# Chapter Readings, Lecture Notes, Videos and Podcast

Chapter Readings, Lecture Notes, Online Videos and Podcasts for Chapter 4.

1. Read Ch 4- Conducting a Feasibility Analysis

2. Chapter 4 Lecture Outline

Section II. The Entrepreneurial Journey Begins

Chapter 4. Conducting a Feasibility Analysis and Designing a business model

****Part 1: Learning Objectives****

1. Describe the process of conducting an idea assessment.
2. Present the elements of a feasibility analysis.
3. Describe the six forces in the macro environment of an industry.
4. Understand how Porter’s Five Forces Model assesses the competitive environment.
5. Describe the various methods of conducting primary and secondary market research.
6. Understand the four major elements of a financial feasibility analysis.
7. Describe the process of assessing entrepreneur feasibility.
8. Describe the nine elements of a business model.

****Part 2: Class Instruction****

****Introduction****

Five critical steps guide the process of going from idea generation to growing a successful business. (Refer to Figure 4.1, New Business Planning Process)  An ***idea assessment*** is the process of examining a need in the market, developing a solution for that need, and determining the entrepreneur’s ability to successfully turn the idea into a business.

After identifying the most promising idea using the idea assessment process, the entrepreneur subjects it to a feasibility analysis to determine whether they can transform the idea into a viable business.  A feasibility analysis is the process of determining whether or not an entrepreneur’s idea is a viable foundation for creating a successful business.

If the idea passes the feasibility analysis, the entrepreneur moves on to the next steps of the new business planning process.  Developing a business model, which is the third step in planning a new business, helps the entrepreneur to fully understand all that will be required to launch and build the business.

Writing a business plan is the fourth step, and developing a strategic plan is the fifth step.

****Idea Assessment                                                   LO 1****

An idea assessment helps to efficiently evaluate the numbers ideas that come out of the creative process.  The ***idea sketch pad*** in Figure 4.2, Idea Sketch Pad, is an effective tool used to help assess ideas in a relatively short period of time by asking a series of key questions addressing five key parameters.

1. *Customers*.
2. *Offering* – a description of the product or service.
3. *Value proposition* of how your business will be important to the customers.
4. *Core competencies* to differentiate from competitors.
5. *People* on the management team.

Placing the answers to these questions on the sketch pad, entrepreneurs can clearly visualize gaps or weaknesses, and change the idea to improve its chances for success.

****Feasibility Analysis                                                          LO 2****

A ***feasibility analysis*** is the process of determining if the idea is a viable foundation for creating a successful business. It consists of four interrelated components: an industry and market feasibility analysis, a product or service feasibility analysis, and an entrepreneur feasibility analysis.  Refer to Figure 4.3, Elements of a Feasibility Analysis.

When evaluating the feasibility of a business idea, entrepreneurs find a basic analysis of the industry and targeted market segments a good starting point. The focus in this phase is two-fold:

* To determine how attractive an industry is overall as a “home” for a new business, and;
* To identify possible niches a small business can occupy profitably.

When examining an industry, an entrepreneur should examine both the macro environment that can have an impact across many industries and the specific competitive environment of the industry of interest.  Refer to Figure 4.4, Environmental Forces and New Ventures.

****Industry and Market Feasibility                        LO 3****

The first step in assessing industry attractiveness is to paint a picture of the industry in broad strokes, assessment it from a macro level.  Six foundational macro forces create change in industries and the markets they serve:

1. Sociocultural change can lead to dramatic changes that can create who new industries and fundamentally transform existing industries.
2. Technological breakthroughs lead to the development of new products and entirely new industries.
3. Demographic changes create opportunities.
4. Economic changes can make or break industries.
5. Political and legal changes create opportunities for entrepreneurs.
6. Global trends create opportunities for even the smallest companies.

Entrepreneurs should ask the following questions to evaluate the six foundational macro trends to determine the attractive of an industry:

* How large is the industry, and how fast is it growing?
* Is the industry as a whole profitable?
* Is the industry characterized by high profit margins or razor-thin margins?
* How essential are its products or services to customers?
* What trends are shaping the industry’s future?
* What are the threats and opportunities facing the industry?
* How crowded is the industry, and how intense is the level of competition?
* Is the industry young, mature, or somewhere in between?

****Consider using the Hands On… How To “Forces Shaping Innovation: The Driverless Car” at this point.****

****Porter’s Five Forces Model                               LO 4****

Porter’s Five Forces model (refer to Figure 4.6, Five Forces Model of Competition) evaluates five key forces that determine the setting in which companies compete, the attractiveness of the competitive environment, based upon these five considerations: ****t****he rivalry among the companies competing in the industry, bargaining power of suppliers to the industry, The bargaining power of buyers, threat of new entrants to the industry, and threat of substitute products or services.

1. Rivalry Among Companies Competing in the Industry. The strongest of the five forces in most industries is the rivalry that exists among the businesses competing in a particular market. This force makes markets a dynamic and highly competitive place. An industry is generally more attractive when:

* The number of competitors is large, or, at the other extreme, fewer than five.
* Competitors are not similar in size or capability.
* The industry is growing at a fast pace.
* The opportunity to sell a differentiated product or service is present.

1. Bargaining Power of Suppliers to the Industry. The greater the advantage that suppliers of key raw materials or components have, the less attractive is the industry. An industry is generally more attractive when:

* Many suppliers sell a commodity product to the companies in it.
* Substitute products are available for the items suppliers provide.
* Companies find it easy to switch from one supplier to another or to substitute products.
* The items suppliers provide the industry account for a relatively small portion of the cost of the industry’s finished products.

1. Bargaining Power of Buyers. Buyers have the potential to exert significant power over businesses. When the number of customers is small and the cost of switching to a competitor’s product is low, buyers have a high level of influence. An industry is generally more attractive when:

* Industry customers’ “switching costs” to competitors’ products or to substitute products are high
* The number of buyers in the industry is large
* Customers demand differentiated products
* Customers find it difficult to gain access to information on suppliers’ costs, prices, and product features.
* The items companies sell to the industry account for a small portion of the cost of their customers’ finished goods.

1. Threat of New Entrants. The larger the pool of potential new entrants to an industry, the greater is the threat to existing companies in it. This is particularly true in industries where the barriers to entry, such as capital requirements, specialized knowledge, access to distribution channels, and others are low. An industry is generally more attractive to new entrants when these factors exist:

* Economies of scale are absent
* Capital requirements to enter the industry are low
* Cost advantages are not related to company size
* Buyers are not extremely brand-loyal
* Governments do not restrict new companies from entering the industry

1. Threat of Substitute Products or Services. Substitute products or services can turn an entire industry on its head. An example is the growing trend of companies using plastic containers instead of glass. An industry is generally more attractive when:

* Quality substitutes are not readily available
* Prices of substitute products are not significantly lower that those of the industry’s products
* Buyer’s switching costs are high

After surveying the power these five forces exert on an industry, entrepreneurs can evaluate the potential for their companies to generate reasonable sales and profits in a particular industry to answer the question, “Is this industry a good one for my business?” Note that the lower the score for an industry, the more attractive it is.

Table 4.1, The Five-Forces Matrix, is a quantitative tool that assesses importance and the degree of threat to provide a weighted score. This approach can help leverage insight from the five forces assessment.

Market Niches.  The next step in assessing an industry is to identify potentially attractive niches that exist.  Occupying an industry niche enables a business to shield itself to some extent from the power of the five forces.  Entrepreneurs who have designed successful focus or differentiation strategies for their companies can exploit these niches to their advantage.  Questions to address include:

* Which niche in the market will we occupy?
* How large is this market segment, and how fast is it growing?
* What is the basis for differentiating our product or service from competitors?
* Do we have a superior business model that will be difficult for competitors to reproduce?

Generally a niche strategy is a good way to enter as it usually takes fewer resources for the start-up due to lower marketing costs and the ability to start on a smaller scale.  However, entrepreneurs should be aware of some cautions:

* Entering a niche requires adaptability in the initial plan.
* Niches change.
* Niches can go away.
* Niches can grow.

****Product or Service Feasibility Analysis:****

****Is There a Market?                                               LO 5****

A product or service feasibility analysis determines the degree to which a product or service idea appeals to potential customers and identifies the resources necessary to produce the product or provide the service. This portion of the feasibility analysis addresses two important questions: Are customers willing to purchase our goods and services?  Can we provide the product or service to customers at a profit?

Conducting ***primary research*** involves collecting data firsthand, and ***secondary research*** which involves gathering data that has already been compiled and is available. Primary research tools include:

* Customer Surveys. These should be short and carefully worded, use a simple ranking system, and used with people who represent the target market of the business.
* Focus Groups. This involves enlisting a small number of potential customers to give you feedback on specific issues about your product or service.
* A prototype is an original, functional model of a new product put into the hands of potential customers to test and use.
* ***In-Home Trials.***An in-home trial involves sending researchers into customers’ homes to observe them as they use the product or service.
* “Windshield” Research. Researchers observe customers’ interactions with existing businesses.

Secondary research should be used to support, not replace, primary research.  It is usually less expensive to collect than primary data, and includes the following resources:

* Trade Associations and Business Directories
* Industry Databases
* Demographic Data
* Census Data
* Forecasts
* Market Research
* Articles
* Local Data
* The Internet

****Consider using Hands On… How To “Do You Want Fries with Those Crickets?” at this point.****

****Financial Feasibility Analysis:****

****Is There Enough Margin?                                   LO 6****

The third component of a feasibility analysis involves assessing the financial feasibility.  This step involves assessing these four elements:

* Capital Requirements. This refers to the amount of money needed to start the business.  The typical start-up in the United States is launched with an average of $10,000, and one in five starts with no funding.  Bootstrapping is the process of finding creative ways to exploit opportunities with limited resources.
* Estimated earnings. An entrepreneur must forecast the earning potential of the proposed business.
* Time out of cash. The entrepreneur must estimate the total cash needed to sustain the business until achieving break-even cash flow.
* Return on investment. This aspect combines the estimated earnings and the capital requirements to determine the rate of return the venture is expected to produce.

Wise entrepreneurs take the time to test their ideas to determine the viability of the concept as a business.

****Entrepreneur Feasibility:****

****Is This Idea Right for Me?                                  LO 7****

Many new businesses require that an entrepreneur have a certain set of knowledge, experiences, and skills to have any chance of being success.  This is called entrepreneurial readiness.  Another way to ensure the necessary knowledge and skills are in place is through building a team.

Beyond the entrepreneur’s readiness to start a business, the second aspect is to assess whether the business can meet the financial and nonfinancial needs of the entrepreneur and the team.  For example, will the business be able to generate enough profit to support everyone’s income needs?  Does the business fit the goals and aspirations the entrepreneur has outside of work?  Refer to Figure 4.7, Entrepreneurial Self-Assessment.

****Developing and Testing a Business Model   LO 8****

A business model is used to map out the key components required to make a business successful, and adds more detail to the evaluation of a new business by graphically depicting the “moving parts” to insure they are all working together.

Osterwalder and Pigneur developed a Business Model Canvas to provide entrepreneurs with a dynamic framework to guide them through the process.  Refer to Figure 4.8, The Business Model Canvas.

The canvas is comprised of nine elements:

1. Customer Segments. Identify a segment of customers who have a clearly defined need.  Small companies usually are much more successful focusing on a specific market niche or niches where they can excel at meeting customers’ special needs or wants.
2. Value Proposition. A compelling value proposition is at the heart of every successful business.  The value proposition is the collection of products and/or services the business will offer to meet the needs of the customers.  It is best to identify and focus on one or two benefits that will make the new business stand out to customers and motivate them to purchase from the new business.
3. Customer Relationships. What level of customer service is expected by your customers? The entrepreneur needs to know how customers want to interact with the business, if customers want intensive personal service or prefer limited engagement or even an automated interaction.
4. In the business model canvas, channels refer to both communication channels (promotion) and distribution channels (product placement).
5. Key Activities. The goal is to build a basic checklist of what needs to be done to open the business and what activities are necessary to ensure its long-term success.
6. Key Resources. The entrepreneur must identify the human, capital, and intellectual resources needed to the business to be successful.
7. Key Partners. Examples include key suppliers, key outsourcing partners, investors, industry partners, advisers, and all other external businesses or entities that are critical to make the business model work.
8. Revenue Streams. The entrepreneur must determine how the value proposition will generate revenue.  The answer might be one-time sale, ongoing fees, advertising, or some other sources of cash into the business.
9. Cost Structure. The entrepreneur must identify the fixed and variable costs necessary to make the business model work.

Developing a business model is a four-phase process.  Refer to Figure 4.9, The Business Modeling Process.

* The first phase is to create an initial business model canvas, with the expectation that it will change as it is being reviewed.
* The second phase is to test the problem that the entrepreneur thinks is being solved by the business through its core value proposition using primary research data. The entrepreneurial team needs to test the model with real customers to determine the answers to these questions:
  + Do we really understand the customer problem?
  + Doe these customers care enough about this problem to spend their money on our product?
  + Do these customers care enough to help us by telling others through word-of-mouth?
* The third phase is to test your solution to the problem in the market. One technique involves ***business prototyping***, in which entrepreneurs test their business models on a small scale before committing serious resources to launch a business that might not work.  For example, one can sell their products on established Internet sites such as eBay or by setting up their own Web sites to gauge customers’ response.

A process that can guide testing early versions of a product is known as *lean start-up*, which is defined as a process of rapidly developing simple prototypes to test key assumptions by engaging real customers.  Begin with a ***minimal viable product***, which is the simplest version of a product or service that can create a sustainable business.

* The fourth phase is to make changes and adjustments in the business, called ***pivots***, based on what is learned from engaging the market about the problem and the solution the new business intends to pursue. There are three major types of pivots:
  + Product pivot – changes to the product to enable it to better meet the needs and wants of the customer.
  + Customer pivot – changes in the target customer description.
  + Revenue model pivot – changes in the way the firm generates revenue.

****Consider using You Be the Consultant: “RendezWoof: Creating a Minimal Viable Product for a Mobile App” and/or You Be the Consultant: “When to Call It Quits on a New Business” at this point.****

****Conclusion****

The best business ideas start with a group of customers with a common problem or need.  Then the first step is to assess these ideas by examining a need in the market, developing a solution for that need, and determining the entrepreneur’s ability to successful turn the idea into a business.

The second step is to conduct a feasibility analysis to determine whether the entrepreneur can transform the idea into a viable business.

The third step is to develop and test the business model.

Once these steps are completed the entrepreneur is ready to develop the business plan, and later a strategic plan, both of which are covered in Chapter 5.

****Part 5: Case Studies****

The following text case may be used for lecture and assignments for topics presented in this chapter.

* Case 1: Panda Sunglasses
* Case 2: Oxitec
* Case 3: Source Outdoor
* Case 9: The Evolution of CoolPeopleCare’s Business Model