from http://www.inc.com/resources/startup/articles/20051001/analysis.html, downloaded 23.6.2008

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Is Your Business Idea Feasible?

In my last column, I focused on recognizing great opportunities and shaping them into business concepts that thrive. This month we'll look at analyzing the feasibility of your proposed venture and assessing its market potential -- an oft-neglected, pre-business planning step.

Making a critical evaluation of your business concept at an early stage will allow you to discover, address, and correct any fatal flaws before investing time in preparing your business plan. As you work through this phase, Phase II of business development, you will identify factors that are essential to your venture's success while compiling the detailed, in-depth information you need to write your business plan, thereby immensely shortening the next phase in the process.

Unlike Phase I, which emphasizes divergent thinking, Phase II requires convergent, focused thinking and analysis. This is the point where you want to start drilling down to specifics. Although you are not yet ready to prepare a detailed operating plan, it is important to concentrate on the details of your business proposal. After conducting secondary market research, which involves assessing the literature and other publicly available information, you will need to begin primary market research by talking directly to stakeholders of all kinds -- from potential customers to future team members -- about your business concept. Here are some pertinent questions you will want to ask -- and answer:

- What does the industry where my firm will compete for customers look like?
- If you are able to create value for your customers, will you be able to capture any of it?
- Who holds the value-capture power in the industry you are entering -- buyers, suppliers or others?
- How will your firm be differentiated and stay that way?
- Are there few or many prospective customers for your product or service?
- How many units per customer can you expect to sell?
- What is your immediately addressable market?
- Who will be your first customer?
- How will you move from that first customer to the 10^{th}, 100^{th} and millionth?
- What is the cost of acquiring a new customer?
- What kind of skills will you want to procure from your team members to complement your own?
- When will you need to incorporate people with those skills into your business?

Author John Mullin's *New Business Road Test* is a good reference to help you rigorously think through the industry, market, and team needs for your business. However, three additional interrelated topics are also important: doing early-stage financial analyses on your venture, defining the development path necessary to transition from your current business concept to the state of your operating business, and gauging the investor attractiveness of your enterprise.

Early-stage financial analyses can be frustrating at this point, because you must make many assumptions. The question is: Which of those assumptions should you validate with more detailed investigation and which should you set aside for the time being? There is not enough time to pursue everything, so you need to focus on the most critical issues. At this stage you are seeking insight, not a single answer, from a financial analysis of your business. Using add-on software that provides probabilistic capability to your spreadsheet will allow you to identify variables that have a large financial impact on your business. You then can focus your attention on those items, systematically mitigating risks as you build your business.

Recognizing the tasks that must be performed in order to develop your business to the point of entertaining your first customer is important for understanding your total startup cash needs. If these tasks are not followed by substantial business upside potential, they can create a fiscal burden that will drag down your venture's chances of financial success. Many firms look promising as ongoing concerns, but are unable to recover from the time and costs of getting to that point. To complicate matters, ventures often have multiple development paths that must be navigated simultaneously. Technology-based companies, for example, frequently must follow three paths: technology, product, and market.

Phase II is the time to begin thinking about how to position your company for investors, whether you hope to obtain your startup capital from Uncle Harry or venture capitalists. A business that ultimately may be profitable on an annual basis but has little hope of recovering its upfront costs does not look very attractive to investors. No investor likes their investments viewed as sunk costs. You need to ask yourself how your investors will capture their returns -- through interest payments, dividends or escalating equity value? Equity is worthless, if there is no way to cash out through a liquidity event of some kind. Were you inadvertently considering using the investors' returns as growth capital for your business? You need to look at the investment from their perspective as well as your own.

Once you have successfully completed Phase II of the business-creation and development process, you can be confident that your business concept is solid. This certainly does not mean you are guaranteed to have a successful business, however, because there are many operational risks involved.