

## Will your business idea work?

Coming up with a new idea is exciting, and you probably want to jump straight in and make it happen. But before you invest too much time and money, you need ensure your idea is feasible and likely to give you a reasonable return on investment. Obviously, there are never any guarantees that a business will succeed but thorough planning and market research is your best start.

If you can answer yes to the following questions, there's a good chance your business idea is a worthwhile proposal, meaning your next step is to draw up a business plan and get the wheels in motion.

### **Do you have a unique selling point?**

Unless you've been lucky to find a gap in the market, your product or service is going to have to compete against other similar products for customers and market share. To compete, your business has to stand out from the competition – it has to have a unique selling point that you can use to encourage customers to buy from you.

This doesn't mean you have to invent a totally new product or service. Your offering might:

- Be cheaper or more economical to use.
- Smell better or work better.
- Come in a more fashionable design or appealing color range.
- Weigh less or be made of better material.
- Be anything else that compares favorably with similar products on the market.

If you have a unique selling point, it's worth doing further research into the viability of your business. If you're not sure if your product or service adds value that customers can't find elsewhere, it might be better to brainstorm a few more business ideas before you forge ahead.

### **Do you have a market?**

Knowing who will buy your product and what motivates their purchasing decisions is vital to the success of your business. Not only will you need to make sure that your product appeals to your target market segment, but you'll need to find out how large your potential market is, whether it is stay-at-home mums, business people, teenagers or retirees.

Think about the size of your market in your area or wider (if you plan to sell online, for example). How many people will be interested in your offering, at the price you're likely to need to charge? You also need to think about how you will attract your target market or make people aware of what you offer – different age groups respond to different types of advertising, for example.

If you are considering being a bricks and mortar store, think about where you might want to be located to best fit your potential customers. If you want to appeal to teenagers, having a store in a busy mall is probably better than being in a small block of shops.



## Business guide

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If you are going to be an online business, think about how people will find you – will it be through word-of-mouth, or will Internet advertising be a big component of your marketing strategy?

The next step is to look at your potential competitors. Find out what their respective competitive advantages are, and examine their pricing and marketing strategies. Looking at their website, local phone directory advert or printed advertising material is a good start. Many businesses have social media offerings; check to see if they have a [Facebook](#) or [Twitter](#) profile to get a feel for how they interact online.

Is there room for you to muscle in and get a large enough share of the market to break even and start making a profit? Does your product or service really fill a need that is not met by the competition?

If you're still answering yes, then it's time to crunch some numbers to test if your idea is really viable.

### **Do the numbers add up?**

What costs will you incur in producing the goods or providing the service? What is your selling price? How much demand do you anticipate? Is there enough demand and are the margins high enough for you to break even after a few months and then start trading at a profit?

Work out a cash flow forecast using your anticipated costs, selling prices and sales quantities. How long will it take to build up your sales to a point that your business is able to break even? How long before your business starts to generate a profit?

Perhaps most importantly, once your business is established, what sort of return-on-investment will you get? There's little point in investing a lot of money, time and effort in running a business if you earn less than the returns you'd get from putting your money into a term deposit. Is your business venture going to do more than keep you busy? Is it going to make you money?

### **Do you have enough money to last until your business is profitable?**

If you're satisfied that your business idea should bring in a good return-on-investment once it is established, the last question you need to consider is whether you have enough money available to meet the start-up costs, and continue to operate the business until it is turning a profit.

Work out a cash flow forecast to see how much money you will need. Remember, you might need to rent premises, buy equipment, employ staff and pay salaries, fit out an office, purchase stock or supplies, and get your marketing campaign off the ground. These costs can add up to a sizeable amount.

In addition, you'll need to be able to cover your operational costs and your personal expenses for quite a few months before you break even or turn a profit. If you're borrowing money, you will also need to be able to make the interest payments when they fall due.

If you've answered this with another yes, the chances are that you have a viable business idea. But before you go charging ahead with entrepreneurial enthusiasm and set up your business, it makes sense to formalize your plans and thinking by drawing up a detailed business plan.