

Testing Business Ideas

Basic Considerations

A business is a business opportunity only if it has a chance of succeeding. The purpose of testing business ideas is to identify those which are actual opportunities. You may be able to think of 100 ideas, but only one or two of those may prove to have sufficient merit to be considered a viable opportunity.

To determine whether a business idea is an opportunity, four areas must be explored.

- Personal considerations:** The proposed activities and planned outcomes must satisfy your personal goals and interests.
- Marketing considerations:** The products and services must have the potential for success in the marketplace.
- Production considerations:** You must be able to produce the required volume and quantity of products and services.
- Financial considerations:** Your planned business operation must be able to meet the required financial goals.

Collecting Information

To assure yourself that a business idea can meet the necessary goals in these four areas, many questions need to be answered. You will have to invest time and effort to collect information.

Good sources of information include:

- Community Futures Organizations;
- local Chamber of Commerce;
- local Business Improvement Associations;
- libraries;
- existing businesses;
- Yellow Pages;
- purchasing agents;
- company annual reports;
- market research reports;
- trade association literature;
- trade journals;
- informal contacts in the industry;
- specialized cooks related to the trade;
- statistics compiled by both provincial and federal governments; and
- provincial and federal government publications.

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Additional information may be obtained by:

- conducting surveys
- observing business activities
- observing business facilities
- becoming a customer of potential competitors
- conducting telephone interviews
- conducting personal interviews
- carrying out test marketing trials
- producing sample products.

Asking the Questions

The questions that follow will help you determine whether a particular idea merits further consideration. They are designed to highlight any serious problems or deficiencies related to your idea.

Work systematically through each section, gathering enough information to make an informed decision. Organize your information in such a way that each question can be answered. Identify any missing data and collect it.

When you have enough information, you will be able to decide if your idea:

- represents a potential business opportunity and warrants the preparation of a full business plan
- requires some modification
- is obviously flawed and should be eliminated from further consideration.

Testing new venture ideas is a skill which is developed with practice. At first you may find the questions difficult to answer, but after you have used the questions a few times, your skills will increase.

Questions

Introduction

Write a simple description of your business idea. What do you want to do? Why? Where do you want to do it? What is the product or service you want to provide? Who will buy it? How will buyers use it?

Personal Considerations

1. Is this idea something I really want to work at?
2. Do I have enough money?
3. Can I handle the risk of failure? Loss of personal assets or the risk of damage to my community position and ego?

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4. Would I sacrifice important aspects of my lifestyle to turn this idea into a successful business?
5. Is the work something I can get excited about?
6. Is the idea legal and ethical?
7. Will the idea reflect favourable upon my reputation?
8. Do I want to work with the people who may be associated with this idea?
9. Is this idea more important to me than any others that I am considering?
10. Do I have enough time to work on this idea?
11. Do I want to live the lifestyle required by this idea?
12. Does the required work match the types of activities I like?
13. Do I have the health and energy to operate this business?
14. Does my personality suit this type of business?
15. What knowledge, skills or experience do I have which would suit the work required to carry out this idea?
16. Do I have adequate knowledge of this industry, including information on competitors, potential clients, markets and current technology?
17. Do I have adequate technical, managerial, marketing and financial skills to operate this business? If not, can I learn them or employ someone with those skills?

Market Considerations

1. What is my target market?
 - Who are my potential customers?
 - Where are they?
 - What are their demographic characteristics (age, income, marital status, number of children, type of housing etc.)?
2. Have I asked potential customers whether they would buy product or service?
3. Have I surveyed my potential customer for their opinion of my planned prices, volumes, packaging promotion strategies and distribution methods?
4. What patterns of buying behaviour are important for this product or service?
 - When do people buy?
 - How do they buy similar products or services?
 - What is the typical size of orders?

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- Who makes the decision to buy?
 - How much effort is needed to persuade the buyer?
 - How many orders or contracts can I have in hand before I start the business?
 - Where will I find my first customer's orders?
5. What does a detailed analysis of the competition illustrate?
- If a client does not buy my product or service, what alternate would be purchased?
 - Who are the main suppliers of those alternate products?
 - What trends regarding those alternate products are evident in the marketplace?
 - How does each competitor fit into the market, in terms of market shares, types of products or services offered, marketing strategies and profitability?
6. Sales will probably be at the expense of competitors. How will they react to my inroads?
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7. What competitive advantage does my idea have over those of my closest competitors?
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8. How can I protect myself from the competition?
- Can I have a lower price? A higher price? Lower quality? Higher quality?
9. Will others quickly copy my idea?
10. How much of a head start do I have over my competitors for this idea?
11. Who will sell my product or service?
- For how much?
 - What sales tools will they need?
 - What training will they need?
12. How will my product or service be promoted?
- What forms of advertising will I use?
 - Can I handle the promotion and advertising myself or will I hire someone else to do it?
 - How much money will I spend on promotion and advertising?
 - How much money is the competition spending and where?
13. What does a detailed analysis of distribution illustrate?
- Note:** Distribution of a product is one of the major barriers to consider. Begin a dialogue with distributors. Ask retailers for their recommendations on which distributors to approach.
- How will I distribute my products?
 - How much inventory will I need?
 - Is one product line enough?

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- Is there enough repeat business involved?
- Production Considerations?

Production Considerations

1. Can I produce or deliver the service?
2. How have I assured myself that the product or service will really work?
3. Can I find facilities to use?
4. How much development work is needed before units can be produced or service delivered?
5. What legalities need to be checked (patents, zoning laws, etc.)?
6. How many units can I produce or how many customers can I serve in the first year?
7. Can I find materials at a reasonable price?
8. Can I find a good production staff?
9. What equipment will be needed?
 - Where can the equipment be bought or rented?
 - What servicing and maintenance will the equipment require?
 - What are the delivery times for equipment and materials?
10. Can I assemble a management team to develop the opportunity?
 - What management and technical skills are needed?
 - What skills are already available?
 - What skills are still needed?
 - Does this group have the personal contacts that will be needed?

Financial Considerations

Note: Financial considerations are best evaluated using a standard cash flow projection format. A booklet called "Business Planning and Cash Flow Forecasting for BC Businesses" is available at Community Future Office or www.smallbusinessbc.ca

1. What *revenue* can I achieve from the sale of my product or service? (To determine this, multiply the actual prices you will receive for products or services by the estimated number of sales, based on the interest expressed by potential customers)
2. Are my *prices* in line with the competition?
 - If not, why not?
 - How will my customers react to the price, based on their perceptions of the quality of the product? (Ask you potential retailers and/or distributors.)
3. Are my *margins* in line with the industry standards?

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- If not, why not?
 - How will my customers react to their own margins? (A retailer marks your product up. Is the margin sufficient to generate the required gross profit, given the volume projections? Ask them.)
4. What will the *cost of goods* be for the products I produce and/or distribute?
 5. How will the *gross profit* compare with other firms in the industry?
 6. What will the *start-up costs* be for my business? (Consider fixtures, equipment inventory, legal fees, licences, advertising, promotion, staff recruitment, etc.)
 7. What will the *operating costs* be for my business? (Considering salaries, rent, supplies, interest, office expenses, etc.)
 8. How will the *net profit* level compare with those of other firms in the industry?
 - What are the causes on my higher or lower profit levels?
 9. Can I obtain the money required for this idea?
 - Where can I get the money? (Usually from personal savings first, then from family and friends, then from banks.)
 - What terms can be negotiated with the bank?
 - What collateral can I pledge to secure the loan?
 - How will the bank loan be repaid if the business fails?
 - What credit can be obtained for materials and supplies?
 10. Can I survive financially during the early phases of business?
 - How much money will I need to draw out for personal expenses? (Include this amount in your cash flow projections)
 11. Is the level of financial risk low, average or high?
 - How much money will be lost if the business fails?
 12. How can the idea be tested with little or no investment up front?

If after answering these questions, you are not confident that your idea has a good chance of succeeding, proceed with the development of a full business plan or continue your market research. Start with the actual selling of the product or service on a small scale, if possible. This is an excellent market research.

Sources of Help and Information

For a complete listing of contacts for business information and assistance, consult the Government of BC's publication: "BC Business Resource Guide." Copies are available from Community Futures or at www.smallbusinessbc.ca.