

What Makes a Business Concept "Doable?"

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There are a series of factors that entrepreneurs, small business owners and prospective investors can use to determine whether a business concept is "doable" (meaning "feasible" or "likely to succeed").

- 1) Opportunity and Risk - for a business concept to be feasible there has to be an opportunity to create a venture, a way that a venture could solve a problem for customers / stakeholders.

There is an old movie that said: "Build it and they will come." This is *definitely not true* for a new venture. The entrepreneur or small business leader can't expect to create a business, "open the doors" and expect customers to find them. There has to be a reason that customers would want to be served by a new business, a way their lives or businesses would be better off.

Another old saying is: "If it were easy *everyone* would do it." *This* statement is correct. A new venture is only doable if there is an element of risk - if the business opportunity has to overcome one or more barriers (like developing a new technology, succeeding against entrenched competitors, and/or taking advantage of a new way to attract customers) to succeed. (We'll talk a bit more about risk on the next page.)

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- 1) Opportunity and Risk
- 2) Unmet (or Unexpressed) Customer Need
- 3) Defensible Advantage
- 4) Attractive Return on Capital
- 5) Tenacious Talent

- 2) Unmet (or Unexpressed) Customer Need - a business concept is doable if it addresses an unmet customer need. A new barbeque restaurant might serve food that customers want but couldn't previously get within the neighborhood. A new salon might provide modern fashion services previously unavailable on that side of the city. A programmable air conditioner might enable people to come home to a cool apartment or house without wasting energy all day by cooling an empty home.

Sometimes customers may respond to a product or service that addresses a need they didn't even know they had. This is particularly true with the most innovative concepts that break new ground. "Find out what customers want by asking them" is a statement that is at best only partly true, because there are times when customers can't imagine or express what they might want. Many / most customers probably didn't know they needed a smart phone or Google or wireless headphones. But when innovators developed these business concepts they were wildly successful. If a company waited for customers to express this need, the fact is a competitor would already be serving that need, creating their own satisfied customers.

- 3) Defensible Advantage - a business concept is doable when it is based on a differentiated advantage that is defensible, meaning "financially sustainable and difficult for competitors to copy." Examples of defensible advantages are: a) *location* (your store is in the best location in the busiest mall); b) *innovation* (your product is created in a proprietary manufacturing process); c) *intellectual property protection* (your product or service has a patent); and/or d) *service levels* (you serve customers with an unmatched sense of customer insight).
- 4) Attractive Return on Capital - a business concept is doable if prospective investors believe that there is a realistic opportunity to earn a return on capital far higher than their capital is currently receiving. No one wants to risk a million dollars to make a few thousand in return - but a business concept is doable if a defensible *pro forma* suggests that a return of millions is possible through the investment of a few thousand dollars.
- 5) Tenacious Talent - **every investor invests in people**. Investors *always* evaluate the quality of the human capital in a venture when they assess whether a business concept is doable. **Assembling a team of talented, driven individuals led by a proven-effective business leader makes a business concept appealing to investors.**

Start-Up Requirements

Every new venture requires four elements that are essential for any start-up:

- 1) capital - forming a business requires capital. Sometimes that capital can be very limited. This is called "**bootstrapping**" - using very limited resources to launch a venture, and then sustaining the venture through operating cash flow and very disciplined, low-cost operations. A related concept is "**sweat equity**," when an entrepreneur or small business leader works long hours for little or no pay to make a new venture succeed. (The term refers to the "sweat" and hard work this person invests in his / her enterprise to drive the organization to success.)
- 2) customers - a concept becomes a business only when someone buys something. Customers are the essential element in creating a business. Ventures can start out with a single customer - this is true, for example, when a lawyer, consultant or accountant starts his / her new firm with a single client. But a group of people is a club instead of a business until they start serving customers. Businesses serve customers. (Note: a social venture serves stakeholders - "stakeholders" and "customers" are related concepts.)
- 3) talent - *people* are necessary to create a new venture. Not just any people - dedicated, talented people, with the skill and drive necessary to make the new venture succeed.
- 4) a plan - once capital, customers and talent come together, they can create a doable, successful business if they have a plan on how they will succeed. Before you earn your Statewide Micro-Enterprise Credential you'll learn a lot about creating marketing and business plans that help new ventures focus their talent and capital on capturing customers in ways that create both tremendous customer satisfaction and attractive returns.

Start-Up Requirements

- 1) Capital
- 2) Customers
- 3) Talent
- 4) A Plan

As we will learn, even the best plans don't anticipate every contingency. Once a venture starts it becomes an adventure, with unexpected twists and turns likely to test the imagination, insight, tenacity and stamina of the entrepreneur / small business leader. But that plan - fueled by capital, customers and talent - becomes the starting point for that adventure.

This discussion of start-ups and other types of business ventures - acquisitions, franchises and joint ventures - continues in Resource 23-13 Opportunity Assessment: Different Types of Business Opportunities.