

PRE-BUSINESS/STARTUP HELP

No one has a crystal ball to see into the future. Starting a business is a huge commitment. Running a business requires more hours than working at a job. A business involves time and money commitments that affect you and your family. By investing time before you start your business, you will learn valuable insights into the start up of a business opportunity. It can also save valuable time and dollars if your business idea proves to be an unrealistic business opportunity.

Answer Three Business Questions

While there are many ways to evaluate a business idea, experience says there are three essential questions you must answer.

1. Does a market exist for your business idea? Are there enough customers who are willing to pay for your product or service?
2. How will you compete against other businesses? Why will customers choose your product or service over the many other options they have to solve their problem?
3. Will you make money? Can your business idea produce a business profit?

Do You Have a Market for Your Business Idea?

The purpose of every business is to serve customer's needs or wants and be profitable. You do not create the need. You fill a need that already exists. If no customer needs exists, your business has no reason to exist.

1. Your business idea only becomes a business opportunity when you have a group of customers who want your product or service and are willing to pay for it. You need enough paying customers to pay the bills and make a profit.
2. A group of potential customers is called "your market." The answers you give each of the following questions will help test your business idea. Answer the following questions as realistically as you can. Making too many false assumptions about your potential group of customers can hurt or kill your business before it gets started.
3. What specific group of potential customers will be the focus of your business? What is the pain or problem your product will solve for this group of potential customers? Businesses offer products and services to reduce, solve, alleviate or eliminate customer's pains or problems.

Customer Buying Habits

At some point you will want to get your business in front of enough potential customers. This is called marketing. You need to know how your customers shop. When they shop? Where they shop?

Demographic Details about your Customer Group

Now you need to identify more specific dimensions about your customers group. You can do this by adding some demographics to the customer picture you are building. What age group will you serve with your business? Will they be male or female? Where do they specifically live? Do they have a specific income level? What other relevant demographic characteristics describe your potential customer group?

Can You Compete?

Competition is fierce today. You are not alone in the market place. Talk to any existing business owner and they will tell you about competition. With the internet, local competition has now become world-wide competition.

Even though there is competition, your best market is where people are already buying a product or service like your idea. Why, because it's a good sign they have a pain they want solved and are willing to pay money for the solution. You now must identify how your product is different or better than what the competition is already offering.

You will be comparing your business idea to the existing competition.

Analyzing Your Competition

The internet makes it easy to find out information about your competition. These businesses are already serving customers that you want for your business. By doing simple Google searches, you can identify your competition, who they are serving, what position they are taking in the market place, potential weakness and other useful information about how they do business. Take your time in studying the businesses. This is a wonderful way to learn about your competition from the privacy of your own computer.

Choose the top three businesses you will compete against. For each of these businesses, use your research to answer the following questions. Create a **Note Card** for each of the businesses.

- Business information, name, location, etc.
- What products or services do they offer?
- What group of customers are they serving?
- What do they consider "special" or unique about their products or services?
- What guarantees do they offer their customers?
- How do they price their product or service?
- What are others saying about their product or service? (Testimonials, customer reviews)
- What do you consider the strengths and weaknesses of their product or service?

How does your idea stack up against this competition? Are there competitor's weaknesses where you can take advantage? How will you be different from your competition? You will make good use of these note cards as you move through your business idea testing process.

How Are You Going to Be Different from your Competition?

How will you separate yourself from your competition? You need to identify an advantage your business idea has over your competition. Use the following exercise to help identify your advantage or difference. A difference or advantage can be found in different areas:

- ✓ Focus on a sub-set of your customer group—find a niche
- ✓ Identify a problem not being addressed—overlooked by current competition
- ✓ Make your product faster—we live in a time starved environment.
- ✓ Provide a customized product—people want to be treated as special and unique.
- ✓ Make your product larger--this can increase the value to the customer.
- ✓ Improve the quality of the product—people will pay for quality.
- ✓ Make your product safer—people are always concerned about safety.
- ✓ Make your product more convenient—people are looking for ease of use.
- ✓ Seek to eliminate a common complaint or weakness about industry products
- ✓ Make it last longer—people want durability.
- ✓ Make it more portable—respond to people’s diverse situations.
- ✓ Make it more available—people hate to wait for things.
- ✓ Provide a better guarantee—longer or better than your competition.
- ✓ Promise a specific result from your business.
- ✓ Make your packaging different—to separate you from the competitors.
- ✓ Simplify by combining several elements into one—less complexity for people.
- ✓ Make your price the difference—be the lowest or the highest.
- ✓ Make the product more innovative—some customers want the first or newest.
- ✓ Employ more qualified employees—people want to deal with experts.
- ✓ Have a better physical environment—your store looks different.
- ✓ Offer newer technology—your competition does not offer

Write down how your business will be different than your competition. Review the notes you have generated about your competition. Make sure your difference is something that is important to your clients. Having a difference that is important to your group of customers will give your business idea a good chance against the competition. Describe your difference and how it benefits your customers.

Did your ideas survive the competition test? Do you have a position that clearly sets you apart from your competition? Does this position give your potential customers a good reason to buy from you?

Step Three—Can Your Business Idea Make Money?

Asterisk = Costs for Internet/On-Line Business

You have tested your business idea for a market. You have tested your business idea against the competition. Now you need to determine if your business idea can make money. Can your business idea make a profit? A profit is the money left over after all of your business expenses to market, produce and deliver the product. Without a profit, your business idea is not a business opportunity!

To see if your business idea can make money, you are going to estimate your costs and your revenues. At this point, we recognize that these are estimates. They will provide you with a good start for testing your business. As you go through this number process, the best rule of thumb is to over-estimate your costs and under-estimate your revenues. The majority of small businesses fail because of cash shortages. They don't have enough customers to pay their bills. Make your numbers as realistic as possible.

Your Estimated Start up Costs

Identify the appropriate start up costs for your business idea.

- ✓ Office furniture _____
- ✓ Computer and software programs* _____
- ✓ Setup, installation and consulting fees* _____
- ✓ Business cards and stationary _____
- ✓ Decorating and remodeling _____
- ✓ Fixtures, counters, equipment and installation _____
- ✓ Start up inventories, raw materials, tools, etc. _____
- ✓ Deposits with public utilities _____
- ✓ Legal and other professional fees* _____
- ✓ Business licenses and permits* _____
- ✓ Advertising and promoting for the opening of the business _____
- ✓ Signage _____
- ✓ Rent and security deposits (Often 3 month's rent) _____
- ✓ Operating cash _____
- ✓ Purchase of a business if you are buying a business _____
- ✓ Franchised fees is you are doing a franchised business _____
- ✓ Creating a website* _____
- ✓ Other expenses* _____

- Totals** _____

Your Estimated Ongoing Monthly Expenses

Identify the appropriate monthly costs for your business idea.

- ✓ Salary of owner (pay yourself first)* _____
- ✓ Other salaries, wages and commissions _____
- ✓ Payroll taxes or self-employment taxes _____
- ✓ Rent _____
- ✓ Equipment leasing _____
- ✓ Advertising and marketing* _____
- ✓ Postage and shipping costs _____
- ✓ Supplies to run your business* _____
- ✓ Telephone* _____
- ✓ Utilities _____
- ✓ Internet connections* _____
- ✓ Website hosting and maintenance* _____
- ✓ General business insurance* _____
- ✓ Business vehicle insurance _____
- ✓ Health insurance _____
- ✓ Interest and principle on any loans _____
- ✓ Inventory, raw materials, parts _____
- ✓ Legal and other professional fees* _____
- ✓ Franchise fees _____
- ✓ Miscellaneous expenses* _____

- Totals** _____

Your Estimated Sales or Revenues

You don't have a business unless you have a sale! How long will it take for you to open the doors of your potential business? How long before you get a steady stream of paying customers? Each business is different. If for example, your business idea involves a retail location, it may take several months just to get the business open. If you start an online business, it will take several months before potential customers find your website.

Do a realistic projection on the number of paying customers you will have on a monthly basis and the amounts of revenue from your sales. You will need to estimate how much the average customer will purchase from you.

MONTH **Customers X** **Average Sale per Customer = Revenue**

• Month 1	_____	_____	_____
• Month 2	_____	_____	_____
• Month 3	_____	_____	_____
• Month 4	_____	_____	_____
• Month 5	_____	_____	_____
• Month 6	_____	_____	_____
• Month 7	_____	_____	_____
• Month 8	_____	_____	_____
• Month 9	_____	_____	_____
• Month 10	_____	_____	_____
• Month 11	_____	_____	_____
• Month 12	_____	_____	_____
Totals	_____	_____	_____

Calculating Your First Year

You now have the financial pieces to take a look at your business idea on paper for the first year. Add your start up costs to one full year of your monthly costs. (Multiply your monthly costs by 12). Now total your revenues for the first year. Compare the total costs for your business idea with the revenues for the first year. The difference between the two numbers will either be your profit for the year or your business Gap where you will need to cover the costs with other dollars.

Profit _____ Business Gap _____

It can take anywhere from 1-5 years for a new business to reach a breakeven point before they start making real profits. For your business idea, you need to know how you will cover the business gap between your costs and your revenues before you start making real profits.

Ways to Mitigate the Business Gap

If you are like most start up businesses, you will have a business gap between your costs and revenues. How can you mitigate this gap?

- You could start your business on a part-time basis. In this way you can keep your day job until your new business reaches a specific level where you can now invest more time in the new business.
- A franchised business will provide you with a complete package on the start-up, monthly costs and customer projections.
- You may have others who want to invest in your business. They will expect profits on their investments.
- Some small businesses are able to secure small business loans from their banks or from banks that specialize in small business funding. (Small Business Administration-SBA loans) The banks will want to see a business plan for how you are going to pay back the loan. The loan will add a new expense category called “interest and principle on a loan” to your monthly costs.
- There are ways to offset some of your costs. You can delay some payments. You can get delayed payments on leases as well as equipment. You can delay some non-essential costs such as office decorations until you are more established.
- There are some tax advantages for starting a small business. You will want to check with your accountant to learn more about these. These tax advantages will help your business over the longer process. They do not help getting cash into your business.
- Under some types of business legal statuses, your losses can be subtracted away from your personal taxes from other sources. Check with your accountant on these options.
- Can you build a prototype? The market place is the final judge on a business idea. By building a prototype, you can test the waters with your product without a full commitment to a business venture.

As you evaluate your business idea, you must identify how you are going to cover the business gap between costs and revenues. Without a reasonable solution, your business idea is not a business opportunity.

Personal Financial Situation

Part of determining whether the numbers will work for your business idea is identifying how your business idea will affect your personal financial situation. What are your family expenses? If you are leaving employment to start your business, how will you make up this loss of income? What type of debt do you have now? If you spend two years of your life working your business idea and it fails, can you and your family recover from the loss?

Online Businesses

With the advent of internet businesses, it has become simpler and less expensive to start an online business. While the start up is easy, creating a profitable business is a significant challenge. With an internet business the world becomes your market place. With the world as your market place, the world also becomes your competition!

An internet business will eliminate many of the traditional retail start up costs. Your home computer and an effective website can become your business location. You must still calculate your costs. In the list above, we have put an * behind those costs generally associated with online businesses. Complete these cost estimates for your internet business.

Your biggest challenge will be creating a list of potential customers on the internet. Internet businesses have credibility issues that are not present with retail businesses where people can see and touch products they want to buy. It takes a longer time to get paying customers with an internet business than traditional retail stores. You should allow at least 3-12 months for getting enough paying clients. Complete your customer projections above keeping these factors in mind.

There are paid and free programs you can use to help create an internet business. Be careful about any program that promises instant internet success. They simply don't work!

Doing Your Homework

Why homework? Because you want to test your business idea on paper before you invest time and money into an idea that may not be your business opportunity. The better your homework, the more chance you have for success. Do not skip this step.

Feedback

Sometimes people worry that if they share their business idea, someone will steal it. It's much better to talk with people about your idea. Get their feedback.

Talk with potential customer about your idea. Choose people who would be good candidates for your business product or service. Then ask them honestly whether they need or would buy your product. Is it something they need or is it something that would be nice to have?

Talk with other business people. Talk with them about running a business like yours. What suggestions do they have for you? Talk with business people in your same industry from another city. Find out from them what works and what doesn't work. Since these may not be your competitors, they will generally will share with you helpful information.

Other Resources to Get Information

There are online webinars, books, industry trade publications that can answer questions about your business idea. Go to an industry conference.

There are helpful books from SCORE, "Simple Steps for Starting A Business". The State of Minnesota has a publication, "A Guide to Starting a Business in Minnesota". These aren't books you read cover to cover. They are resource books to help you with specific questions. These books are free.

Study Your Competition

The best reason for studying your competition is because they are succeeding at the business you want to have. Whatever they are doing is working for them.

Subscribe to their newsletters. Examine the pages of their website. Read their customer reviews. If you can, buy their products. Learn how they deal with customers by being a customer yourself.

Research from your Computer

The world is now at your finger tips. Your computer is your best research tool. You can learn just about anything by doing Google searches. For example, use a Google search to find your industry forums. Go to www.Google.com and type in “industry (substitute your industry’s name) forums” and you will get a list of forums. Learn what people are asking, complaining about in your industry. What answers are the professionals giving? Find the most popular forums, participate and start learning more about your industry.

For any question you have about your business idea, just use a Google search, then type in your question. You may need to do two or three searches but you will find answers. This option is available for you 24/7. In two or three sentences describe what you have found about your idea from computer search

Summary

Do You Have a Market for Your Business Idea?--Describe the specific pain or problem or opportunity of your customer group and how your product or service will solve their pain.

Can You Compete?--Describe the three main competitors in your market and how you will be different or better than these competitors.

Can Your Business Idea Make Money—Describe your first year’s projected profit or gap between expenses and revenues. What ways do you expect to fill the gap if it exists?

Do You Have a Business Opportunity—Describe whether you believe after evaluating your business idea whether you have a realistic business opportunity? If you are not sure, what additional information do you need before making a judgment?