Objectives
1. Identify the various sources to generate potential business ideas.
2. Exploit the existing need to turn an idea into an opportunity.
3. Prepare an opportunity analysis.
4. Prepare a cash flow forecast for your business.

INTRODUCTION
For an entrepreneur, a business idea is a concept that will give you the material to envision and start your own business. You may already have ideas and just need ways to screen their potential. Or, you know you have what it takes to be an entrepreneur, but you need inspiration to generate possible paths for your skills to take. The business idea, opportunity/analysis, and preparing a cash flow forecast for the product or service will form the subject matter of this chapter. To begin, start off by reading this profile about an entrepreneur who was faced with this issue and targeted her idea to create a profitable business opportunity.

DO YOU HAVE A BUSINESS IDEA?
Maybe you have some starting concepts but question how original they are. You may be surprised to hear that not all
entrepreneurs come up with unique ideas. (See Figure 1.1.) You can be innovative without that initial generative impulse. Here are four ways to build upon already existing material and still provide a profit-driven concept:

1. Develop ideas as an extension of an existing product (a keyboard that accepts a smart card for security or e-commerce).
2. Create an improved service (faster delivery or an Internet e-commerce hotel concierge service).

3. Market a product at a lower price (think Amazon.com).

4. Add value to an existing product or service (linking branded products, such as IBM PCs just for the Internet).

IDEA ASSESSMENT

Let’s say you do have an idea for a new business. What opportunities are there for putting your idea into practice? Is this something that has been overdone? Or has it been executed poorly in the past? Or has no one else ever thought of it? In short, is your idea a potential dead end, a produc-
ative angle on an opportunity, or an entirely unexplored chance to create a business?

**Capital Considerations: Financing and Revising Your Business Idea**

Next, consider briefly the financial elements that would help you to start up this new idea:

✔ How much more capital/investment money is needed? Where will you go for this kind of financial support?

✔ How long will you be able to handle the initial losses using your own resources?

✔ What other resources can contribute to extend your involvement so that you can turn your initial losses into profits?

✔ How long might it take to develop the business so that it will make a profit?

✔ What kind of profit margin do you think might eventually result from your product or service?

✔ How will you market the realistic but optimistic loss or profit narrative to investors so that they will want to get involved with your business?

Remember, whether you generate an idea yourself or are connected with someone else who wants to develop an idea in a shared context, the questions you answer should still follow these suggestions.

**Where to Look for Information**

Once you have developed your idea, you can move on to assessing the information that will help you in convincing others, including loan officers, potential investors, and those in your personal life, of its validity. This will mean direct and thorough research on the potential of this idea. You will rely on hard facts and statistics to turn this opportunity into a potential venture. See Figure 1.2 for some common sources of information on potential markets that might help your development and presentation.
Evaluation Process

There is no question that you will need plenty of encouragement and support while developing a business idea. But in order to turn this idea into a concrete business, you’ll need to face some hard facts and take a heavy dose of reality. However, keep in mind that armed with this information you can legitimately decide if you will be able to proceed and work to sustain your venture bolstered by your awareness of the challenges facing your business.

Approximately two million businesses are started each year. Anywhere from 50,000 to 100,000 file for bankruptcy within 10 years. This bankruptcy rate does not seem exceptionally high, but business failure extends beyond bankruptcy. Now consider that 85 percent of businesses actually end within five years. They are not all bankrupt, yet their owners have decided to close shop—for a host of reasons. Many do not have the needed investment to carry them through the start-up process (six months to a year between opportunity analysis and opening the doors for business). Others die out because they topple on a shaky basis of poor business planning at the initial stages. Still others disappear due to a lack of business resources and management expertise and simple dearth of experience.
You may experience anxiety when you think that of those initial two million ventures starting each year, only one in 10 will reach its 10th birthday. But don’t allow an uncontextualized statistic to end your viable and potentially profitable business idea. Many start-up owners conceive of their ventures as sidelines to their “real” professions. They never make the emotional and practical investment needed to ensure continued success. Note that 1.3 million of these businesses never legally register as corporations or partnerships because owners don’t intend them to grow.

If you are committed, the odds will rise considerably
in your favor. We can estimate that as an owner you can have a one-in-four chance of keeping a new business going for eight years if it is full-time and incorporated; and if you then change owners, the business can survive another eight years, at that same rate of one in four. Now that we’ve contextualized this, you can see how those initial figures could seem misleading. The actual eight-year survival rate for incorporated start-ups is about 25 percent.

Yet remember an important piece of information—you might not want your business to last that long. Ask yourself what different outcomes could spell success for you. Do you want to tie up your assets for a significant period of time if you are confident of the turnaround, or does the thrill for you lie in the rush of the start-up period? Does success to you mean long-term survival or does it mean developing your company during a window of opportunity, then selling it at a high gain?

However long you ultimately want to stick with your business, the fact is that you will need to develop it in a logical and stable manner to reap any kind of reward. Now that we’ve looked at the statistics and you’ve done your own research related to the specific needs of your venture, let’s formulate a plan and a schedule. This will help you to conduct the most thorough inquiry yet into the potential of your idea/opportunity—otherwise known as the opportunity analysis. (See Figure 1.3.)

**OPPORTUNITY ANALYSIS: FIVE PHASES TO SUCCESS**

The opportunity analysis consists of five distinct phases:

✔ Phase 1: Seize the opportunity.

✔ Phase 2: Investigate the need through market research.

✔ Phase 3: Develop the plan.

✔ Phase 4: Determine the resources needed.

✔ Phase 5: Manage the distinguishing features of the business.

These phases sometimes overlap, but should follow in logical order.
Phase 1: Seize the Opportunity

To evaluate the opportunity, read the following questions keeping in mind both your personal and your professional experience.

✔ What are the clues that indicate this idea and opportunity?
✔ What are the conditions that permit the opportunity to occur?
✔ How will the future of this new product or service change the idea?
✔ How great (in terms of time) is the window of opportunity?

A window of opportunity is a time horizon during which an opportunity exists before something else happens to eliminate it. A unique opportunity, once shown to
produce wealth, will attract competitors, and if the business is easy to enter, the industry will become saturated. You have to get in quickly and be able to get out before revenues become dispersed in an overdeveloped market.

To give yourself greater room to maneuver on the threshold of a start-up idea, consider creating your own window of opportunity. Successful companies find and exploit markets that others have missed or that new technologies have suddenly created. For example, advertising has obviously been around for some time, but when DoubleClick started, Internet advertising was a brand-new field. Its founder helped to create a wildly successful business by taking advantage of an unforeseen opportunity.

The factors that help the business entrepreneur create opportunity are given in Figure 1.4.

**Phase 2: Investigate the Need through Market Research**

It's necessary to identify, measure, and document the need for the product or service. This means making a specific financial forecast that will testify to the actual potential and anticipated return for this proposed product or service. This process is not the end—it's only the beginning. We'll explore the topic of marketing more fully in Chapter 2—but for now, we'll consider it as it fits into the opportunity analysis.

Here is your chance to interact with the actual climate surrounding your company, so you will be prepared in the early stages of your new venture. Larger companies often outsource research to a marketing company, but this process will identify the steps and questions you will need to custom-design your personal research and conduct it productively.

**Preliminary Questions** This is the point when you can solidify the purpose and object of your research. Those who are developing a particular product will want to focus on a certain brand of question that can tell them about product features and distribution. A more service-oriented entrepreneur will consider other inquiries, directed at identifying the sources and beneficiaries of that service. Consider what you want now—you'll be
saving time and money later on. You will find these areas and questions to be potential material to direct the development of your research.

✔ Need. Will this product be serving the customers’ real needs? What is the overall market for the business? Are there special niches that can be exploited?

✔ Angle/Competition. What is different about your product or service that will cause the customer to choose it over your competition’s product or service?

✔ Proprietary Questions. Can the product be patented or copyrighted? Is it unique enough to get a significant head start on the competition? Can the process be easily copied? Will the busi-
ness concept be developed and licensed to others, or developed and sold?

✔ Cost and Manufacture. How much will the customer be willing to spend for the product? How much will materials and labor time cost? How much capital will be needed in the future? Now?

✔ Advertisement and Packaging. What type of advertising and promotional plans will be used to market the product? Will you bank on traditional methods of promoting related products or services?

✔ Sales. What distribution and sales methods will be used? Will you rely on independent sales representatives, company sales force, direct mail, door-to-door sales, supermarkets, service stations, or company-owned stores?

✔ Transport. How will the product be transported—company-owned trucks, common carriers, postal service, or airfreight?

✔ Employees. Can the company attract employees with the necessary skills to operate the business venture? Who are the workers? Are they dependable and competent?

Start with Data Collection Now that you've established key questions about your potential business, you need to find the answers. Data collection can come from a variety of sources. The more sources you consult, the more valid your results will be considered to be. Yet don't go overboard—you can become overwhelmed with all of the available data out there. So keep in mind that you want your questions to be as specific as possible, your sources to be as relevant as possible, and your data collection only as extensive as you will need for the initial investment and planning to run smoothly.

Design and Execute a Study to Get the Answers
You will be taking your data findings from secondary resources to support your preliminary research. In short, you've looked at other sources with the appropriate questions and expectations. Now it's time to create your
own personal source by asking businesses and experts direct key questions.

You will need to choose a small number of relevant companies that will represent the total group. First, find out who is out there; next, find out who you can speak with that will give you an idea of what the varieties of companies might say, so you don't waste time and money. Remember, you are doing this to start a business, not to become a research expert. Now you will ask your representative companies and experts your study questions, based on the most unbiased model you can find. You don't want questionable data, so you have to avoid the pitfalls. Make sure that all the participants are asked the same questions in the same manner. Don't skimp on the details here—make the results really reflect the true account by sticking to an exact and objective method of questioning. You will have to train survey recorders and telephone interviewers, and perhaps monitor them, to ensure these results.

Analyze the Data At this stage you have primary data. What is it telling you? How can you interpret it? Again, think of the secondary sources that you examined. How did they interpret their results? Using the most thorough sources as your model, write a final report. This ensures that a record exists for the future and that others in the organization can refer to the study as necessary.

Does all of this sound too extensive—and expensive? Many entrepreneurs must do their market research with limited funds. You can cut costs with these recommendations:

- Use search engines, web pages, and online databases.
- Use the telephone instead of mail surveys and door-to-door interviewing.
- Avoid research in high-cost cities; test more than one product at a time.
- Avoid collecting unnecessary data.

One source might be a university. Professors, students, and staff are often involved in projects that enable
them to extend their assignments with the entrepreneur's market research survey.

**Phase 3: Develop the Plan**

Once an opportunity has been identified, decisions must be made regarding performance and staffing. Who is going to do what? How will decisions be made? You need to develop a business plan that will stretch your assets as far as possible, while ensuring flexibility. It should be broad enough to incorporate some unexpected changes in your aim for success and profitability.

Your plan will be the backbone of your business, helping you in times of crisis and motivating you at points of indecision. An extremely valuable outcome of preparing and writing the plan at this stage is identifying flaws and coming up with the means to address them. You will find yourself compelled to examine closely your prospective venture.

If you are discovering irreversible errors and insurmountable flaws, you may discover that you will have to abandon this particular opportunity. Is it discouraging to return to the idea stage? Of course, but consider two things: You’ve already learned a great deal that will help you the next time around, and you’ve just saved yourself and your investors a large amount of time and money. Don’t be blind to serious misgivings. If you can walk away at this stage and begin again with a strong attitude, those already involved will be suitably impressed.

A business plan maps out the particular components of and future tasks for your business, all in about 30 to 40 pages. Similar to a real map, it should answer some basic questions: How far will the business have to go? What is the exact destination? How will the goal be reached? What is the anticipated arrival time at each of the various stops? A good plan will do the following:

✔ Determine the viability of the business and application in selected markets.
✔ Provide guidance in planning and organizing the activities and goals.
Serve as a vehicle to obtain financing and personnel for the business.

A more detailed version of the business plan is found in Chapter 4, but you can greatly benefit from considering these basic elements now.

**Phase 4: Determine the Resources Needed**

For any business, asking questions about your own resource capabilities is crucial. It is particularly the case, however, with a start-up venture that uses new technology for its service or as its product. You need to make sure that you have the skills to match—and triumph over—your competition. This sounds like Darwinian survival of the fittest, but consider it in an updated form—survival of the most skilled.

So, what are your capabilities and resources? Let’s check, using these questions:

- **Do you have business and financial support?** Can the business operate in a cost-effective manner? Who will be on the management team? How can you fill gaps in management and/or financial knowledge?

- **Are you prepared for personal contacts and networking?** Who will make contacts at the right companies? How should the network be set up? Are you going to be able to devote time to meeting people by traveling? Phone work? E-mail correspondence? Will you put contact making not only on your priority list but also on your daily calendar?

- **Have you considered financing requirements?** Can the business last (especially in this business opportunity, which requires capital to sustain the company over possibly a one- or two-year period)? Will there be investors who might be willing to come on board at a later date?

- **Where are your technical skills based?** Do you have the technical skills necessary? Who has the
know-how—you or your coworkers? Will you need to figure in additional training to your start-up costs? Is there someone who can translate technical jargon to investors?

**Phase 5: Manage the Distinguishing Features of the Business**

You’ve set up the opportunity, written the plan, and assessed your resources. Now you need to run your business, applying your management structure and style to any questions, difficulties, and successes that come your way.

If any advice is pivotal here, it’s the key emphasis on the act of investing. You’ve invested time, money, experience, and energy in setting up. Now you’ll need to follow the path blazed by the most successful businesses and invest in people, business procedures, and information technology. How will you do this?

**Keep Planning** The most successful entrepreneurs know where they fit in the market and where they want to be. Planning should account for and accommodate changes in designing, testing, and marketing to prepare for the business opportunity. How can you follow their lead?

✔ Test the business concept.
✔ Determine the improvement needed.
✔ Anticipate the necessary time frame.
✔ Define problems and anticipate barriers.
✔ Align strategic partners for the process.
✔ Assist in preparing a pricing strategy and anticipate future direction.
✔ Be competitive at all times.

**Deliver a Total Solution** Traditionally, small companies have assumed unchallenged territory and special distribution channels for their products. Today, however, all companies are playing in the same markets and providing
the entire range of service for their customers. Investors and customers want to buy a whole product or service.

**Cultivate Advanced Resources** The layoffs of highly skilled workers from major corporations that you read about every day are actually creating an important opportunity for your company. These trained and effective personnel are looking to apply their business skills and experience to start-ups. The results to your business could include access to small companies and major corporations, capital, and productive market knowledge.

Now let’s consider a new technology that is effectively transforming day-to-day services. Consider how a business plan was crucial in making this opportunity a business reality.

**CASE STUDY: NEW PAYMENT IDEA, NEW OPPORTUNITY**

With the advent of smart cards, consumers will soon be able to load electronic cash on a card and use it to perform any number of the seemingly unending small-value payment transactions, avoiding the need to carry exact change or rely on change machines. They will be used, for example, at such places as laundromats, vending machines, parking meters, bridge and toll road crossings, and fast-food outlets. Service providers will also benefit from reduced operating costs and increased business.

Cost-conscious shoppers can use these cards to receive discounts and/or bonus points by using their cards frequently at their favorite stores. Service providers, too, will benefit by being able to access a customer’s shopping preferences and then let the customer know of special offers that might be of particular interest.

Business travelers or vacationers may someday eliminate many of the nuisances and annoyances they have come to expect as part of traveling. These cards can help people avoid long lines for ticketing and seat assignment. They may even be used to unlock rental cars and hotel rooms without first having to check in at rental car agencies or hotel desks.
Smart cards provide consumers with an alternative method to perform financial transactions faster and with increased security. For example, with the aid of card-compatible personal computers and interactive TVs, smart cards will make tasks such as home banking and home shopping much more attractive.

Successful companies find and exploit markets others have missed, or they explore new markets that recent technologies have created. Most businesses believe that they are too big to pursue a poorly defined market. That's why so few large companies have spotted new opportunities.

WHAT'S PROTECTING YOU?

One question that you might encounter in your work conducting research and formulating a business plan is whether this idea/opportunity/product/service needs to be protected by a patent or copyright. Take the following evaluation screening to get an idea.

**Evaluation Screening**

1. Is the service, product, or idea unique to get a head start on competition?
2. Does your service or product represent a breakthrough (either high-tech or different from others)?
3. Have you fully explored other less expensive protective measures that may give all the legal protection needed at this point?
4. Has an attorney discussed the options and recommended that a patent be pursued?
5. Are you able to risk up to $2,000 on a patent search and application?

If you answered yes to more than one of these questions, you should seriously consider seeking legal protection for the idea and opportunity. However, if a *nondisclosure agreement* that essentially protects the idea for the first two years will suffice, then seriously con-
consider that the first option. What about marketing this to a larger company as a customer? Most companies have their own internal research and development organization dedicated to monitoring and meeting the needs of their product or service line. The best method for submitting an idea is to contact the company and ask for their disclosure conditions to review an idea. Some companies, however, will sign your nondisclosure form, while others will not. Most will have their own protection forms to sign, which essentially state that, while they may agree to look at or discuss an idea, their research departments may have already thought of the idea long before. Let an attorney have the last word. Get a second (or even a third) legal opinion before committing to any legal expenditure.

PREPARING A CASH FLOW FORECAST

Why Should You Prepare a Cash Flow Forecast?

As stated earlier, one of the major problems that start-up companies face is cash flow. On several occasions, profitable companies have failed because of lack of cash. As the manager of your cash, you can anticipate temporary cash shortfalls and have sufficient time to arrange short-term loans if needed.

A cash flow forecast shows the amount of cash coming in and cash going out during a certain month. The forecast will also show a bank loan officer (or you) what additional working capital, if any, the business may need. Additionally, it provides evidence that there will be sufficient cash on hand to make the interest payments on a revolving line of credit or to cover the shortfalls when cash outlays are greater than cash receipts.

Computer spreadsheet programs such as Microsoft Excel or any variety of full-faceted business software can be very useful for cash flow worksheet development. Reliable cash flow projections can bring a sense of order, well-being, and security to your business. The most important tool owners and managers have available to con-
trol the financial liquidity of their business is the cash flow worksheet.

**How Do You Get Started?**

**Step One: Consider Your Cash Flow Revenues**

Find a realistic basis for estimating your sales each month.

For a start-up, the basis can be the average monthly sales of a similar-sized competitor that is operating in a similar market. Be sure to reduce your figures by a factor of about 50 percent a month during the start-up year. There are also publications available in libraries and bookstores that discuss methods of sales forecasting.

For an existing company, sales revenues from the same month in the previous year make a good basis for forecasting sales for that month in the succeeding year. For example, if the trend in the industry predicts a general growth of 4 percent for the next year, it will be entirely acceptable for you to show each month's projected sales at 4 percent higher than your actual sales the previous year. Include notes to the cash flow to explain any unusual variations from the previous year's numbers.

**Step Two: Consider Your Cash Flow Disbursements**

Project each of the various expense categories (normally shown in your ledger) beginning with a summary for each month of the cash payments to suppliers as well as your wages, rent, and equipment costs (accounts payable).

Each month shows only the cash you expect to pay out that month to your suppliers. For example, if you plan to pay your supplier invoices in 30 days, the cash payouts for January's purchases will be shown in February. If you can obtain trade credit for longer terms, then cash outlays will appear two or even three months after the stock purchase has been received and invoiced.

An example of a different type of expense is your insurance expenditure. Your commercial insurance premium may be $2,400 annually. Normally, this would be treated as a $200 monthly expense. However, the cash flow will not see it this way. The cash flow wants to know exactly how it will be paid. If it is to be paid in two installments, $1,200 in January and $1,200 in July, then that is
how it must be entered on the cash flow worksheet. The same principle applies to all cash flow expense items.

**Step Three: Reconciliation of the Revenues and Disbursements** The reconciliation section of the cash flow worksheet begins by showing the balance carried over from the previous months’ operations. To this it will add the net inflows/outflows, or current month’s receipts and disbursements. This adjusted balance will be carried forward to the first line of the reconciliation portion of the next month to become the base to which the next month’s cash flow activity will be added and/or subtracted.

**Making the Best Use of Your Cash Flow**

Cash flow plans must be modified constantly as you learn new things about your business and paying customers. Since you will use this cash flow forecast to regularly compare each month’s projected figures with each month’s actual performance figures, it will be useful to have a second column for the actual performance figures right alongside each of the “planned” columns in the cash flow worksheet. Look for significant discrepancies between the planned and actual figures. (See Figure 1.5.)

For example, if the business’s actual figures fail to meet your cash receipt projections for three months in a row, this is a signal that it is time to revise the year’s projections. It may be necessary to apply to the bank to increase the upper limit of your revolving line of credit. Approaching the bank to increase an operating loan should be done well in advance of the date when the additional funds will be required. Do not leave cash inflow to chance.

**DESIGNING A CASH FLOW WORKSHEET**

There are a variety of ways a cash flow forecast could be presented. The best way is to show only revenues from operations and the proceeds from sales.

The format should be a double-width column along the left side of the page for the account headings, then two side-by-side vertical columns for each month of the
year, beginning from the month you plan to open (e.g., the first dual column might be labeled “April Planned” and “April Actual”).

From there, the cash flow worksheet breaks into three distinctive sections. The first section (at the top left portion of the worksheet, starting below and to the left of the month names) is headed “Cash Revenues” (or “Cash In”). The second section, just below it, is headed “Cash Disbursements” (or “Cash Out”). The final section, below that, is headed “Reconciliation of Cash Flow.”

### SUMMARY

Once a business idea is determined to be worthy of further consideration, you must assess its potential. Often, after you select an approach to the market and do the necessary research, you will need to revise your concept, adding refinement and sophistication to your original spark of an idea.

Generally, there is a great deal of useful information
that is readily available. Often our market research objectives must be modified to use available information. In some cases, you may choose to survey the market to acquire data geared specifically to your needs. In every case, you must apply some judgment to the data since you are trying to project your future prospects.

When you complete this step, the planning and developing process starts. All ideas must be screened and evaluated to determine the feasibility of the opportunity. The best ideas are evaluated through the development, test marketing, and managing the resources to successfully launch the business.

From the market research results, you must fine-tune your plan. You should also be able to provide the answers to the following questions: What segment(s) of the market can your product or service serve? What does it have to offer the market? Who are your customers? How will you promote and market the product or service?

Preparing a monthly cash flow forecast highlights the actual cash effect and timing of the company’s revenue and expenses. For example, the company may generate revenue in September but not actually receive the cash until October or November. Used properly, this will provide you with the means to keep your business decision making on track and your inventory purchasing under control. It will also serve as an early warning indicator when your expenditures are running out of line or your sales targets are not being met. Your idea should be tested thoroughly by preparing a cash flow forecast.

In the next chapter, we’ll take the next step to apply the marketing plan for your business.

**ADDITIONAL RESOURCES**

Edge.low.org (www.edge.low.org): “A peer-learning community for growing your company.”
Entreworld (www.entreworld.org): “A world of resources for entrepreneurs.”
Ideacafe.com (www.ideacafe.com): “A fun approach to serious businesses.”
Office.com (www.office.com): “This new way we work.”
Small Business Administration (www.sba.gov): “Helping small businesses to succeed.”
Workz.com (www.workz.com): “Helping small businesses grow and prosper online.”