

QUESTIONNAIRE: Can You Afford to Start Your Own Business?

Starting a small business takes a huge commitment mentally, emotionally, and financially. This diagnostic questionnaire will help you assess how financially ready you are to start a business, and give you some ideas to discuss with your attorney, accountant, banker, or financial planner.

Laying Out the Basics

What is your net worth (savings, property, and investments minus all debts)? \$ _____

How much income do you need to make monthly for you and your family to maintain your current standard of living? \$ _____

How much life insurance do you have to take care of your family if you die prematurely? \$ _____

What major expenses do you plan on for the next 10 to 15 years (for example, buying a house or paying your children's college tuition)?

How much will these expenses be? \$ _____

How much of your available savings and investments can you risk? \$ _____

How much total investment is required to launch your new business? \$ _____

How much of your business's financing and other debts will you have to personally guarantee? \$ _____

Keeping in mind that lenders generally require a business owner to contribute at least 25 percent of the startup costs, how much of the assets you are able to risk will be available to cover operating and living expenses? \$ _____

Risk Assessment

Yes/no

_____ Under your business plan, will the money you can afford to risk for operating and living expenses last you for at least eighteen months? Most businesses which fail will do so in their first year, often for lack of planning or inadequate funding. Many businesses will not be profitable for at least two years.

_____ Will you need to devote yourself full-time to your business, or would you be able to earn a part-time income elsewhere?

_____ Has an experienced mentor or business consultant given your business plan a favorable review? Does he or she believe your financial goals are reasonable?

_____ Assuming your business is reasonably successful, will your income after several years be at least equal to what you could make working for someone else and provide enough additional money to replenish the funds you put into the business?

_____ Assuming your business is reasonably successful, will your future income rise at least as fast as it would if you worked for someone else and received salary raises and promotions?

_____ Will your life insurance policy adequately provide for your family, including their planned major expenses, if you pass away?

_____ Have you chosen a business entity that provides limitation of your personal liability for business debts?

_____ Will you have adequate property, liability, and (if applicable) directors' and officers' insurance?

_____ Have you explored—and located—funding resources such as grants or low-interest loans which help minimize your longer-term risk?

_____ Will you be able to minimize long-term business debts?

_____ If your business does not succeed, will your employment prospects be at least as good as they are now?

_____ If your business does not succeed, will you be able to recoup any of your investment by selling its assets?

_____ If your business does not succeed, would you be able to pay off any debts you must personally guarantee on the salary you would make at a new job?

_____ If your business does not succeed, will you be able to recoup retirement funds, investments, and savings you put into the business within a reasonable period?

The more questions you answered "no" to, the more you need to think about whether starting a business at this time is right for you. You may want to speak with a financial advisor and your attorney to explore ways to increase your available assets and decrease your risks.