

PACE

Fourth Edition

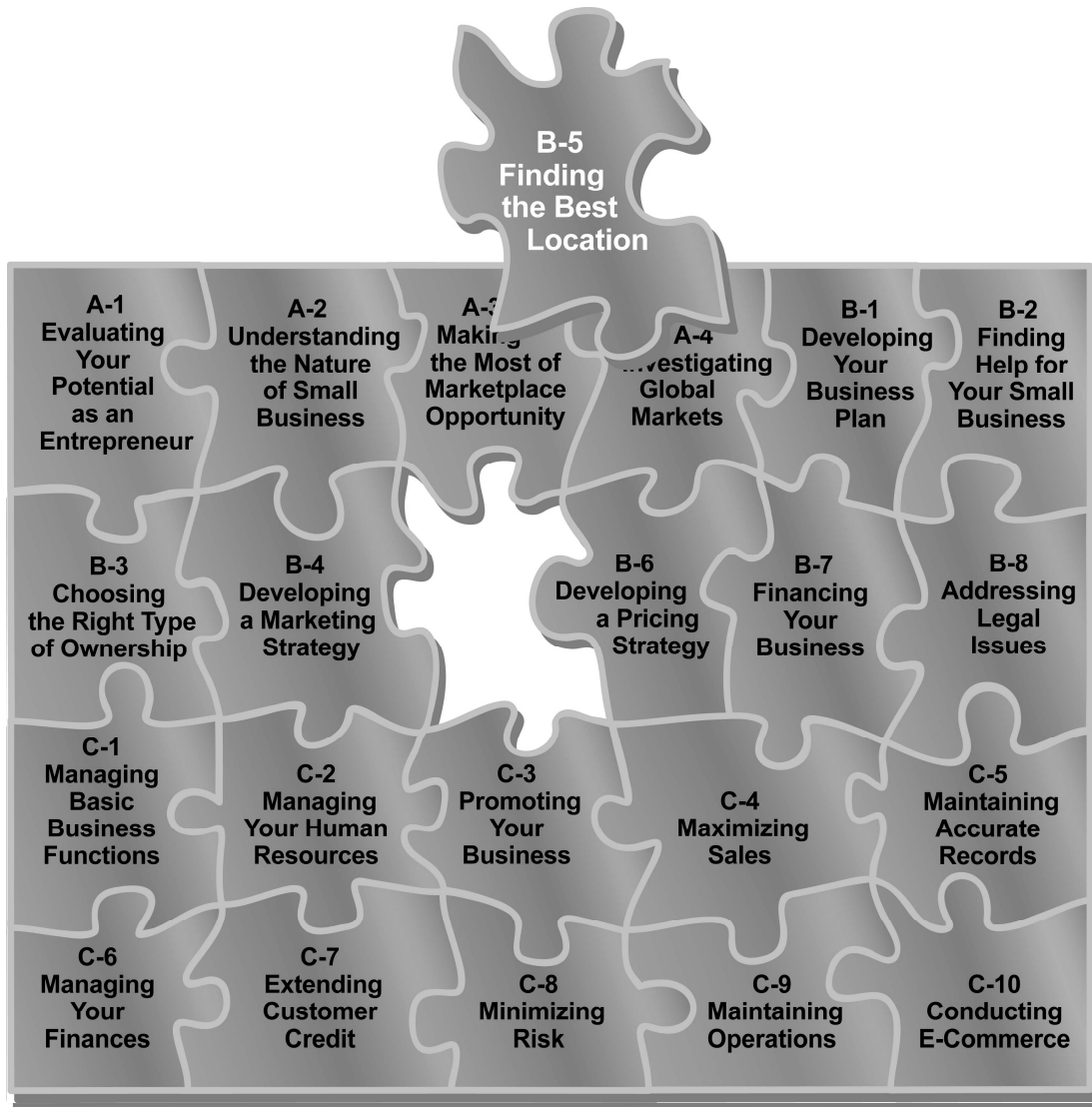
Program for Acquiring
Competence in
Entrepreneurship



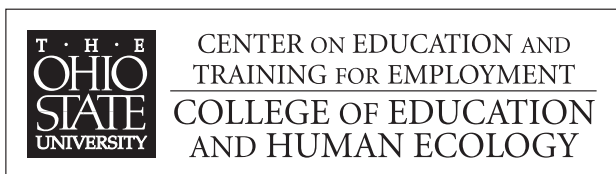
PACE

Fourth Edition

Program for Acquiring Competence in Entrepreneurship



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This version of PACE was supported in part by a grant from OSU Extension.

Foreword

I am pleased to introduce you to the Fourth Edition of the Program for Acquiring Competence in Entrepreneurship (PACE). PACE represents our continuing effort to respond to the needs of the education and business communities. At no other time in history has understanding entrepreneurship been as important. For one thing, promoting entrepreneurship carries the societal imperative as small businesses as a whole contribute much to the growth and renewal of regional and national economies.

When first published in the late 1980s, PACE properly emphasized that entrepreneurship was based as much on sound planning as having products and services that were responsive to the marketplace. Through its various revisions, PACE continued to focus on the general importance of planning and managing the startup of a small business.

The current PACE edition represents a necessary break from past versions in both its format and some content. For one thing, the text format has been substantially changed from paragraphs to a series of related sections with subheadings. This change allows readers to have greater accessibility to the information, whether it is delivered via a printed booklet or a technology-based approach. And the format allows the instructor/facilitator to have greater flexibility in selecting content to accommodate the needs of various audiences and settings.

In terms of the content, PACE continues to emphasize the importance of planning and managing of a small business. But it now includes a renewed emphasis on meeting customer expectations. Any business cannot exist without a comprehensive understanding of who receives its products or services. In this sense, PACE introduces the topic of conducting e-commerce. Until recently, the entrepreneurial horizon may have been limited to serving local customers only. The advent of the Internet offers the promise of serving many more customers, but not without the accompanying challenges.

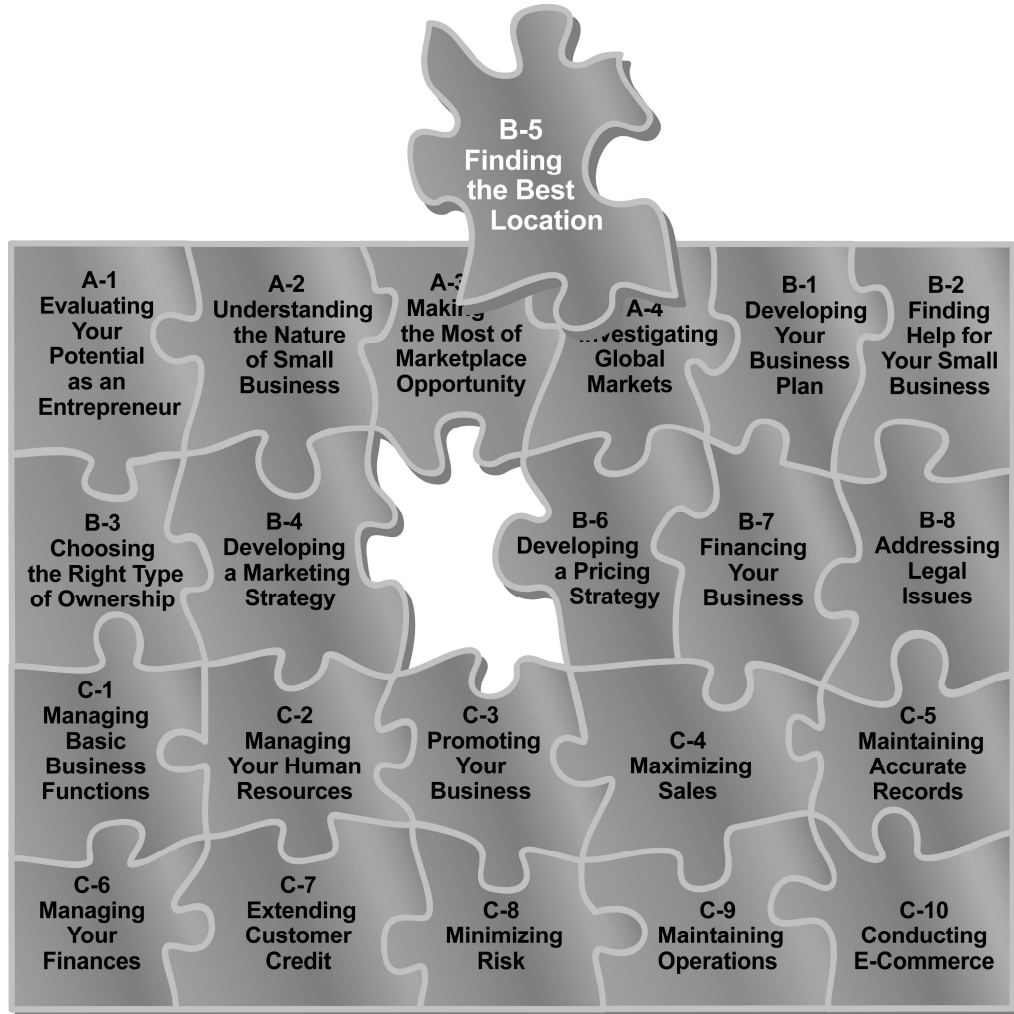
This edition was supported in part by a grant from OSU Extension and in partnership with OSU South Centers – Piketon. We hope that PACE will provide you with the understandings necessary to help you to achieve your entrepreneurship goals.

Ronald L. Jacobs
Director
Center on Education and Training for Employment

Overview

Introduction

The location of your business is a major factor in how successful you'll be. Business volume can be greatly impacted by the geographic area and specific site where you locate. Maximizing profits depends on doing business where you can both attract customers and deliver the goods and services advertised.



Continued on next page

Overview, Continued

Rationale The right site located within the proper geographic area will facilitate the efficient distribution of goods and services to the most receptive marketplace.

Objectives By the conclusion of this module, you will be able to:

- State the importance of selecting the right location for your business.
- Explain the factors to consider when evaluating geographic areas.
- Describe how to assess a specific business site including:
 - comparing and contrasting natural vs. planned sites
 - distinguishing the most common types of business sites.
- Explain how to conduct a feasibility study to select the location most suitable for your business.
- Identify the key elements in appraising business locations.
- Name the various sources of assistance available to you when evaluating business locations.

Relevant NCSEE standards This module aligns with the following National Contents Standards for Entrepreneurship Education (NCSEE):

M10 Select business location.

More information on the NCSEE is available at: http://www.entre-ed.org/Standards_Toolkit.

Continued on next page

Overview, Continued

Topics

The topics in this module are:

Topic	See Page
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Exhibits

There are no exhibits in this module.

Before you begin

After reviewing the above objectives for this module, determine whether you can already meet those objectives and consult your instructor if you can.

How Important Is the Right Location?

Introduction

Where you decide to locate your business will have a lasting effect on your bottom line. Customer demand for your goods or services is determined to a great extent by your business location. If your customers have to be near the business, a poor location means that you must attract customers by reducing prices, by increasing promotions, or by some other means that reduces profits.

Types of business operations

Although there are some general factors to consider when locating your business, the relative importance of these conditions varies with the type of business operation.

Retail firms – The major factors when locating a retail firm are:

- Easy access and traffic patterns are prime considerations for retail firms.
- Customers need to reach these businesses from major roads.
- Customers need ample parking.

Wholesale firms - The major factors when locating a wholesale firm are:

- Rail, truck, and air carriers need easy access to wholesale firms. Locate wholesale firms near major highways or rail lines.
- Zoning regulations addressing the facilities, equipment, and fixtures may limit the number of suitable sights.

Service firms - The major factors when locating a service firm are:

- Proximity to a shopping center may be advantageous, but customers are more prone to seek out and travel further for services they prefer (like a favorite doctor or auto mechanic).
 - Significant differences exist in the relative importance of the factors to consider in locating a service firm.
-

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How Important Is the Right Location? Continued

Types of business operations (continued)

Manufacturing firms - The major factors when locating a manufacturing firm are:

- These firms have the most restrictive zoning regulations, so check into the laws and local environmental regulations before deciding on a location.
 - Also investigate the availability of shipping facilities, the distance from raw materials, and the location's nearness to the potential market.
 - Make sure that the location you choose has plenty of room for all business operations to occur safely and efficiently.
 - Be sure that the location allows for future expansion of the manufacturing firm.
-

Moving

If you decide to move your company, take into consideration the impact of this change on employees and customers. Besides affecting your equipment, machinery, and records, the move will have social, financial, and psychological implications on your employees.

Ongoing evaluation

Although a business may be successful in one location for many years, the static nature of society in general and business conditions in particular require the business owner to periodically evaluate the effectiveness of his or her current location and consider alternate locations as needed. This decision may affect profits and the business image.

Example: Technological changes and workforce mobility are two fluctuating conditions that may affect the suitability of a particular business site.

Evaluating the Geographic Area

Introduction Investigate the geographic area where you want to locate your business. You want to be there for a long time and the characteristics of the area can determine your future success and stability.

Note: The geographic area is one part of the entire business location. It is relatively large in comparison to the more specific business site (neighborhood, city, county, or state as opposed to a specific tract of land, which is the business site).

General factors When determining an appropriate geographic area for your business, consider these four general factors:

- economy
- population
- competition
- public transportation.

Economy – The type of industry in an area influences the economic conditions. Commercial trade, manufacturing, and agriculture are major types of industry that can affect the region. Consider these factors when examining the economy of a potential area:

- The diversification of industry is important – some areas may be dependent on a single industry whereas others may have a balance of different types of businesses.

Key point: Explore the future of the area in terms of the permanency and stability of its economic base.

- The industrial base is constantly affected by numerous forces including:
 - road construction
 - influence of labor unions
 - infusion of funds from government contracts or grants
 - availability of adequate venture capital at affordable rates.
-

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Evaluating the Geographic Area, Continued

**General factors
(continued)**

Economy – Consider these factors when examining the economy of a potential area:

- Determine whether industry in the area is substantial and permanent or seasonal in nature.
- If business is seasonal, decide whether seasonal jobs offered will affect your workforce.
- Evaluate whether businesses are moving into the area or are relocating elsewhere.
- Assess the strength of local industry on labor.
- Examine local tax laws on business and industry, including tax incentives for attracting new business.
- Identify the extent to which the community tries to attract new employers to the area.
- Also look into transportation availability and natural resources of the area.

Population – Consider these factors when examining the population of a potential area:

- Gather information about the average income of the population and whether it's a mixture of levels or just one economic group in order to evaluate the ability of consumers to buy your product.
- Identify any trends in growth, decline, or stability of the population.
- Assess the population's standard of living and quality of life.
- Determine the chronological age and education level of the population in relation to the types of products they are likely to purchase and type of labor available to you.
- Identify the employment trends and whether the labor force is stable or transient.
- Explore whether people own or rent their homes.
- Uncover any changes that have occurred in the population and examine the cause and effect of the change.

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Evaluating the Geographic Area, Continued

General factors (continued)

Competition – Consider these factors when examining the competition in a potential area:

- Identify the number, size, and types of competition you'll face since an area can support only a limited number of competing businesses.
- Determine whether your competitors would be alert and progressive or interested in just maintaining the status quo.
- Note the presence of chain stores, franchises, and other regional or national firms.
- Examine the possible reasons for mergers, failures, and changes in ownership in local businesses.
- Find out how many companies similar to yours have opened or closed in the past two years.
- Analyze indirect competition that provides goods and services similar to your own.
- Investigate what the competition's customers think about their products.
- Identify the type of management in place at existing firms – cooperative or cutthroat.
- Determine the degree and quality of unionization in the region.

Public transportation – Consider these factors when examining public transportation in a potential area:

- Determine whether public transportation is necessary for employees and consumers to access your goods or services.
- If so, decide whether existing public transportation meets your requirements in terms of employees and consumers getting to your facility.

Example: In a large metropolitan area, traffic is congested and parking spaces are hard to find, so people don't often drive. You need to locate in an area with buses or commuter trains for accessibility.

Evaluating the Business Site

Introduction

Once you've carefully analyzed and selected the geographic area, closely investigate the actual business site where you'll locate your company.

Note: The business site is the other part of the entire location. In comparison to the geographic area, it is small and more specific within the larger area.

Key point: Keep in mind that people are a key factor in deciding where to locate. You need not only a qualified work force, but also a means for them to get to work. And you need a way for customers to reach your site.

General factors

The exact requirements for your business depend on the type of firm you want to operate. But each type of business has the following general factors that you need to consider:

- competition
 - traffic flow
 - public transportation
 - parking
 - zoning ordinances.
-

Types of firm

The types of firms, each with specific requirements, are:

- retail firms
 - wholesale firms
 - service firms
 - manufacturing firms.
-

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Evaluating the Business Site, Continued

Retail firms

The success of a retail company is tied to its ability to attract customers. This type of business must be located near its potential customer base.

Rationale – The goods that you offer determine how close you have to be. The table below presents this requirement.

Product	Site
Convenience goods <u>Examples:</u> candy, bread	High traffic areas
Durable goods <u>Examples:</u> appliances, furniture	Secondary streets
Specialty goods <u>Examples:</u> jewelry, health food	Off the beaten path

Compatibility – Another consideration is the compatibility of neighboring stores. The consumers of nearby businesses should be the same kind of person that would want to shop at yours. If one store doesn't attract enough customers to be profitable, the neighboring store might draw the right clientele for them both.

Note: On the other hand, some stores are incompatible. Clothing stores don't do well next to service stations.

Convenience – Make it as easy as possible for customers to reach your store. When evaluating sites, consider these points:

- ease of parking
- accessibility of public transportation
- volume of both pedestrian and automobile traffic.

Note: You can do a traffic study to determine the number and types of people traveling in the area. Most state department of transportation websites make travel statistics available to the public.

Other factors – You should also consider a few other factors including:

- zoning and local ordinances
- the cost of the site
- the general appearance of the surrounding area.

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Evaluating the Business Site, Continued

Wholesale firms

These businesses sell to retailers or other wholesalers within the area. Some positive factors for wholesalers include:

- prosperous retailers
- a growing population
- a broad economic base.

Distribution channels – When investigating the site, make sure that you’re close to major highways or rail lines in order to keep distribution channels open.

Popular sites – Wholesale firms could be successful in older, established wholesaling districts. But recently, many wholesalers have located on the outskirts of town near highway interchanges. Carefully analyze the site to make sure it’s right for your company.

Other factors – You should also consider a few other factors including:

- zoning and local ordinances
 - the cost of the site
 - space for expansion
 - quality of local emergency services
 - quality of local utilities.
-

Service firms

The site of service firms has the same basic criteria as for retail firms.

Rationale – The services that you offer determine how close you have to be. The table below presents this requirement.

Product	Site
Regularly scheduled services on site <u>Examples:</u> beauty salon, dental clinic	High traffic areas
Service on the customer’s premise <u>Examples:</u> pest control, janitorial services	Off the beaten path

Continued on next page

Evaluating the Business Site, Continued

Manufacturing firms

Site location for small factories requires you to consider these factors:

- quantity and quality of the labor supply
- availability and access to raw materials
- energy and fuel
- community attitude toward the industry.

Other factors – You should also consider a few other factors including:

- access to customers
 - reliable public transportation
 - space for expansion
 - quality of local emergency services.
-

Site layout

Consider these factors when examining the layout, or physical arrangement, of a potential site:

Note: The three components of layout are design, space, and configuration.

- Design the flow of the available space such as how much you'll give to office staff, how much for equipment and storage, etc.
- Be creative to utilize the space effectively.

Example: Make individual offices by partitioning off cubicles within a larger room. Or remove walls to make more space for equipment.

Key point: Always consult an architect or engineer before making these modifications in order to avoid any safety issues or damage to the existing structure.

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Evaluating the Business Site, Continued

Studying a community

When studying a community to determine the best business site for your type of business, the right combination of factors is essential. Carefully assess the factors described below.

Promotion – Find out the media available for advertising in the community. Identify the radio and television stations as well as any local newspapers and where they have the heaviest circulation.

Business climate – Determine whether you will be able to build close relationships with customers and other businesses in the area. Explore the success and failure rates for businesses similar to yours as well as the construction costs for new businesses and expansion.

Housing – Confirm that the housing situation affords you safe and decent housing at a convenient price.

Emergency services – You should also consider the quality of local emergency services such as police and fire departments.

Community environment – Evaluate the community in terms of:

- public safety
- good school systems
- well funded and attended recreational and cultural programs
- influence of active service clubs
- adequate utilities and infrastructure
- services to support your industry (maintenance, freight services, etc.)
- availability of subcontractors (architects, carpenters, etc.).

Continued on next page

Evaluating the Business Site, Continued

Studying a community (continued)

Labor – Evaluate the quantity and quality of available labor in terms of:

- whether it’s concentrated in a particular area of the city
- local worker attitudes
- education
- whether workers have deep community roots
- relationships with the business community
- average wages and whether salaries are paid regularly.

Taxes – Explore taxation requirements including city, state, and federal income taxes. Identify the property tax rate and whether there’s a personal property tax or any other special taxes.

Future developments

As you evaluate alternative business sites, keep in mind that conditions will change in the future. The factors that you’re considering today may be very different in another year. Whenever possible, collect data on future plans for development and utilities, etc. Many areas have planning agencies.

Historical data – The data collected from previous years is useful for detecting developing trends that might carry into the future. It’ll enable you to make reasonable forecasts.

Forecast reliability – Forecasts of three to five years are common and can be made with some degree of confidence based on high quality data.

Types of Business Sites

Introduction

As you proceed with your evaluation of possible sites, you'll notice that businesses tend to form clusters. This happens because many factors, both general and specific, influence why a business selects a certain site. There are two distinct types of business sites – natural and planned.

Natural sites – These sites are formed to serve a specific population within a geographic area. They form to take advantage of a market already established by other small businesses.

Example: In an area near a new housing development, an all-purpose megastore springs up. To take advantage of the traffic generated by this business, other enterprises move into the area such as fast food restaurants, gas stations, etc.

Planned clusters – The intent of planned clusters of businesses is to spread the cost of operations among several businesses.

Examples: Shopping centers and industrial parks are planned clusters where the grouping reduces costs such as advertising, maintenance, leasing, and land development.

Assess your own business – Will your business fall into one of the categories listed below, and is it natural or planned?

- | | |
|---------------------------------|------------------------|
| a. Central shopping district | b. Mini-warehouse mall |
| c. Neighborhood shopping center | d. Office complex |
| e. Shopping center | f. Business incubator |
| g. Industrial park | h. Executive suite |
| i. Factory outlet mall | j. Home-based business |

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Types of Business Sites, Continued

Central shopping districts

Central shopping districts are the main shopping districts in a city, generally located on the main street and often including several blocks.

Market – The consumers for retail and service firms in this area are often in the central district because they work at:

- government offices
- financial institutions
- professional offices.

Goods and services – All kinds of goods and services are available in the central shopping district. Major department stores provide the drawing power; but theaters, restaurants, and specialty stores selling a wide variety of products also increase customer traffic.

Advertising – These retail businesses usually have advertising programs of their own to attract customers from a large trading area.

Neighborhood shopping areas

These clusters attempt to locate in heavily populated areas and can be developed quickly to take advantage of rapid growth areas.

Size – These areas often contain smaller businesses such as:

- small branches of major department stores
- grocery stores
- fast food restaurants
- gas stations
- bakeries
- hardware stores.

Advantages – These stores often share many advantages such as:

- lower square footage and operating costs
 - repeat business
 - a well-balanced assortment of stores that lure customers from outside the area.
-

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Types of Business Sites, Continued

Shopping centers

These planned business clusters have grown with the increase in automobile traffic. Shopping centers are usually located on the outskirts of town and near a major highway. The three basic types of shopping centers are:

- neighborhood
- community
- regional.

Neighborhood – Neighborhood shopping centers are:

- designed to serve a trading area within close proximity of an approximately five-mile radius
- anchored by a supermarket or chain department store
- home to other stores selling convenience sundry products.

Note: If the storefronts are aligned in a row, they're called a "strip center."

Community – Community shopping centers are:

- designed to attract customers willing to drive a distance of approximately 20 minutes
- anchored by a major department store that serves to attract business to the other stores in the cluster
- home to other stores commonly offering convenience goods, a wide selection of shopping items, and specialty services
- mostly open air rather than enclosed malls.

Note: Other tenants of community shopping centers include drugstores, hardware stores, dry cleaners, and laundromats.

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Types of Business Sites, Continued

Shopping centers (continued)

Regional – Regional shopping centers are:

- mixed-use facilities
- designed to attract customers from as far as 40 minutes away
- anchored by at least two major department stores
- home to stores with a wide range of convenience goods, specialty services, clothing, etc.
- usually enclosed malls.

Note: A regional center often has chain stores, franchise outlets, banks, restaurants, offices, movie theaters, and hotels.

Attracting customers – All types of shopping centers rely on their ability to attract customers by providing an appealing shopping environment. This drawing power is enhanced by:

- planned tenant mix
- ample parking
- pooled advertising
- promotional programs.

Examples: Promotions include events like car shows, flower shows, and new product introductions.

Meeting challenges – Being part of a shopping center also presents the following challenges to the small business owner:

- high overhead and high rental/lease costs
- decreased independence in determining store hours
- advertising and promotional programs coordinated by the center's decision-making group
- extensive maintenance costs that are divided amongst the tenants.

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Types of Business Sites, Continued

Industrial parks

Industrial parks are the manufacturing and wholesaling equivalent of retail shopping centers. Industrial developers provide location factors most sought after by manufacturers and wholesalers.

Location – This type of business is often located on the outskirts of town, where rental space is more affordable. In order to provide efficient supply access, industrial parks are situated close to major highway or rail lines.

Provisions – To attract businesses to industrial parks, cities often provide benefits for locating in their jurisdiction including utility hookups and tax breaks.

Other sites

The table below describes some other types of business sites.

Site	Description
Factory outlet mall	<ul style="list-style-type: none"> • Discount and factory outlet stores carrying traditional manufacturer brands locate in factory outlet malls. • Many manufacturers operate their own outlet stores in these malls in order to move overstock or salvage inventory. The manufacturer, as owner of the outlet, usually makes an effort to avoid conflict with traditional retailers selling their own brand. • These malls are usually located outside the metropolitan area.
Miniwarehouse mall	<ul style="list-style-type: none"> • These centers are loosely planned to sell space to wholesalers, light manufacturers, or retailers operating out of warehouse areas. • Unlike traditional planned shopping centers, miniwarehouse malls don't often have coordinated promotional programs or store mix.
Office complex	<ul style="list-style-type: none"> • This location is one big office or a series of offices extending vertically or horizontally. • These complexes are usually located within municipal downtown or suburban areas. <p style="text-align: center;"><u>Examples</u>: small accounting or tax firms, real estate companies, medical offices, temporary employment services</p>

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Types of Business Sites, Continued

**Other sites
(continued)**

The table below describes some other types of business sites.

Site	Description
Business incubator	<ul style="list-style-type: none"> • The opportunity to network and learn from other small businesses is one of the greatest advantages of incubators. • Business startups can develop and grow in a protected environment with lower overhead expenses. • Renting/leasing costs are sometimes lower than other types of locations. • Central services are provided such as telephone answering, secretarial, mailing, consulting, taxes, etc. • As the business grows, the time comes when it has to leave this location and operate independently. The time spent here is usually limited to three years.
Executive suite	<ul style="list-style-type: none"> • This facility is where manufacturer representatives and other independents in the distribution channel can maintain an office. • It provides an office address, telephone answering service, meeting space, furnishings, and other office necessities. • This location is an alternative to working out of your home.
Home-based business	<ul style="list-style-type: none"> • The number of home-based businesses grows each year. • The cost of doing business can be reduced drastically, which makes home-based business a good way to get started. • Often there is no need to move out of the home once established. • When determining the feasibility of growing your business at home, consider these factors: <ul style="list-style-type: none"> • family situation at home • type of business • basic expenses • practicality of staying home. • Thoroughly check the zoning ordinances in your area. What you don't know might jeopardize your business down the road. You may have to obtain a special permit or zoning variance in order to conduct business at home.

Conducting Your Own Feasibility Study

Introduction When evaluating alternate locations, consider the market potential and availability of desirable premises. This section guides you through the completion of a feasibility study for locating your specific business venture.

Conducting a feasibility study The following table describes how to conduct a feasibility study to select the location most suitable for your own business:

Step	Action
Phase 1 – Evaluate the Market Potential of Various Geographic Areas	
1	Select the geographic area for consideration.
2	Survey several areas within a broad geographic area.
3	Establish geographic area selection criteria.
Phase 2 – Analyze the Factors in Selecting a Site	
4	Determine your exact need – to build, renovate, or redecorate.
5	Assess the need to lease.
6	Review your analysis and make an objective site decision.

Step 1 – Select the geographic area for consideration Based on personal experience and your knowledge of current business conditions, select two or three broad geographic areas with the potential for locating a business of your type.

Key point: These geographic areas can be as large as an entire state.

Existing businesses – If you currently operate a business, include the geographic area surrounding your present site.

Key questions– Ask yourself the following questions when selecting the geographic area for consideration:

- Will I benefit most from a large metropolitan area, suburb, or small city or town?
- Should I choose a newly developing city or an established, well developed urban area?

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Conducting Your Own Feasibility Study, Continued

Step 2 – Survey several areas within a broad geographic area

As you consider the geographic areas for locating your business, several promising geographic areas will surface. Survey these areas and collect data on economic and competitive conditions as well as the general population. Consider these specific factors when surveying the areas within a broad geographic area:

- market characteristics (such as education levels, income levels, and prominent occupations of the population)
 - permanency of its inhabitants (permanent vs. transient)
 - type of housing (apartment vs. houses)
 - availability of labor
 - market proximity
 - availability of transportation.
-

Step 3 – Establish site selection criteria

After you've identified one or two geographic areas as strong possibilities, evaluate the market potential of the area. Establish the criteria for rating them before beginning this assessment according to the nature of your business (retail, wholesale, service, or manufacturing). Consider the categories below:

- competition in the trading area
 - neighborhood conditions (such as compatibility with existing businesses and local atmosphere)
 - traffic volume and type
 - area history
 - single or multiple occupancy options
 - real estate taxes
 - zoning restrictions
 - cost of complying with Occupational Safety and Health Administration (OSHA) regulations.
-

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Conducting Your Own Feasibility Study, Continued

Step 4 – Determine your exact site need

The first three steps have led you to an evaluation of market potential that revealed two or three promising sites. With this information in hand, identify your exact need before making a final selection of the best location. Your options are to:

- build on the chosen site
- renovate an existing structure
- simply redecorate.

If your analysis indicates that...	Then...
your present site doesn't meet business needs or you've yet to establish a new business	you'll need to build a structure. Choose the most appropriate location according to market potential.
your current site will be suitable with certain changes	<p>you can stay in that location and make renovations or simply redecorate.</p> <p><u>Key point:</u> These changes, also called rejuvenation or redevelopment, are necessary to improve the image of your business.</p> <p><u>Examples:</u> painting the exterior, expanding the parking lot, upgrading signage, redecorating the lobby</p>

Advantages of building or renovating – The advantages of building a structure or renovating an existing one include:

- You can design the building to fit your exact needs.
- A new or renovated building is very appealing to customers and projects the image of being progressive.
- Tax advantages from depreciation allowances and investment tax credits are possible.
- You will be able to borrow money in the future by borrowing on the equity of the building you own.

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Conducting Your Own Feasibility Study, Continued

Step 4 – Determine your exact site need (continued)

Disadvantages of building or renovating – The disadvantages of building a structure or renovating an existing one include:

- The time required to build or renovate will probably have an adverse affect on sales.
- It may be difficult to acquire sufficient capital for the project.
- Selecting a dependable contractor is important and challenging.
- The expense of building and renovating structures is substantial.

Key questions – Ask yourself the following questions when deciding whether to renovate an existing business:

- How much time will it take to renovate the business?
- How much will my profits decrease during this period due to lost sales?
- What will the cost of labor, materials, fixtures, and equipment be?
- Can I find a reputable, competent contractor to do the job?
- Will I need to borrow money? If so, will I be able to pay it back?
- How much will the depreciation allowances and tax credits help me?
- What will the costs associated with city building permits and architectural fees be?

Planning – Planning is very important to ensure that this type of project stays within your budget. Determine the costs involved before deciding to proceed with building or renovating your current structure.

Step 5 – Assess the need to lease

Leasing a building is a common practice among business owners. If you decide to take that option, carefully review the lease agreement in order to avoid potential problems. When considering whether to lease, consider the points listed below.

Rent – Determine how much rent will cost and whether the rent will be a flat fee or a percentage of your sales.

Duration – Identify how long the lease is in effect and whether you can cancel before it expires. If so, find out the conditions under which it can be canceled.

Continued on next page

Conducting Your Own Feasibility Study, Continued

Step 5 – Assess the need to lease (continued)

Renewal – Study the provisions stated in the lease agreement for renewal. Confirm that renewal is guaranteed as long as you follow the agreement.

Restrictions – Inquire as to whether the owner restricts the facility to include only specified uses and/or activities.

Examples: Storage rooms may be limited to holding certain types of material. The owner may restrict the use of the space to only approved activities (such as selling kitchen equipment but not holding cooking demonstrations).

Maintenance – Identify who will be responsible for maintenance and if there is a fee for maintaining the leased property.

Improvements – Evaluate the site in order to determine whether any improvements should be made. If so, identify to whom the additions will belong and who has the authority to define the specifics of the improvement.

Subleasing – If you might be interested in subleasing the property, find out any restrictions that exist.

Insurance – Determine the insurance that the owner has on the site. Inquire as to the coverage such as fire, vandalism, etc. Also identify any insurance that you are required to have in order to conduct business at that location.

Step 6 – Review your analysis and make an objective site decision

You've taken the proper steps to evaluate your business needs and select an appropriate location. Carefully review the data collected for each potential site.

Perspective – Once you've examined the data for each site, compare your findings with a perspective of the future. Think about your business and how it will fare in each potential site – in five years, ten years, etc.

Speculation – Although you've analyzed objective data, you may have to make your decision on less objective data than desirable. Since planning just one year in advance can be risky, looking ahead 10 years is pure speculation.

Key point: Predicting future conditions may make the difference between selecting a good business site and an excellent one.

Appraising the Business Site

Introduction As a potential buyer, carefully analyze the business site in order to determine its worth. Consult with experts in various fields for their advice including accountants, lawyers, real estate agents, trade association personnel, etc.

Key questions

- *Why does the owner want to sell the property?*

Determine the reason for the owner selling the property. Is it for a personal reason such as poor health, retirement, etc.? Or is the owner planning to open a competing business in a better location? Consider the seller's answer carefully and talk to knowledgeable business people in order to identify the full reason for selling and whether you should buy.

- *What is the profit potential of the business?*

Explore the potential of the business for making a profit. Study its profit trends and similarities to other businesses in the same industry. If you find that the profits are low, decide whether it's realistic to think that this trend can be reversed under your leadership.

Other questions – Ask these other questions to supplement your body of information:

- If the seller has an exclusive selling agreement with a supplier, can it be transferred to you?
- Does the business have a good reputation with its customers?
- Are there any special licenses required because of the change in ownership?
- What is the initial amount of money needed to get into this business (including purchase price, working capital, money for repairs, and purchase of new stock)?
- Will the customer base continue to patronize the business after a change in ownership?

Continued on next page

Appraising the Business Site, Continued

Performing an audit

Before you decide to buy the business, arrange for an audit of the seller's records and financial statements through a reliable accounting firm. In addition to the current audit report, request information on past sales and profit figures which you can find on the seller's tax returns.

Key point: Beware of the seller who isn't willing to share the information for a complete audit with you. A serious seller should be eager to comply with the audit.

Taking an inventory

Physical inventory – Arrange for an expert appraisal, or physical inventory, of the business assets to determine their current worth. Include the following items in this appraisal:

- building
- equipment
- fixtures
- other fixed assets.

Condition of the inventory – When appraising the business assets, also examine the condition of the inventory so that you can decide:

- how much of the stock that you can sell
 - whether the inventory is balanced (not too much of an item)
 - how much of a loss you will take by getting rid of unsatisfactory items.
-

Settling on the selling price

As a final step, you and the seller must agree on the selling price for the business. Since the seller may have an emotional as well as financial investment, the initial selling price may be higher than the fair market price. Therefore, before making your final decision, hire an accountant to determine the net worth of the business.

Signing the contract

Do not attempt to draw up a sales agreement on your own. Always consult with an attorney and have the attorney write the contract for the transaction. By doing so, you will avoid any future problems with the sale.

Finding Assistance in Evaluating Locations

Introduction Choose the best location for your business based on studying your options and planning for the future. The factors to analyze relate to the type of business, customers served, and types of goods and services sold.

Key point: Completion of a comprehensive feasibility study is essential to selecting the geographic area and specific site most likely to support your business.

Help available Besides your own research, a great deal of free or inexpensive information is available for you to consider, and many organizations will help you with the feasibility study. Collect as much data as possible before making a decision on where to locate your business.

Government sources Assembling appropriate data is an important step in studying potential geographic areas. The government is a valuable source of data and publishes several documents that you can use for assistance in the information gathering process. The table below describes some of these government publications.

Source	Description
<i>County and City Data Book</i> www.census.gov/prod/www/ccdb.html	This book includes data for any county or city with a population over 25,000 on the number of: <ul style="list-style-type: none"> • businesses • families • multi-family housing units • single family housing units • average income.
<i>Statistical Abstract of the United States</i> www.census.gov/compendia/statab/	This annual publication includes national demographic data on items such as population and income.
<i>Survey of Buying Power</i> www.salesandmarketing.com	Published annually by <i>Sales and Marketing Management</i> magazine, this source includes data on individual and family purchasing power for metropolitan areas of the United States.

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Finding Assistance in Evaluating Locations, Continued

Government sources (continued) The table below describes some of these government publications.

Source	Description
<i>The Survey of Current Business</i> www.bea.gov/scb	This monthly publication includes: <ul style="list-style-type: none"> • monthly sales volume for various products and services • economic information (including unemployment data) • articles on subjects such as changes in consumer buying habits.
The U.S. Census Bureau www.census.gov	Use this documentation in the first phase of your feasibility study when you need data about a specific area of the country.

Organizations You can obtain additional information from a wide variety of organizations to further assess the situation. Contact the following agencies for this type of assistance:

- bankers
- consultants
- local colleges
- manufacturers and wholesalers
- national or local chambers of commerce
- neighboring businesses
- planning commissions
- Small Business Administration (SBA) at www.sba.gov
- trade associations (such as the National Retail Merchants Association).

Examples: Some of the organizations can assist by providing economic survey results and other data such as traffic counts. Others will help you conduct your study by providing guidance or even doing some of the data collection and analysis.

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Finding Assistance in Evaluating Locations, Continued

Site comparison data Once you've conducted the preliminary phase of your study, begin the comparison of specific business sites. You can conduct the study yourself or hire outside professionals for the job.

Types of help – Many professional area development groups provide their services free of charge. Other groups generally fall into one of three categories:

- government agencies
- civic organizations
- private corporations.

Services provided – The services provided by these groups include:

- information on wages and tax rates
 - contacts with influential and knowledgeable people
 - financial assistance arrangements for loans, grants, and bonds
 - projections on economic potential
 - advice from professional industrial realtors.
-

Economic development agencies

Most states and some local areas have economic development agencies. For more details on these organizations, contact one of the following resources:

National Association of State Development Agencies - www.nasda.com
12884 Harbor Drive
Woodbridge, VA 22192

International Economic Development Council - www.iedconline.org
734 15th Street, NW, Suite 900
Washington, DC 20005

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