WHAT IS A FEASIBILITY STUDY?

A feasibility study will help you determine if starting a home care business makes sense.
FEASIBILITY STUDY

3 OBJECTIVES

1. Learn more about your prospective clients’ needs, wants, and desires.

2. Clearly define the services that you wish to offer these clients. In other words, find a need and fill it.

3. Estimate how much revenue the services will generate.
THE FEASIBILITY PROCESS

Step 1. Know Your Target Market - “Seniors”
Step 2. Identify Your Competition
Step 3. Estimate Your Start-up Expenses
Step 4. Estimate Your Operating Expenses
Step 5. Calculate Your Break-Even Point
Step 6. Forecast Your Revenues
Step 7. Forecast Your Cash Flow
Step 8. Determine Staffing Requirements
Step 9. Consider Legal Issues (licenses, permits)
Step 10. Determine Your Sources For financing Your Business (personal, banks, etc.)
Step 11. Examine Your Completed Feasibility Study & Make A Decision “Go” or “No Go”

If “Go” - Develop business plan
If “No Go” - Walk away
STEP 1: MARKET RESEARCH

• Determine
  • The geographical boundaries of your service area
  • Who your potential clients are and who your competitors are
  • Market demographics
PRIMARY RESEARCH

- Information collected first-hand
- Build relationships with others in the industry
- Find mentors who will give you information as well as guidance
- Conduct surveys with your target market and competition
SECONDARY RESEARCH

- Information collected by a third-party
- Statistical data
- Demographic data
- Data available on the internet or some other public source
TEST MARKET SURVEY

Home Care
• Survey competition to determine average rates
• Connect with seniors in your area who would be potential clients
• Connect with potential referral sources

Assisted Living Placement
• Survey other placement agencies to determine the average placement volume
• Survey assisted living homes and facilities to determine average rates and placement fees
THINGS TO CONSIDER

- Market Area
- Market Profile
- Competition
- Market Status

- Market Analysis form is available in the Business Plan Kit
MARKET AREA

What is the physical geographical area where you will operate your business?

Consider:

- Competition
- Demographics
- Maximum distances you and/or your staff will travel
MARKET PROFILE

A market profile is a snapshot of the characteristics of your target market and uses both primary and secondary research.

Home Care

- Demographic Data (age, gender, income, population, marital status)
- Types of Clients (elderly, housebound, terminally ill, chronically ill, accident victims, etc.)

Assisted Living Placement

- How many assisted living and independent living facilities are in your market (see local department of health)
- All types of senior living options in your area
COMPETITION

Your competition is comprised of the business who are offering similar services to the same clients you have selected as your target market.

Research Your Competition

- Home Care Agencies
- Assisted Living Placement Agencies
- Independent Contractors
- Care Homes
- Assisted Living Facilities
- Any Other Competitors

Research What?

- Strengths & Weaknesses
- Types of Services Provided
- Rates & Fees
- Client Base
- Geographical Area
- Growth Pattern
- Number of Employees
MARKET STATUS

What is the status of the market in terms of growth, stagnancy, or decline?

Determine:

- Is the amount of competition on the rise or in decline?
- Is the number of potential clients growing or decreasing?
- Is the overall economy of the area thriving or struggling?
MARKET SHARE

Your portion of total revenue that any one market can produce is your “market share”

Estimating your market share or potential market share is not easy but should be done.

The simplest way to determine your potential market share when you are just starting out is to determine the demographic data in your area, estimate what percentage of each age group will need some level of care, and then project your portion of that market based upon the size of your smallest competitor.
MARKET SHARE

Example

Suppose the population in your planned service area is 500,000:

Step 1: Determine the breakdown of the population according to age groups. Let’s say of the 500,000 people in the designated area:

♣ 217,750 fall within the ages of: 1 to 35
♣ 217,750 fall within the ages of: 36 to 64
♣ 64,500 fall within the ages of: 65 and over

Step 2: Estimate what percentage of each age group will purchase home care or assisted living services and translate it into the number of potential clients. E.g.:

♦ Ages 1 – 35………… .1%. (of 217,750) = 217.75 potential clients
♦ Ages 36 – 64………. .2% (of 217,750) = 435.50 potential clients
♦ Ages 65 and over… 3.0% (of 64,500) = 1,935 potential clients
♣ Total = 2,588.25 potential clients

If the average size competitor in your target market services 200 clients per year, then the average market share per competitor would be just under 13%. For this example, your target market share could very well be 13-15% when you are starting out.
PRICE STRUCTURE

What is your target market willing to pay for home care services or assisted living?

Will you base your price structure on a flat rate or a sliding scale?

Your price structure can give you a competitive edge if constructed based upon what the market is willing to pay.
PRICING ASSISTED LIVING PLACEMENT SERVICES

Placement Services are paid by the facilities and the homes and not the patient/client themselves.

- What are your competitors’ charging facilities and homes for referrals? *(typical fee is 50-100% of one month’s rent and fees)*

- What are your costs to provide these services?

- What is your sales strategy and goals?
PRICING HOME CARE SERVICES

Home Care services are paid by the client/patient themselves

- What are your costs? (Direct Labor and Overhead Costs)
  - Direct Labor costs account for the hourly wage that you will pay your caregiver plus any taxes and benefits that you are responsible for paying.

- What are your potential clients prepared to pay?

- What are your competitors’ pricing structures?

- What your profitability goals/needs are?
FIXED COSTS

The expenses your business incurs to operate regardless of how much business you are doing.

- Insurance
- Rent/Lease payments
- Utilities
- Advertising
- Interest and any debt for start-up costs
- Labor costs for any office/salaried employees
- A salary for yourself
PRICING TO ‘ACTUAL COSTS’

This is the process of taking into account all of your expenses, your desired profit, and then totals these into an hourly price for your home care services.

Example

♦ You offer an employee $10.00/hour.
♦ You determine the cost of labor-related expenses to be $2.00/hour (based upon taxes/benefits) = Total Labor - $12/hour
♦ Your projected number of service hours delivered per month is 200.
♦ Your monthly fixed (overhead) expenses are $300.00 or $1.50 per hour ($300 ÷ 200 hours).
♦ You want an hourly profit of 35%.

Step 1

- Calculate the total labor costs per hour:
  - Direct labor costs per hour ($10.00 + $2.00)…. $12.00 +
  - Fixed costs per hour………………………………$1.50
  - Total Costs: $13.50

Step 2

- Calculate your desired hourly service fee:
  - Desired dollar profit (0.35 X $13.50)…………………. $ 4.73 +
  - Total Costs…………………………………………….. $13.50
  - Total Hourly Service Fee: $18.23
Determine your competitors’ pricing structure to assist in developing your own.

Be careful not to undercut your prices too much making it too difficult to sustain a good profit margin.
PRICING BY POSITION

How do you want to be perceived in the marketplace?

- Do you want to be considered a luxury service or a more affordable option?
- Pricing will differentiate your business within the marketplace. Decide what position you want to take and set your strategy accordingly.
DETERMINE START-UP EXPENSES/COSTS

START-UP EXPENSES

- Equipment & Furniture
  - office
  - vehicle
  - home care services

- Supplies & Materials
  - office
  - home care services

- Professional Fees
  - legal accounting

- Licenses &/or Permits
  - business
  - home care

- Deposits
  - rent/lease
  - public utilities
  - telephone insurance

- Operating Money
  - 4-6 months

- Contingency Fund

- Marketing Plan
  - advertising
  - promotion
  - printing

- Research Costs

- Labor Expenses
STARTUP EXPENSES

- Main Advertising Expenses
  - Online
  - Newspaper, Yellow Pages, Business Directories
  - Brochures, Stationery, and Business Cards
  - Introductory Letters
  - Equipment and Supplies
STARTUP EXPENSES

- Office Equipment/Supplies
  - Computers/Printers
  - Business Phone
  - Furniture
  - General Administrative Supplies
STARTUP EXPENSES

- HouseKeeping Supplies
  - Vacuum
  - Mop
  - Cleaning Chemicals
  - Rags/Bags/Gloves
  - Window Washing Equipment
  - Yard Maintenance Equipment

Most home care companies do not keep these supplies on hand but rather use the supplies that the client has in his/her home. It is up to you.
STARTUP EXPENSES

- Personal Care Equipment
  - Transfer Belt
  - Blood Pressure Monitor
  - Thermometer
  - Gloves
  - Wipes

Most home care companies do not keep these supplies on hand but rather use the supplies that the client has in his/her home. It is up to you.
STARTUP EXPENSES

- Funds
  - Operating Capital
    - Realistically, it is a good practice to have 3-6 months of operating expenses in cash when starting your company.
  - Contingency Capital
    - If at all possible, carry an additional contingency fund allowing for emergency expenses as they arise.
MAIN OPERATING EXPENSES

- Advertising
- Insurances
- Salaries, Wages, Benefits
- Telephone, Internet, Website
- Utilities
- Interest & Bank Charges
- Motor Vehicle
- Rent or Lease
- Miscellaneous Expenses
- Supplies
INSURANCE EXPENSES

- Insurance
  - General Liability & Employee Theft Coverage
  - Professional Liability
  - Disability
  - Vehicle
  - Homeowner’s (if operating out of your home)
PROJECTING REVENUE

Homecare

♦ If you charge a fee of $20.00/hour and provide 10 hours of service, your revenue will be $200.00 ($20.00 \times 10).

♦ If you provide 20 hours of service at $15.00/hour, your revenue will be $300.00 ($15.00 \times 20.)

Placement

♦ If you place 5 people with monthly assisted living fees of $2500/each and your fee to place each person is 50% of 1 month’s fees, then your total revenue would be: $6250.00 ($1250 \times 5 placements)
CALCULATE THE BREAK-EVEN POINT

The break-even point in your business is the point at which your revenue is equal to your total expenses.

Fixed Costs + Gross Margin (hourly rate - hourly labor cost) = Hours needed to break even

Example

♦ Using the figures provided in the “Pricing Services” example:
  Fixed monthly expenses = $300.00/month
  Variable costs (direct labor) = $12.00/hour
  Service price/fee = $16.50/hour

♦ The number of service hours to break-even can be determined:
  $300.00 ÷ ($16.50 - $12.00) = 66.66 hours
OTHER IMPORTANT PROJECTIONS

- Profit & Loss (or P&L Statement)
- Cash Flow

Remember to include the projected income that you need/desire in your expenses to determine your objectives.
ANALYZE

- Cash Flow Projections
- Cash is KING
- Legal Issues
- Staffing Needs
- Financing Needed
ANALYZE

After completing your feasibility study and financial projections, ask yourself these questions:

• Do your market research, competitive analysis, personal skills, and financing needs suggest that your business will be as profitable as you would like?

• Does your research allow you to achieve your objectives?
CONCLUSION

- Conduct a feasibility study before starting your business.
- Research the senior market in your area.
- Study your competition.
- Use different scenarios when conducting your financial projections.
- Don’t underestimate the start-up and operating expenses for the first 3-6 months.