Business Concept Assessment

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Opportunity/Need

1. Describe the market opportunity. What trends are favorable to the venture? Is the market growing?

2. Estimate the market potential ($, customers, units, transactions, etc.).

3. Describe the market structure. Is it fragmented or dominated by large players? What channels exist and are they accessible? Are there barriers to entry? It may be useful to consider the value chain?

4. Describe the compelling need for the product/service? What problem is being solved?

5. Consider the following needs when analyzing the product/service. It is not necessary for a product /service to address all of these.
   - Physical: food, warmth, shelter, sleep, etc.
   - Physiological: health, cleanliness, comfort, fitness, safety, etc.
   - Emotional: euphoria, love, prestige, stress, etc
   - Social: ethical, honesty, power, competitiveness, integrity, friendship, etc.
   - Intellectual: achievement, better decisions, artistry, etc.
   - Economic: revenues, productivity, cost savings, maintenance, etc.
   - Financial: ROI, DCF, payback, burn rate, etc.

Product or Service

1. Describe the product or service. Consider the following product attributes (Boyd, Walker and Larreche, Marketing Management 1995, Irwin Publishing).
   - Performance: durability, quality of materials, defect levels, tolerances, construction, dependability, functional performance (acceleration, nutrition, taste), efficiency, safety, styling, packaging, etc.
   - Cost: purchase price, quantity discounts, operating costs, repair costs, cost of extras or options, cost of installation, trade in allowance, likely resale value, etc.
   - Availability: carried by local stores, credit terms, quality of service available from local dealer, delivery time, credit card, on-line transactions, etc.
   - Social: status, image, popularity with friends, popularity with family members, reputation of brand, style, fashion, etc.
   - Service: hours, warrant, guarantee, return/replacement policy, upgrades, maintenance, training, installation, repair service, spare parts, customer

support, tech support, training, product design, make to order, level of inventory, quotation response time, lead time, quality certification, employee capabilities, etc.
- Environment: location, atmosphere, layout, fixtures, aesthetics, style, sound, lighting, color, etc.

2. What range of product/services is being offered? What are the prices? Describe the environment (size, décor and layout, etc.). If it is a service business, what are the employee requirements (qualifications, number, dress, etc.)?

3. Describe how your product is designed to meet the needs of your target customer.

4. How will the product/service be produced and delivered?

5. For technology products, what are the major technical milestones that must be achieved? What is the basis for believing that they are achievable?

Target Market
Most ventures address either a consumer market or a business market. The motivations of each are different. If the product/service is sold through a distribution channel, system integrator or OEM, consider both.

<u>Consumer market</u>
1. Characterize the target market according to the following criteria:
   - Demographics (gender, sex, age, race, education, occupation or profession, income, location, etc)
   - Psychographics or life style (attitudes, beliefs, opinions, interests, values, etc.)
   - Social status (infers certain behavior: middle class values education, family activities, etc.)

2. What does the target market think about the product/services currently in the marketplace? How willing are they to change?

3. What distribution is required to reach the consumer?

4. How are buying decisions made? Who makes the decision? Who influences the decision? Are buying decisions based primarily on price, quality, service, convenience, or others? Is there repeat business?

Business market

1. Describe the organizations that purchase the product/service. What industry or sector, e.g. automotive, state governments, nonprofit? What size, e.g. Fortune 100, number of employees, etc.? Where located?

2. What does the target market think about the product/services currently in the marketplace? How willing are they to change?

3. How are buying decisions made? Are there different approval levels? Are decisions made centrally or decentralized? At what level is the ultimate responsibility for approving expenditures? What is the budgeting cycle? How long does it take from the first contact to receipt of an order?

4. What criteria are used to make buying decisions: lowest price, service response, tech support, distance from supplier, global reach, ISO 9000, design capability, range of products, just-in-time, inventory levels, etc.?

5. What is the payment policy? Will organizations pay cash or by credit card, make a down payment, require credit, etc.? If credit terms are required, are discounts for early payment expected, e.g. 2/10, net 30 days? What is the actual payment practice?

6. Are purchases typically made directly from the supplier, through wholesalers, distributors, retailers, or other?

Unique Benefits

When considering the benefits of the product or service, remember that features are not the same as benefits. The fact that a bicycle is fast and red is important, but by itself, is not a benefit. The benefit is that you can win competitions and look cool. Think about the impact on the target market's feelings (emotions) and pocketbook (financial) (Levinson, Guerrilla Marketing, 3rd edition, Houghton Miflin Co)

1. What are the major benefits of the product/service? How do the benefits address the needs described above? How do the product/service features support these benefits?

   Think beyond a generic description of benefits, e.g.
   - Best quality: do you mean appearance, durability, reliability, etc.?
   - Good service: do you mean on-time delivery, maintenance, tech support, etc.?
   - Efficiency: do you mean less time, easier to use, greater output, fewer resources, etc.?
   - Save time: to do what? It may not always be important to save time.
   - Convenience, for what?

2. How are these benefits unique? What is the benchmark?

3. Are the benefits well understood by the target market? How do the benefits affect the target market's feelings or pocketbook?

Competitive Advantage

Your sustainable competitive advantage is ultimately determined by how well you understand the market; how well you understand the competition; your resources and capabilities.

Competitive Analysis

1. Describe the major competitors to the product/service. Consider direct, indirect, substitutes and future competitors? What are their strengths and weaknesses?

   Prepare a matrix analysis that compares your venture with the major competitors. Consider the following factors for each competitor. Do not be restricted to these, as each market will have its own.

   - Product/Service offering – breadth and depth
   - Price range and policy
   - Target market
   - Quality (define the type quality)
   - Unique features
   - Channels of distribution
   - Marketing/advertising strategy
   - Market perception of the company (branding strategy)
   - Strengths/Weaknesses
   - Market Share
   - Location
   - Operations (manufacturing and location, outsourcing, sources for services, materials)
   - Company size (revenues, number of customers, number of employees, etc.)
   - Financial resources (ownership, funding, investors, profitability, financial soundness, etc.)
   - Strategic alliances
   - Management: (backgrounds and experience)
   - Etc.

2. On what basis do the major companies in the marketplace compete: service, quality, price, new product/service introductions, customer support, etc.?

3. How strong is brand loyalty? How likely is the target market to switch to a new product/service? What are the switching costs?

4. How do your competitors perceive themselves? Obtain brochures, literature, and advertisements.

<u>Sustainable Competitive Advantage</u>

1. How much control do you have over:
   - Setting prices. How are prices established in your marketplace (major competitor, industry practice, value added, etc.)? What is the bargaining strength of customers?
   - Costs. Can you gain an advantage through technology, process design, resource ownership or access to raw materials, low cost labor, economies of scale (difficult for a start-up), and capacity utilization. What is the bargaining strength of suppliers?
   - Channels of distribution. What channels of distribution exist? What access do you have to existing channels of distribution? Can you create new ones? What is the bargaining strength of channel companies?

2. What barriers to entry <u>do you face</u> in entering your target market? What barriers <u>can you establish</u> that would restrict entry into of competition?
   - Intellectual property (patents, trade secrets, copyrights, trademarks)
   - Switching costs to your target market
   - Customer loyalty
   - Agreements with customers, suppliers, strategic partners
   - Control of the distribution channel
   - Response of competition to your entry into the market
   - Etc.

3. Is your market place dominated by a few companies that control over 60% of the market? Unless these companies are SOT's (slow, old and traditional), you should not consider competing directly with them.

<u>Resources and Capabilities</u>

1. What are the venture's resources?
   - Financial (access to capital (equity & debt), cash reserves, government grants, etc.)
   - Physical assets (plant & equipment, raw materials, location, working capital, etc.)
   - Human (social, employee knowledge, experience, accumulated wisdom, labor cost and skills, etc.)
   - Intangible (patents, trade secrets, know-how, copyrights, databases, etc.)
   - Organizational (culture, contacts, policies, Boards of Directors & Advisors, suppliers, service providers, etc.)

2. What are the venture's capabilities?
   - World class management (serial entrepreneur)
   - Well developed, high-quality, accessible contacts that take years to build
   - Sales and marketing experience
   - Science or technology expertise
   - Supply chain expertise
   - Product/service design
   - Sales & distribution organization
   - Total operational approach (e.g. Dell, Wal-Mart)
   - Supply chain management
   - Etc.

Profitability

Prepare a simple income analysis:

Operating Income Statement

Revenues	________
Cost of Revenues	________
Gross Profit	________
% Gross Profit	________
Operating Expenses	
Sales & Marketing	________
Research & Development	________
General & Administrative	________
Operating Income	________

Describe the key assumptions for each of the elements of the Operating Income Statement. Of particular interest is the contribution margin (price – direct costs)/price.

Calculate the break-even point.

Conclusion

Draw conclusions on the feasibility of your concept. Consider:
- Why is there a compelling need?
- What is the proof that the target market is interested?
- How are the benefits truly unique?
- What provides a sustainable competitive advantage?
- Can you make a profit?

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