viable.**

## The PASS Must:

- Be designed specifically for an individual
- Be in writing
- Have a specific work goal that the person is presumed capable of performing
- Specify a time frame for reaching the goal
- Show sources of money and other resources that will be used to reach the goal
- Show how money and resources will be used
- Show how set-aside money will be kept identifiable from other funds
- Be approved by the SSA
- Be reviewed periodically to assure compliance

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### The PASS Cannot:

- Pay for current expenses (e.g., expenses that the PASS recipient was paying prior to the PASS plan)
- Pay expenses to assist an individual retain his or her current employment (e.g., job coaching)

These examples describe situations where a PASS plan might be appropriate:

Richard has resources that are in excess of allowable limits, has **no** earned or unearned income, and has not qualified for SSI in the past because his resources exceed the resource limit (generally defined as over \$2,000 in non-excluded resources). Richard can establish a PASS that sets aside his excess resources and allows him to qualify for SSI benefits.

Sue has only unearned income from her father's railroad pension. Like other people with unearned income only (SSDI, SSDAC, railroad pension checks, parental subsidies/gifts, etc.), Sue can establish a PASS that applies all or part of her unearned income towards PASS expenses so she can qualify for SSI benefits.

Liz has only the income she has earned from working. She can develop a PASS plan that sets aside all or a portion of her Total Countable Earned Income.

Mark has both income earned from working AND unearned income. He can use all or part of his earned income, all or part of his unearned income, or some of each to establish a PASS plan. He can then qualify for SSI benefits.

Charlene expects to earn a salary in the future, but right now she is receiving SSI and Medicaid benefits. She can establish a PASS to set aside her wages beginning with the very first month of employment.

### Medicaid

Many people who establish a PASS plan qualify for Medicaid benefits once a portion of his or her earned or unearned income is invested in a PASS. **Medicaid** is a health insurance program that is funded by both federal and state governments. Medicaid policies often differ significantly from state to state. Eligibility for Medicaid is based, in part, on financial need. States have some discretion in determining who their Medicaid programs will cover and the financial criteria for Medicaid eligibility. To be eligible for federal funds, states are required to provide Medicaid coverage for most individuals who receive federally assisted income maintenance payments, as well as for related groups not receiving cash payments. Medicare is an entirely different national health insurance program that provides hospital and medical

insurance for people 65 years of age and older, certain younger people with disabilities, and people with kidney failure. It is divided into two parts: hospital and medical insurance.

## **PASS Plans For Self-Employment**

A person submitting a PASS with self-employment as the work goal must include a detailed business plan. A business plan is also necessary if the PASS establishes a limited partnership by purchasing equipment or other assets, or if it establishes an independent enterprise in conjunction with a pre-existing business that out-sources work to the new business.

**A business plan meeting the criteria  
recommended in this book and training  
will also meet  
Social Security requirements.**

Social Security requires the following in a business plan: the business's name and address; owner's name; form of business; a description of the business's principle activity, including a description of the product(s) and/or service(s); the business's objectives and timetables for meeting the objectives; an explanation of why the business will succeed; a description of the business's unique features; a description of the target market including demographics; a section on pricing the product(s) and/or service(s); a financial plan; an advertising plan; and a list of personnel and their roles and qualifications.

## **Examples of Allowable PASS Expenditures:**

- Equipment, supplies, operating capital, and inventory required to start a business
- Educational or occupational training facility costs, including tutoring, counseling, etc.
- Attendant care
- Child care
- Equipment or tools, either general use or designed to accommodate the individual
- Uniforms, special clothing (including business wear), safety equipment
- Least-costly transportation, including
  - Public transportation and common carriers,
  - Hiring private or commercial carriers
  - Buying a private vehicle;
- Academic or professional organization dues and publications
- Modifications to make buildings and/or vehicles accessible and operational
- Licenses, certifications and permits necessary for employment

## PASS and People Receiving SSDI or SSDAC (Title II) Benefits

### ■ ■ ■ The Person with SSDI Income Only ■ ■ ■ Who Uses All Total Countable Unearned Income For the PASS

This is a simple PASS to write because unearned income (SSDI over \$564) is available for PASS expenses. Exclusion of the unearned income establishes SSI and Medicaid. The average SSDI check is about \$770/month.

### Before PASS

Discretionary Income: \$770 (SSDI) + \$0 (SSI) + No Medicaid

### After PASS

#### Countable Unearned Income Calculations:

SSDI Unearned Income	\$770
Minus General Exclusion	- 20
Total Countable Income Available for PASS Investment	<u>\$750</u>

Total Countable Income	\$750
Subtract PASS	- 750
Revised Total Countable Income	<u>0</u>

#### SSI Benefit Calculations:

Federal Benefit Rate	\$564
Minus Revised Total Countable Income	<u>0</u>
New SSI Cash Benefit	<u>\$564</u>

PASS Investment: \$750

#### Usable Discretionary Income Calculations:

SSI Cash Benefit	\$564
General Exclusion	<u>20</u>
Usable Discretionary Income	<u>\$584</u> + Medicaid

At first glance, you may wonder why a PASS is a good thing – spendable income appears to have *decreased*. There appears to be *less* money available to pay for living expenses (\$584 as opposed to \$770). In reality, however, there is now a *total of \$1,334* available (\$750 + \$584) AND the person is eligible for Medicaid!

During the lifetime of a PASS, most Title II beneficiaries will be living on what appears to be far less money than before. A beneficiary may be confused and upset by this. The \$564 FBR is less than the SSDI benefit amount for most Title II beneficiaries, but the consumer and PASS counselor must understand that the SSI Medicaid benefits will defray medication costs. For the person with high medical expenses, Medicaid eligibility is an impetus for writing a PASS.

**A PASS should cover as many of a  
person's allowable work expenses  
as possible.**

A PASS should cover as many of a person's allowable work expenses as possible, for example the PASS may pay vehicle expenses such as loan payments, insurance premiums, and upkeep. It can pay telephone bills, buy work clothes, and cover home office expenses. If the person currently buys medication out of his or her SSDI check, Medicaid eligibility will drastically lower those expenses. Often, a person has *more* total income available after PASS authorization than before. Plus, in the above example, he or she is using the \$750 per month to pay for self-employment start-up services and equipment. **Over a 36-month period, that is \$27,000 available to build a business!**

Please note that this example illustrates what occurs if the Total Unearned Income Available is used for the PASS. However, the amount of SSDI that can be put into a PASS is negotiable.

In the next example, the individual puts just a portion of his or her SSI benefit into a PASS. But no matter how much the individual puts into a PASS, the person's Total Discretionary Income remains the same -- \$584.

## Social Security Work Incentives

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### ■ ■ ■ The Person with Unearned Income (SSDI) Only ■ ■ ■ Who Uses A Portion of Total Countable Unearned Income For the PASS

This for a person with \$770 SSDI benefit who wants to put \$500 of the SSDI benefit into a PASS plan.

#### Before PASS

Discretionary Income: \$770 (SSDI) + \$0 (SSI) + No Medicaid

#### After PASS

##### Total Countable Unearned Income Calculations:

SSDI Unearned Income	\$770
Minus General Exclusion	- 20
Total Countable Income Available for PASS Investment	<u>\$750</u>

Total Countable Income	\$750
Minus PASS	- 500
Revised Total Countable Income	<u>250</u>

##### SSI Benefit Calculations:

Federal Benefit Rate	\$564
Minus Revised Total Countable Income	-250
New SSI Cash Benefit	<u>\$314</u>

PASS Investment: \$500

##### Usable Discretionary Income Calculations:

SSI Cash Benefit	\$314
General Exclusion	20
Total Countable Income	<u>250</u>
Usable Discretionary Income	<u>\$584</u> + Medicaid

**■ ■ ■ The Person with SSDAC Unearned Income ■ ■ ■**  
**Who Uses The Total SSDAC Countable Unearned Income For the PASS**

SSDAC is another readily available source of PASS investment money. A previous example provided the scenario of a person with a \$450 SSDAC benefits and \$134 SSI benefits. Building on that example, the following example shows that with a PASS, \$430 (\$450 minus the \$20 General Exclusion) is unearned income available for immediate PASS use. **With a PASS, \$15,480 is available to use for business expenses and discretionary income by \$20 month to \$584.** The person loses nothing because of the PASS investment.

**Before PASS**

Discretionary Income: \$450 (SSDAC) + \$134 (SSI) = \$584 + Medicaid

**After PASS**

Total Countable Unearned Income Calculations:

SSDAC Unearned Income	\$450
Minus General Exclusion	<u>- 20</u>
Total Countable Income Available For PASS Investment	\$430

Total Countable Income	\$430
Minus PASS	<u>- 430</u>
Revised Total Countable Income	0

SSI Benefit Calculations:

Federal Benefit Rate	\$564
Minus Revised Total Countable Income	<u>- 0</u>
New SSI Cash Benefit	\$564

PASS Investment: \$430

Usable Discretionary Income Calculations:

SSI Cash Benefit	\$564
General Exclusion	<u>20</u>
Usable Discretionary Income	\$584 + Medicaid

## Social Security Work Incentives

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### ■ ■ ■ The Person With Both Earned and Unearned Income ■ ■ ■

Hank is a cartoonist earning a gross monthly salary of \$285 (his earned income) and SSDI of \$825 per month (his unearned income). Here are the calculations for his maximum PASS amount:

#### Before PASS

Discretionary Income:	
Earned Income Before Taxes	\$285
SSDI	<u>825</u>
Total	\$1110 + \$0 (SSI) + No Medicaid

#### After PASS

Total Countable Earned Income Calculations:	
Earned Income Before Taxes	\$285
Minus Earned Income Exclusion	<u>- 65</u>
Total	\$220
Divide by 2	<u>÷ 2</u>
Total Countable Earned Income	\$110

Total Countable Unearned Income:	
SSDI	\$825
Minus General Exclusion	<u>- 20</u>
Total Countable Unearned Income	\$805

Total Countable Income Calculations:	
Total Countable Earned Income	\$110
Total Countable Unearned Income	<u>805</u>
Total Countable Income Available for PASS Investment	\$915

Revised Countable Income Calculations:	
Total Countable Income	\$915
Minus PASS Investment	<u>- 915</u>
Revised Total Countable Income	\$ 0

SSI Benefit Calculations:	
Federal Benefit Rate	\$564
Minus Revised Total Countable Income	<u>- 0</u>
New SSI Cash Benefit	\$564

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## Social Security Work Incentives

PASS Investment:	\$915
Usable Discretionary Income Calculations:	
Earned Income Before Taxes minus	
Countable Earned Income	\$175
SSI Cash Benefit	564
General Exclusion	<u>20</u>
Usable Discretionary Income	\$759 + Medicaid

Because Hank is investing the maximum amount he can of his earned and unearned income in the PASS, he is eligible for an SSI check of \$564 per month plus Medicaid benefits. His pre-PASS monthly income was \$1,110 – now Hank’s monthly discretionary income is less – \$759. But he also is investing \$915 in his PASS and he now also is on Medicaid. **He can use his discretionary income to pay for his current and other expenses and use the additional \$915 per month for his business. Over 36 months the PASS provides \$32,940 for his business.**

A PASS using unearned income from SSDI or SSDAC usually is effective and produces excellent results for the person wanting to start a business. SSDI or SDAC (Title II) funding is quite adequate for initial start-up or for leveraging funding through other sources.

<p style="text-align: center;"><b>CAUTION!</b> <b>PASS Applicants must prove they can live on the usable discretionary income remaining after the PASS investment.</b></p>
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## PASS and People Receiving Only SSI (Title XVI) Benefits

### ■ ■ ■ The Person with a Job ■ ■ ■

Tony earns \$771 per month as an electronic assembler. He wants to start a computer repair business but can't without additional income. Here is how a PASS can help him achieve his goal.

### Before PASS

Total Countable Earned Income Calculations:

Earned Income Before Taxes	\$771
Minus General Exclusion	- 20
Minus Earned Income Exclusion	- 65
Total	<u>\$686</u>
Divide by 2	<u>÷ 2</u>
Total Countable Earned Income	\$343

SSI Benefit Calculations:

Federal Benefit Rate	\$564
Minus Total Countable Earned Income	<u>-343</u>
SSI Cash Benefit	\$221

Discretionary Income:

Earned Income Before Taxes	\$771
SSI	<u>221</u>
Total	\$992 + Medicaid

### After PASS

Total Countable Earned Income Calculations:

Earned Income Before Taxes	\$771
Minus General Exclusion	- 20
Minus Earned Income Exclusion	- 65
Total	<u>\$686</u>
Divide by 2	<u>÷ 2</u>
Total Countable Earned Income	\$343
Available for PASS Investment	

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## Social Security Work Incentives

Revised Countable Income Calculations:	
Total Countable Income	\$343
Minus PASS Investment	<u>-343</u>
Revised Total Countable Income	\$ 0
SSI Benefit Calculations:	
Federal Benefit Rate	\$564
Minus Total Countable Earned Income	<u>- 0</u>
SSI Cash Benefit	\$564
PASS Investment:	\$343
Usable Discretionary Income Calculations:	
Earned Income Before Taxes minus	
Countable Earned Income	\$428
SSI Cash Benefit	<u>564</u>
Usable Discretionary Income	\$992 + Medicaid

This is a typical scenario for an SSI recipient. The person's Usable Discretionary Income remains the same – **but over a 36-month period, this person accumulates \$12,348 for developing a business.**

Remember, *a person receiving **only** SSI must be earning a paycheck in order to have a PASS.*

### **CAUTION!**

**Consider any fluctuations in the SSI recipient's pay when writing a PASS. If income occasionally is less than usual, monthly PASS amounts must account for this. If the original PASS uses the person's maximum monthly pay and earnings then decline, the person must pay a portion of the PASS expenses with personal money. A PASS may be modified to reflect a lower earnings rate, however.**

## Social Security Work Incentives

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### ■ ■ ■ A Person with Resources in Excess of Allowable Limits ■ ■ ■

Occasionally, a person receives money or property in excess of Title XVI resource limits, threatening his or her SSI eligibility. Gladys is an SSI beneficiary who was terminated from her job and received a \$5,000 lump sum payment from the company's retirement plan. She had earned \$650 each month at her job – after deductions and dividing by 2, she received \$282.50 from SSI each month. Assuming no other assets, Gladys is now \$3,000 above SSI resource limits. She can write a PASS for \$3,000 (or more) to help her start a business while remaining eligible for SSI and Medicaid. She can buy equipment or inventory, or pay for any education she needs to help her start or run her business. Likewise, an SSI/Medicaid beneficiary with a disability who inherits a trust fund, gets money from a parent, or receives some other money above SSI resource limits can write a PASS plan to reduce the resources below the \$2,000 limit. This continues SSI/Medicaid eligibility while he or she works toward self-sufficiency.

### ■ ■ ■ A Person Expecting Earned Income (In the Near Future) ■ ■ ■ and Receiving SSI

It is possible to write a PASS based on projected earnings and have it approved before employment actually begins. The PASS will begin setting aside wages starting with the first month of employment. This is a very proactive PASS, which may be used by an employee who is buying into his or her employer's business, or buying equipment or tools which will enhance the profitability of the business.

## PASS Developed on Projected Employment Wages

### Before PASS

Discretionary Income: \$564 (SSI) + Medicaid

### After PASS

Total Countable Earned Income Calculations:	
Projected Earned Income Before Taxes	\$851
Minus General Exclusion	- 20
Minus Earned Income Exclusion	- 65
Total	<u>\$ 766</u>
Divide by 2	<u>÷ 2</u>
Total Countable Earned Income	\$383
Available for PASS Investment	

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## Social Security Work Incentives

### Revised Countable Income Calculations:

Total Countable Income	\$383
Minus PASS Investment	<u>-383</u>
Revised Total Countable Income	\$ 0

### SSI Benefit Calculations:

Federal Benefit Rate	\$564
Minus Total Countable Earned Income	<u>- 0</u>
SSI Cash Benefit	\$564

PASS Investment: \$383

### Usable Discretionary Income Calculations:

Projected Earned Income Before Taxes	
Minus Countable Earned Income	\$468
SSI Cash Benefit	<u>564</u>
Usable Discretionary Income	\$1,032 + Medicaid

The person receives the same amount of SSI and continues on Medicaid but is also using \$383 of his or her salary to pay for allowable PASS expenditures. **Over 36 months he or she accumulates \$13,788 for partnership or equipment.**

## Prioritizing PASS Expenditures

The PASS Work Incentive funds goods and services that enable a person to become more self-sufficient. The previous examples illustrate that the amount of a PASS contribution differs based on a person's circumstances. This may require prioritizing items according to their relative importance in the person's employment plan. For example, a new vehicle may initially be a high priority but the consumer may have to purchase other items more critical to the plan's success instead – perhaps a used or cheaper vehicle would suffice. In many ways, PASS preparation is another avenue for the consumer and counselor to define employment and career goals.

## Other Social Security Work Incentive Programs

The following two Work Incentive Programs allow Social Security recipients to lower the amount of wages that contribute to substantial gainful activity resulting in more income for both SSDI and SSI beneficiaries. For the self-employed person this may be important because of income fluctuations that occur during the business's startup phase. It also allows the person to test employment and the business's profitability without losing benefits.

## Social Security Work Incentives

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**Impairment Related Work Expenses (IRWE)** - Using an IRWE, SSI beneficiaries can recover some of the costs of work-related expenses incurred as a result of the disability. It supports an employed person and allows Title II beneficiaries to reduce their income below SGA levels until they can achieve a level of self-sufficiency that decreases their reliance on benefits.

The Title XVI recipient can participate in a PASS plan and deduct the cost of the IRWE from monthly gross wages, which increases the amount of SSI check. For Title II beneficiaries, deducting an IRWE may keep gross monthly earnings below SGA, thus allowing Title II eligibility.

### **IRWE deductions must meet the following criteria:**

- Expenses must enable the person to work;
- The person's physical or mental disability makes the items or services necessary to gain or maintain employment;
- The person pays the costs and is not reimbursed from other sources;
- Expenses must be paid in a month in which the person is working, and;
- Expenses must be reasonable.

There are no time limits on how long a person may use an IRWE. The expense need not be a monthly, recurring expense – it may be a one-time expense that is pro-rated over 12 months.

To establish an IRWE, write a letter to the local SSA office. In the letter list each expense, document each expense by submitting receipts, and describe how the expense meets the IRWE criteria. The SSA representative will review the letter and make a determination. Prior to its implementation, we recommend discussing a proposed IRWE with the SSA representative.

### **Deductible IRWE Expenses Include:**

- Supported Employment services that lead to self-employment
- Attendant care services on the job or at home (helping the employee get ready for work). Family members qualify, if they can prove that performing the service causes economic loss
- Transportation costs such as modifying a vehicle driven to and from work, SSA-approved mileage to and from work, paying drivers or taxi services where such services are not commonly required by community members without disabilities
- Medical devices, wheelchairs, pacemakers, respirators, etc., that allow someone to work
- Prostheses that enable employment
- Interior residential modifications, if the person works from home; exterior residential modifications to enable access to public sidewalks, streets or transportation
- Disability-specific routine drugs or medical services

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## Social Security Work Incentives

- Diagnostic procedures to evaluate, control, or treat the disability or condition
- Physician-prescribed, non-medical appliances and devices essential for controlling the disability or condition at home or work (e.g., air filtering equipment)
- Expendable medical supply costs
- Service/guide dog purchase and dog food, license, and veterinary expenses

### Subsidy

Employment subsidies exist when the person involved in self-employment receives:

- Unpaid help (this may come in the form of business management, tax preparation, volunteer labor, etc.);
- Unincurred business expense (e.g., a business support or expense that someone else pays for), and/or;
- Soil Bank Payments (farmers/ranchers)

Subsidies are used by Title II beneficiaries to reduce gross monthly income so they can remain below SGA and continue receiving Title II and Medicare benefits.

### Social Security Work Incentives for People With Blindness

According to the Social Security Administration a person is statutorily blind if the visual acuity in the better eye is no greater than 20/200 with the best correcting lens or if there is an accompanying restriction in the field of vision such that the widest diameter subtends an angle of no greater than twenty degrees. People who are considered visually impaired under this definition are eligible for Title II, SSDI, benefits if they are not earning SGA (substantial gainful activity) as earlier described.

### 2004 SGA Amount for People Who are Blind

Effective January 1, 2004, the monthly substantial gainful activity (SGA) amount for persons receiving Social Security disability benefits based on blindness is \$1530.

It is important to remember that since 1997, the blind SGA is no longer tied to the over-age 65 retirement earnings test. SSA looks solely at earnings. It does not consider time spent in the business or value of services rendered as it does with a person who is not blind.

The blind SGA amount continues by law to be adjusted annually based on the national average wage index.

## Social Security Work Incentives

There is no SGA level to qualify for Title XVI (SSI) benefits. However, resource levels must remain below \$2,000 for a single person and \$3,000 for a couple. The Social Security Work Incentive Program which is available for the SSI beneficiary is called Blind Work Expenses.

For the person with blindness as a Title II beneficiary, IRWE and Subsidies are available for both employed and self-employed.

### Available IRWE expenses for Persons with Blindness

Figure 14 outlines Blind Work Expenses (BWE) for SSI beneficiaries. BWE allowable expenses need only be work-related expenses incurred by the person.

Figure 14

<b>BWE Allowable Expense</b>	<b>Amount Deductible</b>
Guide Dogs	Cost of purchase and all associated expenses.
Fees	The amount paid for licenses, union dues, association dues.
Transportation	Own vehicle: per mile rate. Other than own vehicle: cost of cabs, buses, or car pools.
Vehicle Modification	Actual amount paid.
Training to use an impairment-related item or an item which is reasonably attributed to work	Cost of training, plus travel to and from the training facility.
Taxes	The amount of Federal, State, and Local taxes withheld. Social Security Taxes, deduct the actual amount paid on wages and self-employment income.
Other Work-Related Equipment/Services	The costs of the items plus maintenance and repair of items whether at the employer place of business or at home.
Drugs and Medical Services	The amount paid.
Non-medical Equipment/Services	Same as Work-related Equipment/Services.
Physical Therapy	The amount paid.
Expendable Medical Supplies	The amount paid.

## Social Security Work Incentives

<b>BWE Allowable Expense</b>	<b>Amount Deductible</b>
Meals During Work Hours	The value of the meals.
Prosthetics	Cost of items plus maintenance and repair.
Attendant Care Services	The same amount deductible as an IRWE. Related to the work setting, and to and from work.

### Subsidies and IRWES Available for People Who are Blind

Work Subsidies for people employed in regular work situations included employer provided services or accommodations, service provider accommodations, or pay that does not represent actual productivity or job described duties. In the case of a person who is self-employed, the cost of the goods and services supplied to the person (including building space for storage or sales/service of items), and profits from installations not immediately supervised by the person are subtracted from earnings after business expenses.

### Chapter 8: Social Security Work Incentives Study Guide

1. Rodney wishes to start a riding stable where he will train and board horses. He has located a facility that is for sale for \$35,600. He currently is receiving a monthly SSDI payment of \$859. If he invests the entire allowable amount of his SSDI in a PASS, how long will it take before he has the 20% down payment required by the seller?
2. Sarah currently is working for a local veterinarian as a groomer, dog walker, and cage cleaner. She would like to go to school to become an assistant and a part owner in the business. A semester at the local community college (including books) costs \$745. She earns \$850 per month. Assuming that a semester is 3 months long, and it will take 4 semesters to complete the course, calculate how long it will take Sarah to pay for school using a PASS.
3. Deb is eligible for SSI and Medicaid due to her disability and currently receives an SSI check of \$254. She works for a local beautician earning \$705 per month. Last week, she received a back-payment check of \$3,500. She already has \$1,800 in a savings account. She and her counselor are contemplating a PASS plan to send her to beautician school so she can eventually be self-employed. She wishes to return to the FBR of \$564 and be eligible for Medicaid. How much will she contribute each month to her PASS? How does the PASS effect her monthly cash position?

## Social Security Work Incentives

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4. Ed receives a \$768 SSDI benefit check each month. Anticipating income from employment, he wrote a PASS for a candy wrapping machine so he could become a limited partner in a business. He is now working and earns \$750 per month. How much can he put into his PASS each month?
5. Chuck currently receives a \$564 SSI check monthly. In 3 months, he will begin earning \$900 a month as a mechanics helper in a local full-service garage. The owner will make him a limited partner if Chuck can purchase a machine to diagnose new car models. The machine will cost \$12,500. Chuck decides to write a PASS now so it is approved ahead of time. How many months will it take to pay for the machine using writing a PASS for the maximum monthly amount? What will Chuck's SSI payment be?
6. People who receive SSI benefits must be \_\_\_\_\_ before they may begin setting aside wages in a PASS plan.

# Supported Self-Employment

This chapter presents “Supported Self-Employment” – a simple stepped sequence of self-employment approaches for many people who might not be considered likely self-employment candidates. Supported self-employment approaches include resource ownership, partnerships, and sole proprietorships. For each approach, high quality supported employment services occur simultaneously with supported self-employment. This is not a cookbook. There is no single correct supported self-employment approach, and methods are constantly evolving due to the changing nature of business, supported employment methods, rehabilitation, and the economy. However, this chapter discusses some currently successful methods and shows how vocational rehabilitation might be involved.

Supported self-employment has been used successfully with people diagnosed with mild, moderate, severe, or profound developmental disabilities; severe and chronic mental illness; severe brain injuries; and multiple severe disabilities.

Many of the methods discussed previously in this book will need modification to work successfully for people who are “classified” into the above disability categories. This chapter discusses these modifications. Some existing rehabilitation methods (such as those discussed in this curriculum) and self-employment assessments (e.g., nonstandardized assessments, the Business Assessment Scale) may indicate that self-employment for a person with severe disabilities is unrealistic, non-sustainable, or impossible. But in reality, self-employment for people labeled “medically severe” is alive and well in today’s world.

Supported self-employment as discussed in this chapter augments much of the current “accepted” thinking about self-employment by using supported employment techniques. A basic premise of supported self-employment is that it does not rely on any of the current measures that predict how a person will perform.

Each supported self-employment approach has a sequence, sometimes unique to itself and sometimes shared with other approaches. When considering supported self-employment it is important to discuss each approach with the consumer or prospective partner or owner.

## Resource Ownership

In resource ownership, the individual with a disability owns a significant high quality employment-related resource. This might be a computer-controlled sewing machine; a twenty-bin, sorting/stabling high-end Xerox copy machine; a mechanized three-hole punch; a best-of-breed Davenport Arabian stud horse; or any other “capital resource” needed, and defined by

## Supported Self-Employment

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an employer. The resource is one of the employee's "entrepreneurial assets." It enhances the employee's internal (used by the business) and external (used by the consumer at other times to increase income potential) entrepreneurial opportunities and profit potential. The employer is able to use the resource in accordance with the employee's preferences and interests. Although the employee works for someone else, owning the significant employment-related resource lends an entrepreneurial twist.

### Sequence for implementing this approach:

1. Identify the employee's preferences and interests using community based assessments, vocational profiles, and/or futures planning.
2. After establishing a preference, narrow job development to local employers engaged in such work. For example, Carol Ann's interest in sewing led her and her Supported Employment Consultant to visit several sewing businesses. Carol Ann did not want to work for some employers and some employers did not want to hire her, but eventually the search narrowed to a business where both she and the employer felt comfortable.
3. While negotiating employment, explain the concept of resource ownership to the job seeker and employer. Note the entrepreneurial advantages and ask the employer to define any capital equipment needs that could enhance the job seeker's employment at his or her company. Also note this approach's low risk to either party and the entrepreneurial opportunity for both parties for increased profits and employment.
4. When the employer's capital equipment/resources needs are matched with the employee's interests, put the following requirements in writing:
  - The employer maintains and insures the equipment or resource;
  - The equipment is located in the employer's place of business;
  - The employee retains ownership of the equipment; and
  - If the employee leaves, the equipment leaves.

The risk to both parties is minimal.

5. Buy the equipment with money from a Social Security Plan for Achieving Self Support, Vocational Rehabilitation funding, family members, or from a community-based rehabilitation agency.
6. The employee begins work, aided by the best supported employment methods, natural co-worker supports and high quality supported employment on-the-job training.

**When implementing this approach:**

- Do not buy any resource or equipment until the employer identifies its specific requirements. All sewing machines, copiers, horses, packaging equipment, and computers are not alike – employers have specific needs and preferences.
- Identify existing “redundant” resources while negotiating the employment/entrepreneurial joint venture. Make sure that if Carol Ann leaves and takes her sewing machine with her, she will not “significantly harm” her employer by taking the only sewing machine. The employer should have other “redundant” sewing equipment.
- Use referrals and testimonials from successful employment/entrepreneurial situations to introduce the resource ownership approach to prospective employers and employees.

**Partnerships**

Partnerships offer an array of opportunities for successful, creative business relationships. A person with a severe disability can become a partner in an existing business with established cash flows, plans, markets, and customers. A cash investment from SSA, VR and/or other capital resources allows both partners to gain and minimizes the partners’ risks.

The sequence begins with steps one and two of the Resource Ownership approach. If you make a good match where both partners are comfortable with their shared interests and personalities, developing and implementing the methods and outcomes is fairly simple.

**Features of this approach include:**

- “Guaranteed or fixed payments to a partner” where the business plan and partnership proposal state that a percentage of the profit will eventually be shared.
- The partner with a disability develops a greater sense and reality of power from being a part owner of a business than he or she would get in an employee/employer relationship.

**Sequence for implementing this approach:**

1. Use community based assessments, vocational profiles, and/or futures planning to identify the consumer’s preferences and interests.
2. Once a preference is established, narrow job development to the local employers engaged in such work.

## Supported Self-Employment

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Glenn has had a relationship with three horse ranches over a nine-year period. This interest in ranching led Glenn and his supported employment consultant to visit several horse ranches. Eventually their visits resulted in a match in which Glenn and a rancher felt comfortable enough with one another to form a partnership to raise and train Davenport Arabian stud horses.

Their partnership agreement specified that the rancher would provide stable facilities and pay for half of the first horse. Glenn would pay for the other half of the first horse, all of a second horse, plus the costs of training. He would pay for care of the horses by working a predetermined number of hours for the rancher. Revenues from stud fees would be partially reinvested in additional horses, with any profits divided equally between the two partners. Glenn wrote a self-employment PASS to pay for the horse, training, transportation, work clothes, and advertising.

3. Negotiate employment and explain the concepts of partnerships, limited liability partnerships, limited liability companies, and resource ownership to the consumer and his or her partner/employer. Note the entrepreneurial advantages and ask the employer to define any capital resource needs that could enable the consumer's employment or partnership with this company. Stress the low risk to either party with such approaches, plus the entrepreneurial opportunity for increased profits and employment.
4. Match the employer's needs for capital equipment/resources with the consumer's interests. If, for example, a limited liability partnership seems appropriate, write a limited liability partnership proposal that clearly delineates:
  - The amount of fixed payments due to each partner;
  - The percentage of quarterly profits due to each partner (based on the sum invested in the partnership); and
  - The contribution of the consumer's labor as an active (not passive) partner.

Determine the consumer's contribution to the partnership (often \$3,000-\$10,000 is enough). Propose and outline profit projections for the general partner, and describe how the partnership will be set up and fairly dissolved (a long term contingency). Both partners review and refine the proposal, with advice from a CPA on final financial projections. Again, the risk is minimal to both parties.

5. Buy the partnership resources or secure the cash contribution with money from a Social Security Plan for Achieving Self Support, Vocational Rehabilitation funds, family members, or a community based rehabilitation agency.

6. Begin the partnership employment using the best supported employment methods, natural co-worker supports and high quality supported employment on-the-job training.

### **When implementing this approach:**

- Do not buy any resource or equipment until the major partner identifies specific requirements or determines the amount of cash needed.
- Do not buy any resource or equipment before the partnership proposal and agreement are completed.
- Be sure to inform the general partner that he or she will not have to develop a payroll or pay workers compensation because the new business partner is not an employee but an owner of the business.
- Limited Liability Partnerships (LLP) offer substantial liability protection to the partner with a disability. Also partnership insurance is reasonably priced.
- All states allow formation of Limited Liability Companies (LLC), which offer the liability protections of a corporation plus the tax advantages of a partnership. Both LLPs and LLCs offer tax (including estate and business inheritance tax) and business advantages to family run businesses.

### **Sole Proprietorship**

The process for developing a sole proprietorship is similar to steps one and two of the Resource Ownership or Partnership approaches, except that when developing a sole proprietorship the consumer's interests and personality are matched to those of potential customers and owners of similar businesses where the business may co-locate. If the match is comfortable, developing and implementing methods and outcomes is fairly simple and the business owner emerges with a greater sense and reality of power than the typical employee.

### **Sequence for implementing this approach:**

1. Identify the consumer's preferences and interests through community based assessments, vocational profiles, and/or futures planning.
2. Once a preference is established, narrow self-employment development to local employers and competitors with similar businesses. Carefully consider potential locations — the person with a severe disability may have been excluded from society in a sheltered workshop and other group settings. The business's location is critical for promoting the business owner's community participation.

## Supported Self-Employment

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Terry, who lives in a rural community (population 1,200), wanted to work in the town's only engine repair shop. Although Terry and the business owner felt comfortable with each other, the business could not support an employee. The owner rejected a limited liability partnership proposal but suggested that Terry operate his own small engine repair business *within* the repair shop. It would be based on a beauty salon model under which each self-employed beautician pays a commission to the salon's owner for using the facility. With the repair shop owner's help, supported employment consultants developed the idea and wrote a business plan for a sole proprietorship that required an initial investment of \$2,500.

3. During the negotiations explain sole proprietorships, partnerships, limited liability partnership, limited liability companies, corporations, and resource ownership to everyone involved. Note the entrepreneurial advantages (including low risk to all parties, increased profits and employment) and ask the employer/customer to define his business's capital resource/business needs that could enable the consumer's self-employment or partnership with this company.
4. Match the consumer's interests with the employer's and customer's needs, a desirable business location, and opportunities for community participation. Develop a small business plan. Determine the cash needed--often \$1,000-\$10,000 is enough for a small business start-up. Recently, a small retail business was started with \$200 worth of wholesale merchandise in a rural/remote community. A local Nature Center agreed to share profits from the sale of nature-related items in exchange for business space. Both the Nature Center retail business and Terry's small engine repair developed local relationships in which they exchanged commissions or profit percentages for business space. Community participation increased and start-up risks were minimal for all parties.
5. Purchase start-up equipment and supplies or arrange necessary cash flow with money from a Social Security Plan for Achieving Self Support, Vocational Rehabilitation funding, family members, or a community based rehabilitation agency.
6. Start the business, using the best supported employment methods using natural community supports and high quality supported employment on-the-job training.

### When implementing this approach:

- Do not buy any resource or equipment until you have determined the business's location and written the business plan.
- Agreements to exchange commissions or profit percentages for business space do not require the primary business owner to pay salaries or workers compensation premiums because the consumer owns his or her business.
- All states allow formation of Limited Liability Companies (LLCs), which offer the corporate liability protections and the tax (including estate and business inheritance) advantages of a partnership. LLCs are useful to family run businesses and can be a useful next step for a growing sole proprietorship or contracting business.
- When developing a business that provides independent contractor services to other businesses **no single customer should be the major user of the business's services** because the IRS has repeatedly ruled that when a single customer dominates a substantial share of a contractor's work, the business is *not* a contract business. In that case all of the business's employees are considered employees of the major customer.

### Vocational Rehabilitation and Supported Self-Employment

Developing supported self-employment ventures is time consuming and labor intensive. They often require visits to a consumer's home, visits with family, and discussions with the consumer to learn about likes/dislikes, interests, skills, etc. In most cases the consumer does not develop the business plan – it is developed by someone else, usually by someone familiar with supported employment. Generally, these are not the cases you would refer to a business development consultant or the Small Business Development Center. However, working with someone to become employed in this manner is very rewarding to all involved. These cases typically require a very creative approach. Most counselors will find it helpful to work with supported employment vendors experienced in supported self-employment. These vendors should use a holistic approach to deliver services, should understand Title VI-C funding extended time frames, and should aggressively identify and pursue long term supports. Further, you may find it helpful to contract with business development consultants or CPAs to review financial information and offer advice.

Each step of the approaches discussed in this chapter matches a supported employment funding check point and step in an Individual Plan of Employment (IPE). Initial community based situational assessments, vocational profiles, or futures plans fit VR protocol for assessments. Job development is integral to all of the approaches discussed in this chapter and it fits the billable activities requirement. Bank loans are a potential funding alternative if other sources are not available.

## Supported Self-Employment

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Past experience of those who assist people with supported self-employment indicates that purchasing or authorizing sheltered work or facility-based assessments is not an effective method for assessing the likelihood of success in supported self-employment of “medically severe” individuals. On-the-Job Training, On-the-Job Experience, or Community Experience are viable options for conducting community assessments.

What if experienced supported self-employment vendors are unavailable? You might work with agencies to train local supported employment vendors to use this approach. Supported self-employment is based on, and is a natural evolution and transition from, supported employment.

In a remote rural community, Clint, a person with a dual diagnosis of cognitive and emotional disabilities owns *Clint's Critters*. In business for almost 1 year, his business is at the local Nature Center, which agreed to house his business in return for 10% of the profits. As much as possible, Clint orders and shelves stock, markets and sells, and participates in decision-making. He is supported by a job coach who orders stock and does the purchasing, bookkeeping, and accounting and by zoo volunteers who are cashiers. Clint started his business with \$258. But because his business is still in the start-up stage, he has not quit his other job cleaning a restaurant kitchen. Over the past year his business made \$500--twice as much as when he was in the group home. He also supports the Nature Center by returning 10% of his sales to it.

Before starting his business Clint lived in a group home and was considered violent and irrational isolating himself in his room. Since his business opened he lives in a supported living situation with his pet cat. He makes his own meals, comes and goes as he pleases, and visits the sheltered workshop only when he wants. He controls his life. He has not had any violent outbursts since he began living on his own.

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## **Chapter 9: Supported Self-Employment Study Guide**

1. List the three approaches to supported self-employment discussed in this chapter.

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2. Supported self-employment approaches incorporate principles and techniques commonly used in \_\_\_\_\_.
3. Using the resources ownership approach, the consumer (leases/owns) a “capital resource.”
4. Supported self-employment is different than regular self-employment because, in most cases, the consumer does/does not develop his or her own business plan.
5. Supported self-employment typically requires a \_\_\_\_\_ approach.



# HANDOUTS



# List of Handouts

Roles and Responsibilities in the Self-Employment Process

The Business Plan



## Roles and Responsibilities in the Self-Employment Process

**The Consumer's Role** - The potential business owner ultimately is responsible for:

- Deciding what business to pursue
- Conducting a feasibility study
- Developing a business plan
- Obtaining necessary permits, licenses, and insurances
- Hiring employees
- Securing business start-up funds
- Developing customers
- Locating suppliers
- Starting the business.

**The Counselor's Role** - In addition to the counseling relationship, the counselor's role in the self-employment process also includes:

- Explaining VR's, the consumer's, and any other organization's (e.g., business development consultant) role in the self-employment process
- Clearly communicating the self-employment process that will be followed including how agency decisions will be made for pursuing self-employment
- Communicating whether and how the agency will help with training, developing a business plan, and VR funding of the business
- Helping the consumer decide which business to pursue
- Deciding which assessments, if any, will be used
- Guiding the feasibility study including conducting or co-conducting any assessments and interpreting the results to determine whether or not to proceed
- Providing information necessary to assist the consumer with developing a business plan
- Supporting the consumer and being the liaison between him or her and consultants and lenders
- Reviewing the final business plan to determine the agency's contribution, if any

**The Business Development Consultant's Role** - The business development consultant:

- Does not develop the business plan, but guides the consumer through the process with expertise and a realistic perspective
- Recommends potential funding sources
- May help assemble a funding package

## Handouts

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- Readies the consumer for meeting potential funders
- Suggests marketing strategies
- May conduct a feasibility analysis
- May make recommendations on the viability of the proposed business

The consultant should have experience in developing business plans. Be aware, however, that this does not ensure that he or she will develop a realistic, quality plan. You should ask for an individual's or organization's credentials, interview past customers, and talk with local bankers or lenders.

# The Business Plan

## Parts of the Business Plan

This is a general business plan format. For most businesses, the information contained in a business plan should be consistent with this format, although section titles and order can show some variety. The following information should be included in every business plan. A brief description of each section follows.

- I. Executive Summary
  
- II. The Business Description
  - A. The Business
  - B. Business History
  - C. Form of Ownership
  - D. Ownership Interest
  - E. Industry Trends
  - F. Background Information About the Owners
  
- III. The Marketing Plan
  - A. Products and Services
  - B. The Target Market
  - C. Business Location
  - D. Competition
  - E. Advertising and Promotion Strategies
  
- IV. The Operations Plan
  - A. Inputs
  - B. Facilities
  - C. Operating Costs
  - D. Licenses, Permits, Zoning, Insurance, Taxpayer Number, Corporation Status
  - E. Capital Equipment
  - F. Production Methods
  - G. Management Methods
  - H. Employees
  - I. Outside Services

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### V. The Financial Plan

- A. Need for and Sources of Cash
- B. Equipment List
- C. Income Statement
- D. Break Even Analysis
- E. Cash Flow Statement
- F. Balance Sheet (or Personal Financial Statement)
- G. Supporting Documents

### VI. Attachments

## Executive Summary

The executive summary is the first and most important section of a business plan. Its purpose is to convince the audience that this business is worthwhile. This “opening argument” must capture and hold the intended reader’s attention and direct it to a specific purpose. The executive summary should avoid industrial jargon – the reader may lose interest. Make the summary **clear, concise, and convincing**. Although the executive summary appears first in the plan, usually it is the *last* section written.

## The Business Description

**The Business.** This section discusses the business’s name and its significance, the form of ownership, the business location, the service or product to be sold, and projections for the future.

**Business History.** This section describes the history of an existing business or need for a new business. It describes how and why an existing business was founded or why a new business is needed. For an existing business, it should discuss the growth of the business on a local and regional level or beyond if appropriate. For a new business, it should discuss the industry on a local and regional basis and the projected growth of the business.

**Form of Ownership.** This section specifies and discusses the rationale for the type of business ownership. It includes documents or agreements between partners or shareholders. It discusses how the potential business owner determined the appropriate form of ownership for his or her business. The Secretary of State’s office in the state where the consumer wishes to open the business can help. In Montana, for example, the *We Mean Business* booklet contains the filing forms necessary to start a business and the information needed to determine the appropriate form of ownership. The booklet details the legal steps necessary to start, maintain and/or dissolve a business. A potential business owner should also contact a certified public accountant or a business consultant to discuss the appropriate form of ownership for his or her particular business.

**Ownership Interest.** This section lists all owners, such as major shareholders or partners. It also documents owners' or shareholders' willingness to provide personal guarantees for any financing.

**Industry Trends.** This section discusses the current trends of the proposed (or existing) business and the industry. It describes whether or not the demand for the product or service exceeds current supply.

**Background Information About the Owners.** This section provides information about the owner(s), describing any experience in the industry or with managing a small business. This section also contains information about any business advisors other than lawyers or CPAs.

## The Marketing Plan

**Products and Services.** This section describes the product or service, the currently-unsatisfied market need or desire, and describes how the product or service will meet that need or desire.

**The Target Market.** This section describes the market and the customer. Many resources are available at public libraries that provide data on markets and customers. Here are just a few:

- County and City Data Book
- Statistics for States and Metropolitan Areas
- *Statistical Abstract of the United States*
- Trade Association Publications
- *A Guide to Consumer Markets*

Make sure you reference all information sources and describe the method used to gather target market data; describe the geographic market including its physical size, history, and trends (e.g., growth); and the proximity and relevance of potential customers. This section should also contain an estimate of the potential market, the number of customers the business expects to serve immediately after opening, the rate of expansion, and possible expansion into other markets.

**Business Location.** Describe possible locations explored, why the selected location is the best, and how it will benefit the business.

**Competition.** This section describes others who are competing for the same market, what they charge, their weaknesses and strengths, how your product or service differs from theirs, and the features and benefits of your service or product versus the features and benefits of competitors' service or product. Describe the methods used for gathering this information.

## Handouts

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Describe how you will gain market share. For example, will people patronize your business because of price, technical sophistication, image, superior product or service, location, or sales and/or marketing techniques?

**Advertising and Promotion Strategies.** This section describes how the message about the product or service will be communicated to the users. It should describe the business owner's philosophy about customer service, the image you wish to portray about your product through packaging, brochures, letterhead, business cards, displays, and the behavior/dress of employees. It also discusses all promotional activities and answers the following questions. What advertising media will be used – newspaper, radio, television, the Internet, windshield handouts, magazines, mailings, billboards, demonstration sites? What is the frequency of advertising – daily, weekly, monthly, bi-monthly? Will promotions (giveaways, discounts) be used? Who will contact customers – in-store sales staff, sales representatives, telemarketers? How will customers be contacted – by telephone, in-person cold-calls, trade show(s), e-mail? Will a website be created?

Finally, this section should also discuss how customer satisfaction will be assessed. For example, through questionnaires, focus groups, repeat business, and/or referrals to others.

## The Operations Plan

The operations plan explains how the work will be done and how the business will be managed and the business's location. It also describes the manufacturing process including materials used in the process and employees and their duties. It also describes the business's location.

**Inputs.** "Inputs" are materials, suppliers, and arrangements with suppliers. This section describes them and lists prices, volume discounts, and payment options that might influence the decision to trade with a higher-priced vendor.

**Facilities.** "Facilities" include location of the business and its physical layout. This section describes the location, features of the building and site, ownership, lease arrangement, remodeling needed (and costs), other businesses in the area, and zoning. It discusses why the location was selected and its advantages and disadvantages. It should include a floor plan. Questions that should be answered here include: Is the business located outside of the home? Is parking adequate? Are modifications necessary to accommodate the business owner's disability or to ensure ADA compliance?

**Operating Costs.** This section describes, and lists costs for, all utilities (heat, light, telephone and water) to be used by the business for production and operation.

**Licenses, Permits, Zoning, Insurance, Taxpayer Number, Corporation Status.**

The types of licenses, permits, insurances, and taxes paid vary according to the business. But it is likely that a business will require one or more of these to operate.

**Capital Equipment.** Capital equipment includes permanent items that the business keeps and uses for many years. These include equipment, furniture, and fixtures needed to start and run the business. This section describes each piece, discusses why it is necessary, and lists its cost and supplier.

**Production Methods.** This section describes both the tools used for making the products or performing the service and the work space(s), including the amount of room needed for each employee; the labor needed to produce the product or provide the service; methods for monitoring quality; and methods for complying with environmental and safety regulations.

**Management Methods.** This section describes how the business will be managed and the business owner's knowledge, skills and experience for completing day-to-day business functions and obtaining specialized services.

**Employees.** This section describes staffing requirements for both production and business management. It discusses the type of work to be done, qualifications needed for the job(s), plans for filling open positions, wage rates, and benefits package(s).

**Outside Services.** This section describes the types and costs of outside services provided by non-employees, such as lawyers, bookkeepers, CPAs, and business managers.

## The Financial Plan

This section discusses the investment required, sources of funds for the business, and financial statements.

Developing these financial statements is one of the most difficult tasks facing a new business owner, because in most cases there is no history for reference. Unless you plan to purchase an existing business, these statements will be based on projections. Develop the Income Statement, Cash Flow Projections, and Balance Sheet statements for the first 2-3 years of business operation. First-year Cash Flow is projected monthly. Years 2 and 3 Cash Flow projections are quarterly rather than monthly.

**Need for and Sources of Cash.** This statement lays out how much cash the business will need to open its doors and to operate until it is profitable. Most of this information will come from other parts of the business plan.

## Handouts

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**Equipment List.** This is a list of each item of business equipment and its value. Generally the items should have a useful life of one year or longer. You should consider whether or not to purchase or lease equipment.

**Income Statement.** The income statement shows a business's financial activity over a period of time to determine if the business made or lost money. It matches expenses with business revenues. The income statement includes total sales, cost of goods sold, gross profit, indirect expenses, other expenses, pre-tax profit or loss, taxes, and net profit or loss.

**Break-Even Analysis.** The break-even analysis helps you determine the success of a business before it begins. It describes the number of units of a product or how many hours of a service must be sold to break even or to make a profit or the effect that changing a product's price or reducing expenses has on profitability.

**Cash Flow Statement.** Cash is even more important to a business than profits – a profitable business may still be unable to pay its bills. The cash flow statement shows when the business will receive cash and when cash must be available to pay bills. The cash flow statement shows when the cash *actually will be received* and the expenses *actually paid*.

Don't confuse this with your own *personal* cash flow statement you completed earlier. The personal statement shows the amount of money you need to live and cover monthly expenses. The business cash flow statement predicts when the business will need cash and when cash will be available.

The cash flow statement has two sections. The top section shows how and when cash will be received by the business. The bottom section shows how and when the money will be used to pay bills. Unlike the income statement, the cash flow statement shows money coming in *only when the business actually receives it* and going out *only when the business actually pays a bill*.

**Balance Sheet.** The balance sheet is a snapshot of a business at a particular point in time. It shows a business's *assets* (what the business owns), *liabilities* (what the business owes), and owner's *equity* (what the owner is worth). A new business gets its first Balance sheet when the business starts. It is updated annually thereafter, usually at year's end. The balance sheet shows the business's financial status and stability, and if the owner's equity is increasing. It consists of two parts: Assets and Liabilities and Owner's Equity.

For many home-based, service businesses, or businesses where the owner has no credit rating separating personal and business assets and liabilities is difficult. When this is the case, a personal financial statement may be used in lieu of the balance sheet or the balance sheet should reflect personal assets, liabilities, and owner's equity mixed with those of the business.

**Supporting Documents.** This section includes other documents needed to support and validate the business and business plan. These include a cost-of-living budget and personal

balance sheet for the business owner(s), resume(s), credit reports, contracts, legal documents, leases, job descriptions, letters of support and reference, letters from potential customers stating they will buy from the business when started, contracts, and other documents that bolster confidence in the proposed business.

**Attachments**



# EXAMPLES



# List of Examples

Beginning to Develop Your Business Plan Completed  
Questionnaire for *Rainbow Siding and Gutter*

Business Plan for *Rainbow Siding and Gutter*



## **BEGINNING TO DEVELOP YOUR BUSINESS PLAN**

Answer the following questions. For some questions, you may need to talk to business owners or do some research at the library. Your answers will help both you and your counselor clarify your business idea. Your answers are the beginning of your Business Plan and may help your counselor determine whether you and Vocational Rehabilitation should work together toward the goal of self-employment.

1. **What business would you like to start?**

A vinyl siding and rain gutter business.

2. **Who will use your service and/or buy your product(s)?**

I will target people who own older homes and commercial buildings and want to make their property look better or protect their investment. People selling their homes. And people who are building new homes or commercial buildings.

3. **Where are your customers located?**

People who live in Valley county.

4. **How many customers do you think you will have during the first year? During the second year?**

There is definitely a demand for my product in this area. Estimate 20-30% of all vinyl siding business the first year growing 5% in year 2 to 21%-31.5%. I think that if I charge a fair market price and combine that with low overhead it will either force the competition out of business or make them lower their prices.

5. **How much money do you think you will make during the first year? During the second year?**

Year 1 gross = \$75,000 to \$91,000

Year 2 gross = \$80,000 to \$96,000

6. **How will you tell potential customers about your business?**

Mainly through the yellow pages. I will also have a commercial made sign in front of the show house. I might put ads in the Directory part of the local newspaper. But I think that word of mouth will be my best advertising.

## Examples

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7. **Is there another business like the one you want to open operating in the area you want to serve? Is it successful? Why or why not?**

There are no other full-time siding businesses in Valley county. In Valley county there is one person who installs part-time, but his prices are out of line. My third competitor is about 150 miles away. They seem to be increasing in degree of need because a conservative estimate is that about 77% of the people use vinyl to side their houses.

8. **Why do you want to start this type of business?**

The vinyl siding industry has been growing in leaps and bounds. Vinyl siding is cost efficient because it makes a great maintenance free home so it appeals to people. It also has a very good margin of profit. The major overhead are tools and place of business. Besides the cost of lumber keeps most people from using it so more and more are switching to vinyl.

9. **What qualifications do you already have for running this business.**

I have experience as a carpenter, have had training in and installed siding, and have kept current in the changes and improvements for installation of siding. I have also managed my own Home Improvement Business and Seafood Business. I was a non-union carpenter for over 10 years, 4 years apprentice union carpenters, 10 years union carpenter, 4 years shop in high school. With my Home Improvement Business I installed siding and could repair or look at a job that someone else had done and determine the problem and repair it.

10. **What will you need to learn to be able to operate this business?**

Nothing much because I have already owned and managed my own businesses and I have been a carpenter and have been trained in and have experience installing siding. I already have good ideas for advertising and serving my customers.

11. **Will you hire employees? What skills should they have? How much will you pay them?**

At this time I plan on running the business myself with only part-time help if needed. This help will only be of labor quality and not requiring to know much of business or installation. There may be a need for a casual laborer on an as-needed basis when I need an individual. This would be a minimum wage, part-time position with no benefits at this time.

**12. If you were a potential customer, why would you use this business?**

I will charge less than the only other local person who installs vinyl siding part time. I'll charge about \$175 less per square than him. I'll do a better job too because no one in this area knows all the correct processes for installing vinyl siding and I'm not sure if any of them know how to put up soffit or fascia material correctly.

**13. If you were a customer, what features would keep you coming back?**

Most of my customers will not use my service more than once, unless they have rental property, sell a home they already had sided, or own more than one commercial building. But I think new customers will buy my product and that some will buy from me again if they need siding because my product has eye appeal, it is a tough outer shell, which needs very little maintenance. It will provide greater resale to any structure. It is very inexpensive, while being a very durable product. Also my prices will be competitive and I will do a better job than my competition. I have heard that, in most cases, these businesses do not install the siding correctly. They do not use steel for fascia as I plan to. Also at this time they do not use a break for bending metal to cover trim on windows and fascia. Unlike them, I will provide warranty of work, advertising, bonded and insured installed. I will also provide good customer service. Customer service has always got to be first.

**14. Who will do the ordering, customer contact, and bookkeeping for your business.**

Me

**15. What hours and days will you operate?**

The business would be open from 8:00 a.m. to 4:00 p.m.. Monday through Friday, with an answering machine for after hours and weekends. Estimates would be done at the customer's site and selection of colors and ordering forms started. After return to office, would finalize cost estimate and availability of product.

**16. Where will your business be located?**

The business will be located at two sites—a show house and a business location run from my home. I will store my business equipment in the garage at my personal residence.

**17. What equipment will you need? Do you need it right away? If not, when will you need it? Do you need to own it or can you rent it?**

I already own both the show house, my personal residence where my office will be located, and the equipment storage garage at my personal residence. I will need to buy the tools as soon as possible to install the vinyl siding on the show house and to be ready

## Examples

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for paying customers. I want to buy top quality tools of the trade, which save time and money and will do a more efficient and professional looking job. I cannot rent these tools locally. I also will need to buy a professional looking sign as soon as possible to advertise at the show house.

18. **Will your disability pose any barriers to your operating this business? If yes, what are they? What are your ideas for overcoming these barriers?**

My disability with my left arm is from an accident as a carpenter. It should not cause any problem with the installation of siding.

19. **How much money will you need to start the business? How much money can you contribute? Who can loan you money? What do you think are likely sources of money for starting your business?**

I estimate that I will need about \$10,000 to buy tools to start the business. Although I own my personal residence and the show house, I am making payments on them so I don't have the cash on hand for the tools. I haven't checked into financing yet but I may be able to borrow some from a local bank. They know me and I have good credit. I thought I could get help from VR to start my business.

**Rainbow Siding and Gutter**

**Sample  
Business Plan**

**Bob Lake, Owner**

**Examples: Sample Business Plan**

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**Examples: Sample Business Plan**

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## **EXECUTIVE SUMMARY**

Vinyl siding is popular among homeowners and is a growing industry. In Centerville and the surrounding area, wood siding has dominated the market, but things are changing. Because of high wood prices and maintenance time and costs, vinyl siding is gaining a niche here too. Rainbow Siding is a start-up business poised to meet this increased demand. It will be the only full-time vinyl siding business serving both Centerville and the surrounding area. Rainbow Siding will provide a customer-oriented service by using high-grade products, professional installation practices, and a skilled carpenter all at prices below those offered by the only other local competitor and lower than out-of-area competitors. First year sales are based on siding 32 buildings, which is approximately .5% of the homes and businesses in the county, for a net profit of \$9,250. A 2% growth is projected for the second year.

The major source of advertising will be a vinyl-sided show house on a main thoroughfare. The business will be located in a home-office with storage facilities. The owner, Bob Lake seeks a loan of \$10,000 to purchase tools, capital equipment, small equipment, supplies, and siding for the show house. He co-owns both the show-house and home where the office and storage facilities will be located and he owns a 4-wheel drive pickup that will be used as the company's primary vehicle.

## **BUSINESS DESCRIPTION**

Rainbow Siding and Gutter is a new business that will sell and install vinyl siding for homes and businesses in the Centerville area. I will operate it year-round, doing installations in winter when the weather is good and working on marketing when the weather is too bad to work outside.

A 1997 Vinyl Institute report (*Vinyl Siding Faces a Bright Future*) says that the U.S. siding industry is growing, although in the our region it's just starting to catch on. Nationwide, 46% of new homes use vinyl siding, 30% use wood and 22% use brick. When homeowners re-side older homes, more than three-quarters of them also choose vinyl siding. The Centerville County Builders' Association told me that there are an average of 122 new homes built in the county each year. In the next six years they also think new home construction will increase 5% each year. On September 23, 1998, I talked with Anne Falworth, the Association's director, and she estimates that about 90 homes and businesses are remodeled each year. These often include installing new siding.

I was a carpenter for 24 years and managed my own home improvement business for four of those years. Then in 1993 I started a retail store, Inland Seafoods, in the Centerville Shopping Center. This did well for almost three years, but I couldn't compete with Top Hog's prices and advertising, and my sales dropped off. Finally, I had to close the store in January, 1997. I have 14 years experience as a union carpenter and 10 years experience as a

## **Examples: Sample Business Plan**

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non-union carpenter (including the four years running my own home improvement business). I've installed all types of siding (vinyl, cedar, T-11, etc.), including siding my own house with vinyl. Knowing that vinyl siding was getting more popular, I started to do some research on starting my own installation business. I'm convinced now that this is a good opportunity and that my experience and skills will help me take advantage of it.

### **MARKETING PLAN**

#### **Products and Services**

I'll start with selling and installing vinyl siding, soffits, and fascia covers for new homes, older homes and businesses. Later I plan to sell seamless aluminum guttering, too, and specially install it to withstand Valley County's winters.

Vinyl siding is good-looking, economical and maintenance free. It doesn't rot, resists moisture, withstands temperature extremes, is non-toxic to humans and animals, and can be insulated. It's cheaper than other siding materials and is more durable than wood. It doesn't need to be painted and if it does get damaged in any way, it's easy to replace a section. Jim Howell of Howell Appraisal Services says that vinyl siding increases a home's resale value. A good-looking property is also easier to sell and the home-seller can take a tax deduction on the cost of siding.

#### **Target Market**

Nobody else sells and installs vinyl siding full-time in the Centerville area. At first, I'll market to people who are building, remodeling, or selling homes or businesses in Valley County (population 17,500), including Centerville (2500), Mayberry (950) and Summerville (1050). Mayberry is 18 miles from Centerville and Summerville is 67 miles from Centerville. As the business grows, I might market to Weaverville (2200 people, 45 miles from Centerville) and Boundary County (population 8300). Riverdale (population 5200, 80 miles from Centerville), is a possibility, but North Kentucky Siding is already based there.

The Association of Realtors director estimates that there are 5550 individual homes and 300 business buildings in Valley County. Many of these are older and have wood siding that might be due for replacement. About 300 properties are currently for sale — if the owners would install vinyl siding, their properties might sell faster.

If only 2% of the 5850 homes and businesses installed vinyl siding each year, and if I got only a quarter of those jobs, that would be 29 siding jobs each year. If I could also get a quarter of the new construction siding jobs, that would be 14 more jobs each year for a total of 43 jobs. If 4% of existing homes and businesses re-sided each year and I got half the jobs, that would be a total of 145 jobs each year.

## **Business Location**

Rainbow Siding and Gutter will be run out of my home office at 410 Cleary Street in Centerville. I'll store materials in my garage. Cleary is a quiet street without a lot of traffic. Parking should not be a problem because I don't expect many customers to come to the office. Most of my contact with them will be over the phone, at their homes or at my show house on U.S. Highway 1761, Centerville's main street and the major east-west route across the northern part of the state. This show house is in a block that originally was company housing for the sawmill. The other houses on the block are old and run-down and the show house with its new siding will look especially good compared to the others. If I ever need to expand, I also have two other lots in Centerville that are zoned for commercial use.

## **Competition**

Glimmer Glass in Centerville sells and installs siding as a small part of its business. Slambam Contracting in Mayberry only does siding installation. Otherwise, customers have to do business with companies outside Valley County like North Kentucky Siding in Riverdale, Kentucky (80 miles away). This is the only full-service vinyl siding sales and installation company in the area. I've talked to several building contractors, my banker, and to the owner of Centerville Building Supply – they all say that each of these companies keeps busy installing siding.

North Kentucky Siding markets a lot and gets most of the new home construction jobs here, but because of the distance they have to travel from their headquarters they've gotten a reputation for delays and slow warranty service. Glimmer Glass has good management and friendly service, but they concentrate on selling glass products, so their range of vinyl siding styles and colors is pretty limited. Also, their employees aren't trained and don't have the equipment to do a really quality installation. After my business gets off the ground, I might approach John Dilbeck, Glimmer Glass's owner, about buying out his vinyl siding operation.

Slambam Contracting is a one-person operation with a reputation for high prices and customer complaints – at least two were filed with the State Department of Commerce. Slambam also doesn't advertise much.

I've got 24 years of experience in building, I've done my research and I've trained myself to do a quality vinyl siding installation job. Mine will be the only full-time, full-service bonded and insured vinyl siding sales and installation company in Valley County. I'll offer a warranty on all work and will use top quality tools and state-of-the-art installation techniques, such as using a braking tool to bend fascia metal.

The local rate for vinyl siding sales and installation is \$385 per square – which is a lot higher than the regional industry standard of \$210 per square. I think I can do top quality work and still charge the lower industry standard rates.

## Examples: Sample Business Plan

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### Advertising and Promotion Strategies

The show house on U.S. Highway 1761 will be my major advertising strategy. I'm having a brightly-colored sign that says "Rainbow Siding and Gutter" commercially made for the front yard. Every day people driving by will be reminded of how good quality vinyl siding can look. Potential customers can stop to inspect the materials and workmanship of the installation.

In the beginning, I'll advertise in the newspaper, on local tv, and in the yellow pages. I'll also hand out flyers and my business cards. I'll notify each of Valley County's real estate agents about my quality services and fair prices. I'll also ask Center City Exteriors (my vinyl siding producer) about cooperating on a reduced-price special for five customers who are willing to serve as demonstration sites for the first two years.

I do some part-time work for Glimmer Glass, which installs doors and windows as its main business. John Dilbeck thinks highly of my work and has encouraged me to go into business for myself. Rainbow Siding and Gutter, and Glimmer Glass could have a relationship that would benefit both businesses. Eventually I might buy out John's vinyl siding business.

In the end, my cheapest and most effective advertising strategy will be the word of mouth I get if I do good work, on time and at a fair price.

### OPERATIONS PLAN

#### Inputs

My major inputs will be vinyl siding and soffit materials and compatible metal fascia. Center City Exteriors (150 miles from Centerville) produces high-quality products and delivers to western Kentucky weekly. It offers generous short-term credit for new contractors, so I can buy materials before I have any incoming cash. Their sales representative provided a letter which states that if I submit a satisfactory written business plan and have funding from a reputable lender, the company will carry 80% of my materials purchases for up to six months on each purchase at only 5% interest. They guarantee these terms for two years and might extend them if I have a good payment record. I've enclosed a copy of their letter.

I looked into several vinyl siding producers in the Big City area, including Aquarius Supply which produces high-end products for architect-designed homes and businesses. Although wholesale prices tend to be lower in Big City, shipping charges bring the costs to about the same as Center City.

I'll get my tools and other materials at Centerville Building Supply, Inland Tools in Riverdale, and through mail order catalogs. Bogart's Garage in Centerville will repair and maintain my company pickup truck. Back when I ran Inland Seafoods, Tom Bogart would even

loan me his personal vehicle for short periods when my company van was in for unscheduled repairs.

### **Facilities**

I have two facilities: the show house on U.S. Highway 1761 at the west edge of Centerville, and my home office at 410 Cleary Street. I own these properties jointly with Barb Brown, through a limited partnership agreement with right of survivor. If one of us wants to terminate this ownership agreement, he or she has to give at least two years' advance notice. We own the show house outright (estimated current value \$33,000) and pay \$430 monthly on the \$37,800 mortgage balance for the Cleary Street house.

The show house is thirty years old, 1500 square feet, wood frame with a sound foundation and new roof (replaced 1995). The wood windows and siding are structurally sound but pretty weathered – adding vinyl siding will make a big difference in how the house looks. Replacing trim and siding should run about \$2,750. The house is 40 feet from the highway and has off-street parking for four vehicles. The yard is small and well-maintained, and the commercially designed Rainbow Siding and Gutter sign will attract people to stop for a closer look at the house. I lease the house out and the tenants have agreed to be courteous to customers, to maintain the yard and shovel the walks and driveway in exchange for reduced rent. The show house is zoned for commercial use. The office is in a residential zone which limits customer traffic. Ben Nelson, the Centerville City Planner, says there shouldn't be any problem as long as customer traffic doesn't exceed four to six vehicles per day during normal business hours, there isn't any excessive noise, and the grounds are kept clean. If the business grows to the point where zoning is a problem, I will relocate it.

The Cleary Street house provides space for an office and storage of tools and materials. It's a quiet, easy-to-find street with lots of parking, although I expect to meet most customers at the show house or at their own properties. The office space has its own separate outside entrance and is 250 square feet – actually two rooms and a small bathroom. The two-car garage is weather-tight and has electricity, concrete floor, and good automatic doors. I installed vinyl siding on this house two years ago. The rest of the block is all sawmill housing and my house really looks sharp compared to the others. The office and garage could use some improvements, but I can easily run the business out of them without doing anything major.

Both houses are insured for full value and I have arranged for commercial liability coverage to start right before Rainbow Siding and Gutter opens.

### **Operating Costs**

My projected operating costs for the first year will be about \$1,466 per month (see the table below). I plan to draw a small salary of \$500 per month.

## Examples: Sample Business Plan

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I've based my cost of goods sold projection on an "average" 2000 square-foot (50 feet x 40 feet), single story house with a typical number of windows and doors, and standard exterior trim. This house would take approximately 14 squares of siding (one square = 100 ft.), 200 lineal feet of soffit, and 180 lineal feet of fascia metal. My delivered wholesale cost would be \$90 per square for the siding, \$1.08 per foot for soffit, and \$0.83 per foot for the fascia metal. My materials cost for this average job would be \$1,625, plus another 10% to cover other supplies, specialized small tools, and any miscellaneous costs. The total average cost per job would be roughly \$1800. If I charged \$3,000 as the installed cost to the customer, it would break down to \$214 per square, which is pretty close to the regional industry standard of \$210 per square.

### Projected Monthly Costs

<u>Item</u>	<u>First 5 Months</u>	<u>Next 7 Months</u>
Advertising	25.00	55.00
Dues/Subscriptions	7.00	0.00
Insurance	80.00	0.00
Truck Expenses	75.00	100.00
Miscellaneous	50.00	50.00
Office Supplies	20.00	20.00
Printing Cards & Flyers	13.00	10.00
Professional Services	0.00	42.86
Taxes/Licenses	31.00	0.00
Telephone	37.40	28.00
Travel/Entertainment	80.00	158.00
Bonding	19.20	0.00
Loan Payment	159.00	159.00
Capital Expenditures	850.00	0.00
	(\$4250 in first month)	
Owner Draw	500.00	500.00
<b>Totals</b>	<b>1947.00</b>	<b>1123.00</b>
	(includes first-month's one-time expenses)	

### Licenses, Permits, Etc.

I've registered Rainbow Siding and Gutter's name with the Secretary of State's office. I can use the same tax identification number that I had for Inland Seafoods. After I've got my financing, I'll apply for a Centerville business license, which only takes a few days.

Legally I don't need a contractor's license, but I'll get one anyway because the bonding company charges much higher rates if you're not licensed. It will take a few months to get the license because I'll have to record my experience, provide letters of reference and get bonding.

With all my experience, I shouldn't have any problem qualifying for a contractor's license. The license costs \$90 per year and bonding is \$96 per year.

Building permits are required for all remodeling or new construction within the city limits of Centerville and Summerville. Although the property owner is technically responsible for getting the permit, the contractor is more familiar with the process and usually does the actual legwork, then passes the expense on to the customer.

My truck costs \$65 per year to license.

### **Capital Equipment**

I'll need \$4,250 for start-up equipment. I'll use my 1988 Chevy ¾ ton, four-wheel drive pickup truck as Rainbow Siding and Gutter's primary vehicle. The truck's current value is \$6,500 and I'll base depreciation on that amount. I've divided the following equipment list (Table 2) into two categories. First are supplies that will be treated as current expenses allowed by Section 179 of the IRS depreciation rules. The second category lists capital equipment that's subject to depreciation.

#### **Equipment List, Supplies**

<u>Item</u>	<u>Cost</u>	<u>Supplier</u>	<u>Purpose</u>
Weather Guard ladder forks	4.00	Centerville Supply	Safety device
Utility knife	8.00	Centerville Supply	Basic tool
Stanley aviation snips	20.00	Gardiner Mail Order	Specialty tool
Malco duckbill snips	17.00	Gardiner Mail Order	Specialty tool
Stanley hacksaw	24.00	Centerville Supply	Basic tool
Stanley 25' tape	17.00	Centerville Supply	Basic tool
Stanley 100' tape	39.00	Centerville Supply	Basic tool
Stanley 4' level	24.00	Centerville Supply	Basic tool
Stanley chalk line	14.00	Centerville Supply	Basic tool
Stanley 20 oz hammer	28.00	Centerville Supply	Basic tool
Stanley bevel	17.00	Centerville Supply	Basic tool
Stanley apron	32.00	Centerville Supply	Basic tool
Stanley suspenders	13.00	Centerville Supply	Basic tool
Malco HP removal tool #SRT2B	4.00	Gardiner Mail order	Specialty tool
Malco nail slot punch	26.00	Gardiner Mail order	Specialty tool
Malco snap lock punch	29.00	Big City Industrial Supply	Specialty tool
Topco Pro sawhorses	40.00	Big City Industrial Supply	Basic tool
Misc. small tools	623.00		
<b>Total</b>	<b>979.00</b>		

## Examples: Sample Business Plan

### Equipment List, Capital Equipment

<u>Item</u>	<u>Cost</u>	<u>Supplier</u>	<u>Purpose</u>
Tapco Pro III 10'-6" brake with legs	875.00	Big City Industrial Supply	Makes uniform bends in fascia metal
Folding legs for Pro III brake	43.00	Big City Industrial Supply	Moving the brake tool
Topco Pro coiler	110.00	Big City Industrial Supply	Coiling things
Tapco Pro cutoff tool	240.00	Big City Industrial Supply	High production cutting
Skill saw	160.00	Centerville Supply	Basic carpentry tool
Kitt electric shear E141	230.00	Big City Industrial Supply	High production material cutting
Werner 28' aluminum extension ladder	479.00	Pleasantville Commercial Painting	Basic work platform
Werner ladder jacks	87.00	Pleasantville Commercial Painting	Basic work platform
Werner 23' scaffold planks	408.00	Pleasantville Commercial Painting	Basic work platform
Werner 16' scaffold planks	253.00	Pleasantville Commercial Painting	Basic work platform
Werner 8' step ladder	122.00	Pleasantville Commercial Painting	Basic work platform
Pump jack with brace, workbench, and guard pull	264.00	Big City Industrial Supply	Support and move work platform
<b>Total</b>	<b>3,271.00</b>		

### Production Methods

I'll go to the interested customer's site to take measurements and see how complicated the job is. I'll ask the customer about what style and color he or she prefers. Then, back at the office, I'll estimate the cost and see if the materials are available. If the customer decides to go ahead with the job, I'll put it on my schedule.

If I have the equipment listed in Table 2, I should be able to complete most normal siding jobs by myself. I can move all the ladders and scaffold planks alone. Vinyl siding is very light-weight — there are tools that hold it in place while it's being fastened that make a second person unnecessary. Having another installer would make the work go faster because then I wouldn't have to be constantly moving these tools around, and sometimes we could be working on different parts of the job at the same time. When the business takes off I'll hire some help, but right now I've got the time and it'll be more cost effective to work more slowly by myself.

If there's going to be any delay or if there's any kind of problem, I'll tell the customer and explain the reasons. I'll also recommend that they buy a little extra material so the color and style will match if the siding ever gets damaged. The manufacturer guarantees against defects in the product, and I will provide an additional warranty on any problems due to the way I've

installed the siding. The Vinyl Institute has a model installation warranty that specifies a time period and lists defects that might be caused by improper installation.

### **Management Methods**

Customer service is Number One with me. I'll do my best to get the customer the style and color he or she wants at a fair price. I'll schedule estimates and installation at the customer's convenience, and fix any problem that isn't the customer's fault, with no questions asked. My normal business hours will be 8 a.m. to 4 p.m., Monday through Friday. During that time, I'll either take calls in my office or I'll check my voice mail frequently and return every call on my cell phone within less than two hours.

I'll bill customers one-third in advance, one-third when the job is half completed, and the final third when the work is done. For small jobs that can be done in only a few days, I'll take one-third in advance and the final two-thirds on completion. If I'm working as a sub-contractor, I'll require payment for the cost of my materials up-front and final payment for installation within 30 days of completing the job. I'll try to negotiate payment terms for any bill still unpaid after 90 days, but if that fails, I'll turn over the balance to a collection agency.

When I operated Inland Seafoods, I did a good job of managing employees and coordinating day-to-day activities. I set priorities and made good decisions about product inventory and scheduling. I did the daily accounting but had Meg and Dots' Bookkeeping manage payroll and prepare annual income tax returns. If the time comes that Rainbow Siding and Gutter hires employees, I'd have Meg and Dots' do the payroll again.

The Vinyl Institute has a series of professional development courses, including one on becoming a general contractor and one on architectural design for siding contractors. The training gets to be expensive, though, when you add in travel costs and lost work time. Sometimes these courses are offered in Center City and I'll watch for convenient opportunities to take either of them.

### **Employees**

I don't expect to hire any permanent employees for at least the first two years I'm in business. If I do need help during that time, I'll get temporary labor from Cleary Manpower, a local labor contractor. These would be low-skill, low-wage workers and I wouldn't be responsible for benefits or payroll taxes. Centerville Industries recently laid-off a lot of workers with manual skills, so there's no shortage of help. Whenever possible, I'd hire either temporary or permanent employees with disabilities.

### **Outside Services**

I can do my own day-to-day accounting, but I'll have Meg and Dots' Bookkeeping do my income taxes. Thornton Marshall has been my attorney for nearly 15 years and he'll provide any legal services I need. I may use the services of a collection agency if necessary.

## Examples: Sample Business Plan

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### FINANCIAL PLAN

#### Need for and Sources of Cash

I have projected that I will need \$10,000 to purchase capital equipment and supplies, complete renovations on the show house, and a \$3,000 working capital fund to open and operate Rainbow Siding and Gutter. Please refer to the following Need for and Sources of Cash Statement for specifics.

#### Need for and Sources of Cash

##### Cash Needed

Pre-Purchased Inventory	0.00	(Inventory will be ordered as needed)
Capital Equipment	3,271.00	(Table 2)
Supplies	979.00	(Table 2)
Renovations	2,750.00	(Show house siding)
Working Capital	<u>3,000.00</u>	
<b>Total Cash Needed</b>	<b>10,000.00</b>	

##### Sources of Cash

Loan	<u>10,000.00</u>
<b>Total Cash Available</b>	<b>10,000.00</b>

#### Income Statement

Rainbow Siding and Gutter is a new business without any financial history to report (income statement, cash flow, etc.). The following statements are based on projected figures. First-year figures are for the year beginning on November 1, 2000, when the business is scheduled to open, and ending on September 30 of 2001. If first-year sales are \$91,200, my projected gross profit will be \$32,770. Projected expenses total \$17,593, and taxes are \$6,075 for a net profit of \$9,102.

**Income Statement (Projected)**  
11/1/00 (starting date) – 10/31/01

<b>Total Sales</b>	\$91,200.00
Cost of Goods Sold:	
Materials (est. \$1,800/per avg. job)	<u>58,430.00</u>
<b>Cost of Goods Sold</b>	(58,430.00)
<b>Gross Profit</b>	32,770.00
Expenses (based on first year):	
Advertising	510.00
Dues/Subscriptions	35.00
Insurance	400.00
Truck Expenses	1,075.00
Miscellaneous	600.00
Office Supplies	240.00
Printing Cards & Flyers	135.00
Professional Services	300.00
Taxes/Licenses	155.00
Telephone	383.00
Travel/Entertainment	1,506.00
Bonding	<u>96.00</u>
Total Operating Expenses	5,435.00
Other Expenses	
Loan Payments	1,908.00
Capital Equipment	4,250.00
Owner Draw	<u>6,000.00</u>
Total Other Expenses	<u>12,158.00</u>
<b>Total Expenses</b>	<u>(17,593.00)</u>
Pre-Tax Profit	15,177.00
Taxes	(6,075.00)
<b>Net Profit</b>	<u><b>9,102.00</b></u>

**Examples: Sample Business Plan**

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**Break-Even Analysis**

The Vinyl Institute’s estimating guidelines say that the average-size siding job in the rural parts of our region is a single-story, 2000 square-foot (40’ x 50’) house. A house this size, with the average number of doors and windows, and standard exterior trim, requires roughly 14 squares of siding, 200 lineal feet of soffit, and 180 lineal feet of fascia metal. The current delivered wholesale price is \$90 per square for siding, \$1.08 per foot for soffit, and \$0.83 per foot for fascia metal. I don’t plan on hiring any employees during my first two years in business unless sales are substantially higher than I projected. The cost for a typical job would be about \$1,625 plus 10% to cover contingencies. The total variable cost per average job is roughly \$1,800.

Projected average first year monthly fixed expenses are:

Advertising	42.50
Dues/Subscriptions	2.92
Insurance	33.33
Truck Expenses	89.58
Miscellaneous	50.00
Office Supplies	20.00
Printing Cards & Flyers	11.25
Professional Services	25.00
Taxes/Licenses	12.92
Telephone	31.92
Travel/Entertainment	125.50
Bonding	8.00
Loan Payment	159.00
Capital Expenditures	354.17
Owner Draw	<u>500.00</u>
<b>Avg. Monthly Total</b>	<b>1,466.09</b>

Below is my estimate of the average number of jobs I would have to complete each month in order to break even and cover all my fixed and variable costs. I’m calculating this at several possible prices because there’s a tradeoff between how much work I can handle and still keep my prices competitive.

**First Year — Jobs Needed to Break Even**

Price per avg. job	\$2,800	\$3,000	\$3,200	\$3,400
Variable Cost	\$1,800	\$1,800	\$1,800	\$1,800
Gross profit per job	\$1,000	\$1,200	\$1,400	\$1,600
Fixed Costs/mo.	\$1,466	\$1,466	\$1,466	\$1,466
Break-Even jobs/mo.	1.5	1.2	1.0	0.9

These figures show that if I charge an average price of \$3,000 per job, I've got to do 1.2 jobs per month in order to cover all my costs. If I get more than 1.2 jobs per month, Rainbow Siding and Gutter will start to show a profit. Later, if it looks like the market will support average prices of \$3,200 to \$3,400, I can charge more and make a profit after as few as 0.9 jobs per month.

In the second year of operation, I'd like start drawing a salary of \$1,000 per month, and earn a profit of \$833 per month. For a rough estimate, I'm assuming my average monthly expenses and taxes won't change. I'd have to increase the monthly fixed expenses by \$500 to cover my monthly salary increase. To do that and still charge \$3,000 per job, I'd have to start averaging 1.6 jobs each month.

Second Year Goal: \$10,000 Profit Plus \$500 Monthly Salary Increase:

**Second Year — Jobs Needed to Meet Profit Target**

Price per avg. job	\$2,800	\$3,000	\$3,200	\$3,400
Variable Cost	\$1,800	\$1,800	\$1,800	\$1,800
Gross profit	\$1,000	\$1,200	\$1,400	\$1,600
Monthly Fixed Expenses	\$1,966	\$1,966	\$1,966	\$1,966
# Jobs to Break Even/month	2.0	1.6	1.4	1.2
Profit Goal	\$833	\$833	\$833	\$833
# Jobs to Achieve Profit	.8	.7	.6	.5
Total Jobs/month	2.8	2.3	2.0	1.7

## Examples: Sample Business Plan

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### Cash Flow Statement

As can be seen in the following cash flow statement, during November, my first month of operation, I expect to buy inventory for jobs that I won't be finished with and paid for until December and January. I'll also spend \$4,250 on capital equipment that month. That first month I won't have any projected income. My sales for December and January should exceed my expenses and I'll have small surpluses until February when my quarterly tax payment of \$2,025 leaves a cash flow deficit of \$1,492. After February, higher summer sales should exceed my expenses and I'll have a positive cash flow for the rest of the year. My beginning cash-on-hand should be enough to cover the November and February cash flow deficits. I'll end the year with \$19,102 cash on hand.

**Table 4: Cash Flow Statement**

Cash Flow (11/1/00 - 10/31/01)													
Month of	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Tot
<b>Beginning Cash</b>	10000	1305	1838	2371	879	1412	3292	7687	11047	12382	12539	15742	
<b>Receipts</b>													
Sales	0	3800	3800	3800	3800	7600	11400	11400	11400	11400	11400	11400	91200
From Savings	0												
<b>Total Receipts</b>	0	3800	3800	3800	3800	7600	11400	11400	11400	11400	11400	11400	91200
<b>Disbursements</b>													
<b>Cost of Sales</b>													
Labor	0												
Materials	2750	2320	2320	2320	2320	4640	6960	6960	6960	6960	6960	6960	58430
<b>Total Cost of Sale</b>	2750	2320	2320	2320	2320	4640	6960	6960	6960	6960	6960	6960	58430
<b>Expenses</b>													
Advertising	25	25	25	25	25	55	55	55	55	55	55	55	510
Dues/Subscriptions	35	0	0	0	0	0	0	0	0	0	0	0	35
Insurance	400	0	0	0	0	0	0	0	0	0	0	0	400
Truck Expenses	75	75	75	75	75	100	100	100	100	100	100	100	1075
Miscellaneous	50	50	50	50	50	50	50	50	50	50	50	50	600
Office Supplies	20	20	20	20	20	20	20	20	20	20	20	20	240
Printing	25	10	10	10	10	10	10	10	10	10	10	10	135
Prof. Services	0	0	0	0	0	0	300	0	0	0	0	0	300
Taxes/Licenses	155	0	0	0	0	0	0	0	0	0	0	0	155
Telephone	75	28	28	28	28	28	28	28	28	28	28	28	383
Travel/Entertain	80	80	80	80	80	158	158	158	158	158	158	158	1506
Bonding	96	0	0	0	0	0	0	0	0	0	0	0	96
<b>Total Expenses</b>	1036	288	288	288	288	421	721	421	421	421	421	421	5435
<b>Other</b>													
<b>Disbursements</b>	Nov	Dec	Jan.	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Tot
Loan Payment	159	159	159	159	159	159	159	159	159	159	159	159	1908
Capital Expend	4250	0	0	0	0	0	0	0	0	0	0	0	4250
Draw	500	500	500	500	500	500	500	500	500	500	500	500	6000
Taxes	0	0	0	2025	0	0	2025	0	0	2025	0	0	6075
<b>Total Other</b>	4909	659	659	2684	659	659	2684	659	659	2684	659	659	18233
<b>Total Disburse.</b>	8695	3267	3267	5292	3267	5720	10365	8040	8040	10065	8040	8040	82098
<b>Surplus/Deficit</b>	<b>-8695</b>	<b>533</b>	<b>533</b>	<b>-1492</b>	<b>533</b>	<b>1880</b>	<b>1035</b>	<b>3360</b>	<b>3360</b>	<b>1335</b>	<b>3360</b>	<b>3360</b>	<b>9102</b>
<b>Ending Cash</b>	1305	1838	2371	879	1412	3292	4327	7687	11047	12382	15742	19102	19102

## Examples: Sample Business Plan

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### Balance Sheet

Based on first year sales, I project total assets of \$30,908.50 at the end of the first operating year. Please refer to the Balance Sheet for specifics.

#### Balance Sheet (Projected)

10/31/01

#### Assets

##### Current Assets

Cash	19,102.00
Equipment	489.50
Accounts Receivable	1,000.00
Inventory	2,500.00
Prepaid Expenses	<u>0.00</u>

Total Current Assets 23,091.50

##### Fixed Assets

Truck	6,500.00
Equipment	3,271.00
Less Accumulated Depreciation	<u>(1,954.00)</u>

Total Fixed Assets 7,817.00

**Total Assets 30,908.50**

#### Liabilities + Owner's Equity

##### Current Liabilities

Accounts Payable	9,500.00
Accrued Expenses	<u>2,898.00</u>

Total Current Liabilities 12,398.00

##### Long-Term Liabilities

Notes Payable	<u>8,800.00</u>
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**Total Liabilities 21,198.00**

Owner's Equity 9,710.50

**Total Liabilities + Owner's Equity 30,908.50**

# FORMS



## List of Forms

Beginning to Develop Your Business Plan

Monthly Personal and Living Expenses

Need for Cash and Sources of Cash

Cash Flow Worksheet

Business Plan Checklists:

- Overall Content and Style

- Business Description Checklist

- Target Market/Marketing Checklist

- Operations Plan Checklist

- Financial Plan Checklist

- Break-Even Analysis Checklist



## **BEGINNING TO DEVELOP YOUR BUSINESS PLAN**

Answer the following questions in writing for review by your vocational rehabilitation counselor. For some questions, you may need to talk to business owners or do some research at the library. Your answers will help both you and your counselor clarify your business idea. Your answers are the beginning of your Business Plan and may help your counselor determine whether you and Vocational Rehabilitation should work together toward the goal of self-employment.

1. What business would you like to start?
2. Who will use your service and/or buy your product(s)?
3. Where are your customers located?
4. How many customers do you think you will have during the first year? During the second year?
5. How much money do you think you will make during the first year? During the second year?
6. How will you tell potential customers about your business?
7. Is there another business like the one you want to open operating in the area you want to serve? Is it successful? Why or why not?
8. Why do you want to start this type of business?
9. What qualifications do you already have for running this business?
10. What will you need to learn to be able to operate this business?
11. Will you hire employees? What skills should they have? How much will you pay them?
12. If you were a potential customer, why would you use this business?
13. If you were a customer, what features would keep you coming back?
14. Who will do the ordering, customer contact, and bookkeeping for your business?
15. What hours and days will you operate?

## Forms

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16. Where will your business be located?
17. What equipment will you need? Do you need it right away? If not, when will you need it? Do you need to own it or can you rent it?
18. Will your disability pose any barriers to your operating this business? If yes, what are they? What are your ideas for overcoming these barriers?
19. How much money will you need to start the business? How much money can you contribute? Who can loan you money? What do you think are likely sources of money for starting your business?



<b>Month</b>							<b>Total</b>
<b>Utilities</b>							
Telephone							
Gas							
Electricity							
Water							
Trash							
<b>Personal</b>							
Groceries							
Dining Out							
Entertainment							
Tobacco Products							
Medical/Dental/ Vision Insurance							
Clothing							
Laundry/Dry Cleaning							
Medical/Dental/ Vision/Hospital Exp.							
Prescriptions							
Education							
Credit Card Payments							
Loan Payments							
Pets							
Dues & Subscriptions							
Gifts							
Donations							
Travel							
Cable TV							
Personal							

Month							Total
Hobbies/Crafts							
Music							
Personal Assistant							
Assistive technology purchase, payments & maintenance							
Internet Access							
Other:							
<b>Total</b>							

Average Expenses per Month (Total ÷ 6 months) \$\_\_\_\_\_

**Sources of Income:**

<u>Source</u>	<u>Amount per Month</u>
_____	_____
_____	_____
_____	_____
_____	_____

Forms

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## Need For and Sources of Cash

### Cash Needed:

Pre-Opening Inventory  
Pre-Opening Capital Equipment  
Supplies  
Property  
Renovations  
Pre-Opening Marketing  
Building/Other Deposits  
Other Pre-Opening Expenses

Working Capital  
Contingency Funds

Post-Opening Capital Equipment  
Post-Opening Inventory  
Post-Opening Marketing  
Other Post-Opening Expenses

Total Cash Needed

### Sources of Cash:

Savings  
Loans  
Other

Total Cash Available

Forms

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Forms

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## Business Plan Checklists

### Overall Content and Style

	Yes	No
Language is fluent and commonplace		
Industry jargon is explained adequately		
Plan avoids repetition and includes only information relevant to the target audience		
Plan targets the reader		
The plan is in an active voice		
Uses words like “will” instead of “may”		

Notes:

### Business Description Checklist

Item	Needed	Included
List of owners		
Personal financing guarantees		
Current industry trends		
Supply of and demand for product or service		
Potential owner's(s') background information (including management/industry experience)		
Business advisor's(s') information		

Notes:

**Target Market/Marketing Checklist**

<b>Item</b>	<b>Needed</b>	<b>Included</b>
Business owner's customer philosophy		
Business' image described		
Market's(s') unsatisfied need for product or service		
Geographic description of the market		
History and projected trends (e.g., growth)		
Demographics of potential customers		
Rationale for business's location		
Competitor's(s') weaknesses and strengths		
Compares proposed business's product/service with competitor's(s')		
Methods for gaining market share		
Message communicated to potential customers about the product or service		
Discusses all promotional activities		
Rationale for selecting proposed advertising media, including estimated cost and effectiveness		
Methods for assessing customer satisfaction		

Notes:

## Operations Plan Checklist

Item	Needed	Included
Materials description and supplier relationships		
Business location and reason for its selection		
Operation costs		
Addresses need for and includes if appropriate necessary licenses, permits and zoning, insurance, tax ID, and ownership forms		
Capital equipment list, description, and costs		
Describes production methods including labor projections, safety precautions and environmental safeguards		
Describes the management format and organizational structure		
Describes staffing requirements, staff qualifications, and wage rates		
Lists any services, such as bookkeeping or cleaning, that will be outsourced		

Notes:

### Financial Plan Checklist

Item	Yes	No
Projected Income Statement for 2-3 Years		
Projected Balance Sheet for 2-3 Years		
Projected Cash Flow Statement for 2-3 Years		
Break-Even Analysis		
Personal Financial Statements		
Credit Report		
Need for and Sources of Cash Statement		
Equipment List		
Supporting Documents List: _____ _____ _____ _____ _____		

Notes:

## Break-Even Analysis Checklist

Item	Yes	No
Does the market and customer research inspire confidence that customers who will buy the product exist?		
Does the research inspire confidence that customers will pay the product's price?		
Is the product's price justified?		
Does the production schedule and marketing plan support the product's price?		
Does the description of current and future employees appear adequate to meet current and projected production goals?		
Does the description of current and future employees appear to support the product's price?		
Are supporting documents included		

Notes:

Forms

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# STUDY GUIDE ANSWERS

## Chapter 1 Answers - Why Self-Employment (p. 13)

1. Possible reasons include the following:
  - a. Seek freedom from the 9-5 daily work routine
  - b. Be the boss
  - c. Improve standard of living
  - d. Bored with current job — seek challenge
  - e. Prefer to set own hours
  - f. Can supply a product or service demanded by others
  - g. Few local employers or jobs
  - h. Need flexible work schedule
  - i. Need to work from home
2. T
3. e

## Chapter 2 Answers - Terms (p. 18)

1. 10
2. a. Responsibility for paying state and federal taxes on an individual's salary.
  - b. Does the person work for someone else?
3. e
4. independently

## Chapter 3 Answers - The Process (p. 28)

1. self-employment
2. a. Independence — control over work settings and schedule
  - b. Employment where/when outside opportunities are few
  - c. Being the boss
  - d. Interacting with customers, suppliers, and others
  - e. Enjoyable work
  - f. Sense of achievement/satisfaction if the business succeeds
  - g. Control over job security
  - h. Control of business decisions
  - i. Better standard of living
  - j. Feeling part of the community
3. a. Pleasing the customer (the REAL boss)
  - b. Long, hard hours with little free time
  - c. Fluctuating income
  - d. Unrelenting responsibility
  - e. Possibility of business failure
  - f. Stress on family/resources
  - g. Possible exacerbation of health problems/disability

## Study Guide Answers

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4. quit. The counselor should decide why the consumer is unable to begin to develop a business plan and if he or she needs further guidance or assistive technology.
5. occupation, occupational grouping
6. strengths, weaknesses
7. a. Serves as the business's road map  
b. Presented to potential funders  
c. Used to judge the business' potential for success
8. funding
9. long-term

### Chapter 4 Answers - Self-Employment Assessment: The Feasibility Study (p. 33)

1. potential, realistic
2. feasibility study
3. Banks

### Chapter 4 Answers - Self-Employment Assessment: Skills and Interest Assessments (p. 57)

1. a. To identify a general career path if the consumer is unsure of the type of business to open  
b. To help determine the type of business to open  
c. To identify deficient areas to remedy with training, education, or experience  
d. To determine self-employment potential for both the individual and the business
2. unvalidated
3. Most of the questions are transparent or leading so that a respondent can easily figure out the desired answer. Many questions require dichotomous responses that don't measure the strength or frequency of a trait. Finally, the assessments are culturally and sexually biased.
4. Consistent — People are evaluated on the same measures.  
Defensible — All information has been used in a consistent manner.  
Efficient — Gathers only information relevant to starting a business
5. The *Business Assessment Scale* should be used before developing the IPE along with the *Beginning to Develop Your Business Plan* and the *Monthly Personal and Living Expenses Worksheet* to identify people who are likely to succeed in self-employment; to identify knowledge, skills, and experience that the consumer needs to acquire before opening the business; and it identifies people likely to fail even with additional training. It should be used again after the consumer completes training and the business plan. At this time, the *BAS* assesses both the individual and the business.

### **Chapter 5 Answers - Who Does What In the Process (p. 64)**

1. consumer
2. facilitating, communicating, and guiding
3. d
4. T
5. Work with a consultant

### **Chapter 6 Answers - The Business Plan: Introduction (p. 68)**

1. Good decisions, goal or destination
2. Plan
3. a. The business owner evaluates the entire business.  
b. The plan contains written information useful to employees, investors, creditors, and other interested parties.  
c. Planning forces the business owner to address competition issues.  
d. Planning is a systematic way to identify and capitalize on new opportunities.  
e. The plan should be updated regularly and used to evaluate the business's actual versus planned performance.
4. The same

### **Chapter 6 Answers - The Business Plan: Executive Summary (p. 69)**

1. opening argument
2. worthwhile

### **Chapter 6 Answers - The Business Plan: The Business Description (p. 73)**

1. T
2. T
3. T
4. T

### **Chapter 6 Answers - The Business Plan: The Marketing Plan (p. 80)**

1. must
2. a
3. F
4. F
5. F
6. F

**Chapter 6 Answers - The Business Plan:  
The Operations Plan (p. 83)**

1. T
2. F
3. T
4. e
5. does
6. F

**Chapter 6 Answers - The Business Plan:  
The Financial Plan (p. 89)**

1. It is most difficult when the individual is starting a new business rather than buying an existing one because the new business has no history for reference and the statements are developed from projections.
2. 2-3 years
3. Monthly
4. Quarterly
5. F, T, F, T, F
6. T

**Chapter 6 Answers - The Business Plan:  
The Income Statement (p. 93)**

1. T
2. Sales
3. F
4. Market research
5. Justifiable, assumptions
6. All expenses
7. T
8. T
9. Was profitable
10. Operating

**Chapter 6 Answers - The Business Plan:  
Break-Even Analysis (p. 97)**

1. f
2. \$25
3. 32
4. 8, 12
5. F

6. T

7. T

**Chapter 6 Answers - The Business Plan:  
Cash Flow Statement (p. 103)**

1. more

2. A business can show a profit but not have the cash to pay its bills, order supplies or equipment, or pay for unexpected expenses.

3. a

4. f

5. b

6. F, T, T, F, T

**Chapter 6 Answers - The Business Plan:  
Balance Sheet (p. 107)**

1. opens

2. the end

3. h

4. T

**Chapter 6 Answers - The Business Plan:  
Supporting Documents (p. 108)**

1. F

2. supporting, validating

**Chapter 6 Answers - The Business Plan:  
Franchises (p. 110)**

1. T

2. F

3. F

4. franchiser, customer

5. market, franchise itself

**Chapter 7 Answers - Resources and Resource Partners (p. 141)**

1. F

2. main

3. accessibility, supports

4. F

5. T

6. T

## Study Guide Answers

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7. answer  
8. T  
9. T  
10. The Small Business Administration funds the Minority Enterprise Development program that helps socially and economically disadvantaged small business owners access a variety of business development services.

The U.S. Department of Commerce's Minority business Development Agency promotes the establishment and growth of competitive minority-owned businesses. MBDA does not provide grants or loans for business start-up, expansion, or acquisition. It does help minority entrepreneurs find financing.

The U. S. Department of Transportation provides equal opportunities for women and minorities who compete for highway and transit contracts by providing short-term working capital at prime interest rates or by offering the opportunity to obtain bonds for transportation-related projects.

The Office of Disability Employment Policy for the Department of Labor houses a Cultural Diversity Initiative..

## Chapter 8 Answers - Social Security Work Incentives (p. 165)

### 1. Total Countable Unearned Income Calculations:

SSDI Unearned Income	\$859
Minus General Exclusion	<u>- 20</u>
Total Countable Income Available for PASS Investment	\$839

Rodney needs \$7,120 for his down payment. It will take him about 9 ½ months to accrue this amount through his PASS.

### 2. Total Countable Earned Income Calculations:

Earned Income Before Taxes	\$850
Minus General Exclusion	- 20
Minus Earned Income Exclusion	<u>- 65</u>
Total	\$765
Divide by 2	<u>÷ 2</u>
Total Countable Earned Income Available for PASS Investment	\$382.50

## Revised Countable Income Calculations:

Total Countable Income	\$382.50
Minus PASS Investment	<u>- 382.50</u>
Revised Total Countable Income	\$ 0.00

## SSI Benefit Calculations:

Federal Benefit Rate	\$564.00
Minus Total Countable Earned Income	<u>- 0.00</u>
SSI Cash Benefit	\$564.00

PASS Investment: \$382.50

## Usable Discretionary Income Calculations:

Earned Income Before Taxes minus	
Countable Earned Income	\$467.50
SSI Cash Benefit	<u>564.00</u>
Usable Discretionary Income	\$1,031.50 + Medicaid

Dividing \$2,980 (cost of school) by \$382.50, which is the amount available for a PASS, indicates that Sarah could pay for her education with 8 months of PASS. But she could also include other necessary items in the PASS during her 24 months of education PASS eligibility. For example, the total amount of PASS money available for her over the 2-year period is \$9,180 (\$382.50 per month). This money could be used to pay for transportation, clothes, or some other item or service to help her through school.

3. First, Deb should put at least \$3,300 (\$3,500 + \$1,800 - \$2,000) into the PASS to maintain her SSI and Medicaid eligibility (remember the resource limit is \$2,000 for a single person)<sup>1</sup>. Her monthly discretionary income stays the same, but she now has \$343 to invest towards her education.

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<sup>1</sup>This is a situation where the complexities of the SSI program could be involved. Is the \$3,500 received as a “back payment check” retroactive SSI? If so, it will not “count” as a resource for 6 full months after receipt. If it is another kind of income, the receipt of it – as opposed to the continued possession of it – may have an impact on Deb’s SSI. In which case she may want to set the whole countable part into the PASS to avoid overpayment or payment reduction for one month. If this were a private disability payment, for instance, by only setting aside \$3,300, she will lose \$180 in SSI, as the part not invested in the PASS is countable unearned income. If this back-payment check is wages, which is unlikely, Social Security uses the regular earned income exclusion.

## Study Guide Answers

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### Before Pass:

Total Countable Earned Income Calculations:	
Earned Income Before Taxes	\$705
Minus General Exclusion	- 20
Minus Earned Income Exclusion	<u>- 65</u>
Total	\$620
Divide by 2	<u>÷ 2</u>
Total Countable Earned Income	\$310

### SSI Benefit Calculations:

Federal Benefit Rate	\$564
Minus Total Countable Earned Income	<u>- 310</u>
SSI Cash Benefit	\$254

### Discretionary Income:

Earned Income Before Taxes	\$705
SSI	<u>254</u>
Total	\$959 + Medicaid

### After PASS:

Total Countable Earned Income Calculations:	
Earned Income Before Taxes	\$705
Minus General Exclusion	- 20
Minus Earned Income Exclusion	<u>- 65</u>
Total	\$620
Divide by 2	<u>÷ 2</u>
Total Countable Earned Income	\$310
Available for PASS Investment	

### Revised Countable Income Calculations:

Total Countable Income	\$310
Minus PASS Investment	<u>- 310</u>
Revised Total Countable Income	\$ 0

### SSI Benefit Calculations:

Federal Benefit Rate	\$564
Minus Total Countable Earned Income	<u>- 0</u>
SSI Cash Benefit	\$564

PASS Investment:	\$310
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Usable Discretionary Income Calculations:

Earned Income Before Taxes (Minus Countable Earned Income)	\$395
SSI Cash Benefit	<u>564</u>
Usable Discretionary Income	\$959 + Medicaid

4. Total Countable Earned Income Calculations:

Earned Income Before Taxes	\$750
Minus Earned Income Exclusion	<u>- 65</u>
Total	\$685
Divide by 2	<u>÷ 2</u>
Total Countable Earned Income	\$342.50

Total Countable Unearned Income:

SSDI	\$768
Minus General Exclusion	<u>- 20</u>
Total Countable Unearned Income	\$748

Total Countable Income Calculations:

Total Countable Earned Income	\$342.50
Total Countable Unearned Income	<u>748.00</u>
Total Countable Income Available for PASS Investment	\$1090.50

Revised Countable Income Calculations:

Total Countable Income	\$1090.50
Minus PASS Investment	<u>-1090.50</u>
Revised Total Countable Income	\$ 0.00

SSI Benefit Calculations:

Federal Benefit Rate	\$564.00
Minus Revised Total Countable Income	<u>- 0.00</u>
New SSI Cash Benefit	\$564.00

PASS Investment:

\$1090.50

Usable Discretionary Income Calculations:

Earned Income Before Taxes minus Countable Earned Income	\$407.50
SSI Cash Benefit	<u>564.00</u>
Usable Discretionary Income	\$971.50 + Medicaid

## Study Guide Answers

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5. Total Countable Earned Income Calculations:

Projected Earned Income Before Taxes	\$900.00
Minus General Exclusion	-20.00
Minus Earned Income Exclusion	<u>- 65.00</u>
Total	\$815.00
Divide by 2	<u>÷ 2</u>
Total Countable Earned Income	\$407.50
Available for PASS Investment	

Revised Countable Income Calculations:

Total Countable Income	\$407.50
Minus PASS Investment	<u>-407.50</u>
Revised Total Countable Income	\$ 0.00

SSI Benefit Calculations:

Federal Benefit Rate	\$564.00
Minus Total Countable Earned Income	<u>- 0.00</u>
SSI Cash Benefit	\$564.00

PASS Investment:

\$407.50

Usable Discretionary Income Calculations:

Projected Earned Income Before Taxes	
minus Countable Earned Income	\$492.50
SSI Cash Benefit	<u>564.00</u>
Usable Discretionary Income	\$1056.50 + Medicaid

It will take Chuck 31 months to purchase the machine. His SSI payment is \$564.

6. Working (employed)

## Chapter 9 Answers - Supported Self-Employment (p. 175)

1. a. Resource ownership
- b. Partnerships
- c. Sole Proprietorship
2. supported employment
3. owns
4. does not
5. creative