



Unit 2 Developing a Business or Product Idea

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Develop a product idea
- ✓ Identify your target market and customers
- ✓ Develop your value proposition

Unit 2

Developing a Business or Product Idea

Building On Your Business Idea

Developing Your Product Idea

Getting Started

Once you have a business idea in place, it's time to put some serious thought into the product or service that you will be offering

The **MVP** is your entry-level product (although other entry-level products may be developed later). It can be developed quickly, with minimum time and resources, and sold quickly. The **core product** will embody what your business is all about. Once you have these two elements developed and tested, you can start thinking about new product lines.

Problem Statement

The most important part of each product is identifying what problem it solves for the customer. Does it

- Create a fast, personalized coffee experience at home?
- Make bedtime for children under five easier and faster?
- Help working adults between 30 and 50 maintain a healthy lifestyle through diet and exercise?
- Create a safer home environment for seniors?

Outlining your product's purpose as a solution to a problem will help you evaluate whether or not you're meeting your goals, particularly when identifying the target market and testing the product.

Functional and Non-Functional Requirements

It's also important to describe what the product will actually do. These requirements can be broken down into functional and non-functional requirements. **Functional requirements** describe characteristics that solve particular problems for users. **Non-functional requirements** describe the background operation of the product or service.

Requirements for a coffee maker might look like this:

Functional	Non-Functional
<ul style="list-style-type: none"> Starts up in eight seconds 	<ul style="list-style-type: none"> Supports 120 and 240 volt plugs
<ul style="list-style-type: none"> Makes individual cups of coffee in 14 seconds 	<ul style="list-style-type: none"> Heats water to 212°F
<ul style="list-style-type: none"> Sanitizes itself after each brewing cycle 	<ul style="list-style-type: none"> Made out of carbon alloy

Features and Benefits

Next, let’s look at features and benefits. A feature describes what a product does; a benefit describes the emotional impact of the product. Let’s look at some features and benefits of our coffee maker example.

Features	Benefits
<ul style="list-style-type: none"> Makes individual cups of coffee 	<ul style="list-style-type: none"> Create a personalized coffee experience every time
<ul style="list-style-type: none"> Starts up in eight seconds 	<ul style="list-style-type: none"> Start your day right: by relaxing and enjoying a cup of coffee
<ul style="list-style-type: none"> Keeps itself clean with self-sanitizing mode 	<ul style="list-style-type: none"> Let your coffee maker do the work for you
<ul style="list-style-type: none"> 256 gluten-free, organic flavors currently available 	<ul style="list-style-type: none"> Feel good about your coffee choices

User Stories

The final element in developing your product idea is user stories. This allows you to outline possible scenarios where users will use the product. User stories can help you clarify the product vision; identify features, benefits, and functional requirements; and recognize possible issues.

The basic formula for a user story is, “As a [user role], I want to [desired outcome] because [reason].” For example, Tom is a daily coffee drinker who wants to be able to make a good cup of coffee at home easily and cheaply.

If we dig deeper, we’ll see that Tom is a single dad with three children. A good cup of coffee is a necessity for him in the morning! However, his local café is pretty expensive. If he makes coffee at home, filling the coffee maker, grinding the beans, finding a filter, and setting up his coffee machine can be a real challenge while he’s trying to get his children ready. A one-touch coffee machine, with pre-filled, top-quality coffee pods, would make things a lot easier for him.

Identifying Your Target Market and Customers

Three Key Questions

Your next step is identifying who your target market and ideal customer are. This will help you narrow down your business' focus and ensure you are putting your efforts in the right place. The goal of this stage is to help you identify three things:

- Who are my customers?
- Where are they located?
- How do they think and behave?

Step One: Theories

You should have some idea of who your customers will be based on your groundwork so far. (If not, it might be a good idea to return to that phase and do more outlining and analysis of your idea.) So, start by writing out your assumptions and theories:

- What is the basic product concept?
- Who will be my customers?
- What problem will the product help them solve? (Your problem statement can be used here.)
- What geographical area will we be targeting?
- What demographic will we be targeting? (Think beyond age, gender, and ethnicity. Consider value sets, passions, and skills.)
- Who will our competition be?
- What type of market will we be operating in: an existing market, a new market, or a niche market?

Get as much help as you can with this stage. Involve people who will be part of your business, experts in your industry, your mentor, and any other stakeholders.

Step Two: Testing

Next, create a list of at least 50 potential customers. With these people in mind, prepare your product test. Here are some ideas for product testing:

- A presentation of the proposed product or service and how it will solve their problems
- A hands-on demonstration of a prototype
- A preview of a television episode in front of a focus group

Be sure to have specific questions for participants to answer after the test, such as:

- What was your favorite thing about the product/service?
- What was your least favorite thing about the product/service?
- Here are three approaches we could take for this product/service. Please tell me what you think about each of them.
- What problem would this product or service help you solve?
- How would you use this product?
- Who would you recommend this product to?

You will also want to prepare a customer insight survey, with questions like:

- How much of your typical day is spent on...?
- How much money do you spend on...?
- What processes do you have for...?
- What is your biggest problem with...?

Keep this survey short and to the point to ensure maximum participation.

Now, ask your potential customers to participate in the product test and insight survey. Be very clear that this is not a sales pitch; you're looking for their feedback so that you can help them solve a particular problem. Be open-minded during this stage. Encourage criticism, what-ifs, and new ideas. You will probably hear new information that you had not yet considered. It can be hard to incorporate that into your vision, but it is essential for your business' success.

Remember what Sam Walton (founder of Wal-Mart) once said: "There is only one boss: the customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else."

Step Three: Take It All In

After the product test and customer insight surveys have been completed, it's time to evaluate what you have learned and see if your theories were right or wrong. Be open-minded and objective when evaluating the data.

In most cases, you will find that you were right about some things and wrong about others. This means that you will want to adjust your theories, tweak your product test and insight surveys, and conduct another round of testing. (The amount of re-testing and re-evaluation required will depend on the complexity of your business idea.) In the end, you will have a solid description of what you will be selling, who you will be selling it to, where those people are, and what their mindset is.

Part One: The Sales Process

The first part of financial projections is looking at your sales process. How long will it take for your company to see payment after someone becomes a potential customer? Typically, customers move through the following stages:



If you're a hot dog vendor with walk-in customers, then your sales process is quite short. If you're selling luxury vehicles, then your sales process could be quite long. To help you get an accurate picture of how long your sales process is, you can use this template. We have included some example activities for a small business selling custom bicycles.

Sales Stage	Activities in Our Process	Average Length of Stage
Lead	Customer visits our website and fills out contact form	0-48 hours after first website visit
Prospect	Customer service representative contacts customer, confirms information, and obtains additional details in order to provide a custom quote.	Within 24 hours of form being submitted
Qualified Lead	Customer service representative re-contacts customer to provide custom quote. Credit check is also performed.	Within 72 hours of last contact
Committed Lead	Customer signs agreement for custom bicycle.	0-72 hours of custom quote
Customer	Company ships bicycle.	Four weeks after agreement is signed

	Customer sends payment.	0-48 hours of shipping confirmation
Total Average Length of Sales Process		Four and a half to six weeks

You should also consider these factors when you are estimating the length of your sales process:

- What experience does the market have with this product? New products and technologies can take a while to catch on.
- What does the customer have to do in order to buy the product? Are credit terms, payment plans, proposals, tenders, or other lengthy processes required?
- Who will be involved in making the decision? For example, company employees may be allowed to purchase small amounts of office supplies, but will need approval for bigger items.
- How urgent is the purchase? A higher urgency level usually results in a shorter sales time.

Part Two: Sales Metrics

The next part of your financial projections is sales metrics. You will need to determine:

- How much money each product will sell for (separated into one-time and recurring revenue)
- If applicable, how many sales each salesperson can make (account for ramp-up time)
- If applicable, how many salespeople you will have
- Daily, weekly, monthly, and yearly sales estimates

So, let's say that you have these figures for your new bicycle company:

- You estimate that each product will sell for \$100.
- You will have five salespeople. For the first two months, you estimate that each salesperson will make five sales per working day. After that, their sales will double.
- 25 sales per day, times approximately 25 working days in the month, equals 625 sales per month for the first two months. This equals \$62,500 in revenue for months one and two.
- After that, if all factors stay the same, revenue will be \$125,000 per month.

Let's look at an e-commerce company:

- You estimate that each product will sell for \$100.
- You will not have salespeople; all sales will be done through your website.
- You estimate that five people will purchase from the website on launch week, with the number doubling each week after that until it plateaus at 1,000 customers purchasing each week.
- Since the first month is a four-week month, this means 75 sales and \$7,500 in revenue in the first month.

- The second month, which is also four weeks, will have 1200 sales and \$120,000 in revenue.

It can be very difficult to predict sales estimates. Always err on the conservative side. As well, be sure to allow for seasonal variances. As your business grows, you will be able to update and refine your forecasts with actual data.

Part Three: Expenses

The final piece of the financial projection puzzle is your expenses. Luckily, your major expenses should be fairly easy to estimate. Here is a list of things to consider.

One-Time Costs

- Lease deposits
- Assets
- Initial office setup (chairs, computers, desks, etc.)

General Overhead Costs

- Rent
- Heat, lights, and water
- Communication costs (landlines, cell phones, Internet, etc.)
- Office supplies

Staff Costs

- Salaries
- Commissions
- Benefits
- Owner payouts

Advertising and Marketing Costs

- Advertising expenses (break down into appropriate channels)
- Trade shows and conferences
- Client expenses

Product Costs

- Labor costs
- Material costs
- Packaging

Special Costs

- Licensing and registration fees
- Professional service fees (accountants, lawyers, etc.)
- Insurance
- Outsourcing fees
- Emergency fund

Double and triple-check your expense forecasting to ensure you've accounted for everything.

Part Four: Calculating Ratios

You now have all the information you need to calculate the key ratios that will tell you if your business, as you have forecasted it, will be a success.

Gross Profit Margin

Gross margin shows you what the company has made in profit. It is calculated with the following formula:



The results are then multiplied by 100 to obtain a percentage. For example, let's say that Acme Widgets made \$100,000 in revenue last year. It cost them \$50,000 to make the widgets. This means that their gross margin was 50%.

Operating (Net) Margin

The operating margin shows what proportion of the company's revenue will be left over after all expenses are paid. Its formula is simple:



The results are then multiplied by 100 to obtain a percentage.

Head Count per Client

The final ratio that you should calculate is how many staff you need to support each client. If you know that a team of 10 people (including sales, support, and manufacturing) can make 500 widgets, and that each client buys five widgets at a time, your head count per client is one person per ten clients. This ratio will help you plan operations and resources to match your company's growth.

Business Ownership Options

Types of Business Ownership

Common Terms

There are many different configurations that a business can take. The jurisdiction where you do business might use different terms than the ones we have below, but they will have similar terms and meanings.

Sole Proprietorship

An individual establishes and runs a business where they make all business decisions, and are responsible for providing a product or service(s).

Partnership

Two or more people decide to work together and share the profits (as well as the risks) associated with running their company.

Corporation

The owner of a business decides to create an entity that is separate from their own self. That business has the status of an entity. It can enter into contracts, pays tax, and files taxes separate from the people who own the business.

Joint Venture

Two or more people contribute goods, services, or monetary resources to a shared business enterprise. This is usually founded with a contract that all parties will sign. That contract will describe things like profit distribution, the management structure, and who is responsible to contribute what.

Franchise

An individual or a business may wish to establish and operate within parameters set by another company where the products, services, procedures, and more are all prescribed by the company.

Subsidiary

A company in one country can establish a presence in another country, provided they are following all the laws and rules in the new country.

Speaking About the Entrepreneur

You may also hear some less formal terms that define different types of entrepreneurial ventures. Here are some popular terms that we’re hearing right now.

Solopreneur

An entrepreneur who works completely on their own. They may hire temporary employees or contract out parts of their business, but they maintain control and autonomy.

Microbusiness

A typical microbusiness makes less than \$2 million a year, requires less than \$50,000 in startup capital, has less than five employees, and has sustained this profile for five to ten years (or since the business’ inception). However, legal definitions vary by jurisdiction.

E-preneur

An entrepreneur who runs an online business.

Purchasing a Franchise

What is a Franchise?

So far, we’ve talked about building your own business from the ground up. However, franchising allows you to leverage the experience and hard work that someone else has already done.

With a franchise, the main corporation sells the rights for a subsidiary business to a third party, with terms laid out in a franchise agreement. The main corporation typically has a well-defined business system, with operation manuals, advertising protocols, reward programs, training, support systems, and more.

What are some advantages and disadvantages to franchising?

Advantages	Disadvantages
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Where to Find Franchises and Resources?

Franchise opportunities can be found in trade publications, online directories, newspapers, and local franchise organizations. If you are interested in a particular franchise, contact their head office for information.

Most countries have franchise organizations that provide resources, support, and franchising opportunities. Here is a list of some popular groups.



- American Association of Franchisees and Dealers: <http://www.aafd.org>
- British Franchise Association: <http://www.thebfa.org>
- Canadian Franchise Association: <http://www.cfa.ca>
- China Chain Store and Franchise Association: <http://www.chinaretail.org/>
- Franchise Association of New Zealand: <http://www.franchiseassociation.org.nz/>
- Franchise Association of South Africa: <http://www.fasa.co.za/>
- Franchise Council of Australia: <http://www.franchise.org.au/>
- International Franchise Association (United States): <http://www.franchise.org/>
- Japan Franchise Association: <http://www.ifa-fc.or.jp/>
- World Franchise Council: <http://www.worldfranchisecouncil.net/>

Note: These organizations and links were accurate at the time of publication. Velsoft takes no responsibility for the content of these sites, whether by inclusion or omission.

Words of Warning

When exploring franchise opportunities, remember:

- Most franchisors do not allow someone to buy out an existing franchisee. Always make sure you're working with the franchisor themselves.
- That in-depth research is still important, particularly when forecasting revenues and expenses.
- Some entrepreneurs make their money from selling franchise rights, not from the business itself.
- Always have a lawyer review all contracts and agreements.
- If it sounds too good to be true, it probably is!

Purchasing an Existing Business

Another option is taking over an existing business. You should determine what kind of business you are looking for; establish your budget; outline your expectations in terms of revenue, growth potential, and stability; and then seek businesses that meet your needs. You can usually find purchasing opportunities through word of mouth, professional organizations, or real estate brokers.

Buying an existing business has advantages similar to franchising: you can take advantage of someone else's hard work and experience to get your business off the ground quickly. However, by being the sole business owner, you have much more control over the product and processes. You also avoid royalty and franchise fees, which can be quite high.

Just as with franchising, however, there are some significant risks. The obvious question is: why is the business up for sale? Maybe old Joe Smith just wants to retire and see his diner go into good hands... or maybe he has credible information that a big discount restaurant is going into the vacant lot next door.

Take your time and have a good look at the business' performance in the past, changes in the community, and its liabilities (such as insurance payments, lease agreements, and back taxes). Businesses typically take a while to sell, so don't rush into the first opportunity you see. Having your wish list and budget clearly established can help you keep a cool head, too.

Always have a professional (such as an accountant, lawyer, or insurance underwriter) review documents as appropriate. Once you've signed on the dotted line, there's no going back, so make sure you have a full understanding of what you're getting yourself into.

Key Documents to Prepare

Business Plan

Yesterday, we focused on finding a solid business idea and developing the groundwork for the tasks that will need to be done. Now, it's time to communicate that work to others.

Why a Business Plan?

The first part of your communication toolkit will be your business plan. We firmly believe that every business needs a business plan, although the size, complexity, and components of the plan will depend on your business. Even if you are financing the business yourself, the business plan requires you to take a close look at many aspects of your plan and commit to them. This, in turn, will clarify the business for you and expose any issues that will need to be resolved before the business is launched.

Some people procrastinate about committing their plan to paper, but having a framework and acknowledging that the plan is going to help you out makes creating the business plan an easier task. In fact, the business plan should not be an intimidating exercise at all.

The One-Page Plan

If the business that you are starting is very small, you may want to begin with a simple, one-page business plan. This type of plan usually includes the following elements:

- Company description
- List of products and services
- Marketing and sales strategy
- Financial projections

This type of plan can also be expanded into the longer, more formal structure presented below.

The Formal Plan

A formal business plan typically includes the following elements:

- Executive summary (written last but presented first in the plan)
- Table of contents
- Company description
- List of products and services
- Market analysis
- Organizational structure
- Operations plan
- Marketing and sales strategy
- Financial projections

Other optional and helpful elements can include:

- SWOT analysis (strengths, weaknesses, opportunities and threats about several aspects of the plan)
- Glossary (helpful if your audience is not familiar with industry jargon)

- Supporting details (such as logos, graphic representations, and charts)

Executive Summary

If you've developed a full business plan, you should be able to pull out the executive summary to offer readers a high-level overview of your product, sales plan, and financial projections. This will give someone a more detailed look at your plan without requiring them to review all the data. It also means you don't have to share the full business plan with anyone who requests more information.

To create the first draft of the executive summary, simply read through your business plan and pull out the first and/or last sentences from each section. You should capture key words and phrases as well. If you have written the rest of your business plan using correct paragraph structure, those selected pieces will contain the main ideas of your entire business plan. If you are missing something, locate it within the business plan, summarize it briefly, and add it to your executive summary. Once you have the elements you need, simply shape and re-write them so that the text flows well together, and then do a second draft. From there, create it as a separate document and do a final read through. Adjust it so that it stands on its own, and you're done!

If you have created a one-page business plan, you can write the executive summary separately. Simply write a few paragraphs on each of the topics mentioned above (your product, sales plan, and financial projections), as well as a brief introduction about the company.

In both cases, you should have someone you trust review your executive summary. As well, make sure that the formatting reflects your business: if it doesn't look good, you won't look good either. As your business evolves and work progresses, you will want to update the executive summary to keep it current.

Pitch Deck

What is a Pitch Deck?


The pitch deck is a shortened, visual version of your business plan. It usually contains 10 to 15 slides that outline the key parts of your plan. It should present a visual story that investors can relate to.

Sample Pitch Deck

Here is a sample pitch deck for our QuikBrew idea.

Slide 1

The first slide should contain your company logo or a related image. You should also include the company name, tagline or motto (if you have one), and your contact information.



QuikBrew... Just For You!
John Smith, Owner and CEO
j.smith@quikbrew.com
999-999-9999

Slide 2

Describe your team. If you are on your own right now, you can omit this slide.

Who Are We?



VP of Sales and Marketing
Cindy Smith

VP Operations
Sarah Smith

CEO
John Smith

Slide 3

Describe what you do. Your problem statement can be useful here.

What Do We Do?

- ▶ Create a fast, personalized coffee experience at home
- ▶ Make gourmet, fair trade, gluten-free, organic coffee affordable for everyone
- ▶ Provide services to businesses and retail customers

Slides 4 and 5

Describe your products and services. Here, we have a slide with a video of the coffee machine. Then, we have graphics outlining key points.

What Do We Offer?





(Please note that the video in this template is for demonstration purposes only, and is not a working video.)

Slide 6

Describe your distribution strategy and market segments.



Slides 7 and 8

Describe your key markets and how you will reach them. Our sample business will market to other businesses and home users.



Slide 9

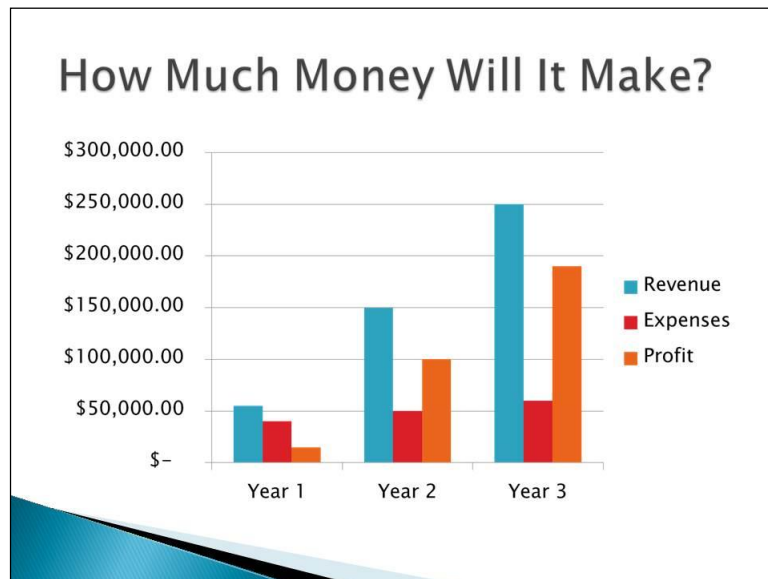
Describe the competition and how your company measures up. Focus on the positive things about your company rather than negative things about the competition. Include statistics whenever possible.

Who Is Our Competition?

Feature	QuikBrew	Easy Café	Home Style
Fair trade coffee	√	X	X
Starts up in under 10 seconds	√ (8 sec.)	X (15 sec.)	X (35 sec.)
One-touch operation	√	X	X
Self-cleaning	√	X	X
Compostable pods	√	X	√

Slide 10

Show a three- to five-year projection of revenue, expenses, and profit. Be as accurate as possible and be prepared to explain how you calculated these numbers.



Slide 11

Share the metrics that you calculated as part of your financial projection. Just as with the previous slide, be as accurate as possible and be prepared to explain how you calculated these numbers.

Key Metrics

- ▶ Average Sale: \$250
- ▶ Gross Profit Margin: 65%
- ▶ Operating Margin: 13%
- ▶ Conversion Rate: 10%
- ▶ Head Count Per Client: 1:100

Slides 12 and 13

Explain where you are, where you are going, and how extra funds would help the business.

Where Are We?

- ▶ Production of first brewing units is expected to begin within 3 weeks
- ▶ Production of first coffee pods is expected to begin within 2 weeks
- ▶ Additional funds will allow us to increase production and quickly grow sales

Where Are We?

- ▶ Two salespeople are generating leads for businesses
- ▶ Penetration into home user market will begin in the next six weeks
- ▶ Product design is complete and being tested by users

Slide 14

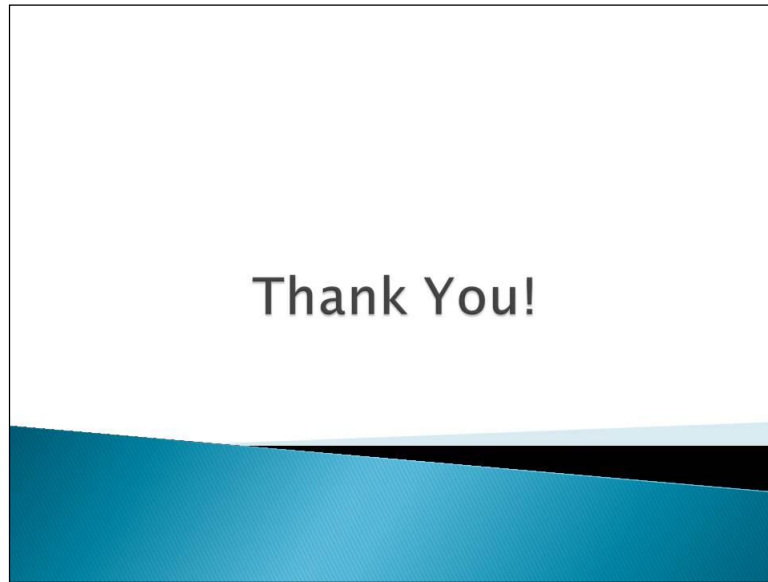
Ask for feedback and questions. Include contact information for yourself as well as the business' website and social media pages.

Questions? Thoughts? Comments?

- ▶ Website: www.quikbrew.com
- ▶ MyFace: *quikbrew
- ▶ Chirrup: @quikbrew
- ▶ Video Feed: quikbrew.myvid.com
- ▶ If you have any additional questions, comments, or concerns, please contact John Smith at 999-999-9999.

Slide 15

Thank your audience for their time and end the presentation on a positive note.



How It Works

Typically, you will give an interested investor the executive summary first. Then, if they are interested in more information, you can present your pitch deck. If they are then committed to supporting you, you can share your business plan. You do not want to share the entire business plan with everyone who asks for information. If it is leaked to the wrong people, you may see someone else launch your great idea first.

30-Second Pitch

The next piece in your communication toolkit is your 30-second pitch. It allows you to describe your business in 30 seconds or less. It can be used whenever someone asks about your business, whether you're out having lunch, in an investor's meeting, or at a networking event. It can also be shared with your team to ensure that everyone is sending a consistent message.

You want your pitch to come out naturally, so your script should be fairly loose. It should also evolve as you gather feedback from others and as the business evolves.

You can use this template as a starting point for your pitch.

Step	Description	Example(s)
Introduce yourself	Be genuinely sincere about	"Nice to meet you, my

	meeting new people. Look them in the eye, stand confidently, and be engaged in the conversation.	name is..."
State your business name	Don't wait for a compliment. Just make a statement.	"My company is..."
If relevant, include where you operate	This part of the pitch depends on the situation. If you are at an international meeting or conference or work globally, it may not be relevant.	"We are based in Dubai," or "We offer e-commerce solutions to small businesses around the world."
Make it meaningful and memorable	Talk about what you offer in terms of positive outcomes. Your problem statement can be useful here.	"Our products give you an in-home, affordable, top-quality coffee experience."

Practicing the Pitch

Choose a business from the list below:

- Indiway: We create personal hovercraft to help people get around quickly with a smaller carbon footprint.
- Green City: We offer recycling sorting, pickup, and refunds in the Greater Anytown area.
- Learning for Leaders: We provide hands-on leadership training for leaders at all levels. You can learn in the classroom, online, or on the job.

Create a 30-second pitch for that business.

White Papers

When preparing your pitch deck, business plan, executive summary, and 30-second pitch, you do not want to go into too much detail about the technology behind your product. Not only will it bore most of your audience, it may share your product's secrets with too many people.

You should, however, create a technical white paper summarizing your product, the technology behind it, and why that technology is unique. This paper should be in layman's terms to help your audience understand how the product works. The white paper should be made widely available to ensure that people can easily access technical information about your product. Do not include trade secrets!

Your white paper should include:

- The words "white paper" in its title
- The problem that this product solves and how it does so
- Background and details on the problem
- A summary, frequently asked questions, and/or review points

Further Reading:

- ✓ *Brady, Steven M., Dennis C. Nagle, and Ralph R. Young. How to Save a Failing Project: Chaos to Control . Management Concepts, 2009.*
- ✓ *Lewis, James P. Project Planning, Scheduling, and Control (5th Edition). McGraw-Hill, 2010.*

