



**Should I ???  
or  
Shouldn't I ???**

Evaluating a Business Opportunity

*"To be, or not to be?"* That is the question that faces many prospective entrepreneurs.

The answer to this question, ironically, consists of still more questions that must be answered before anyone puts their time and money where their ideas are. Since *"nothing happens until somebody sells something,"* the first order of **Brass Tacks** questions that should be addressed is related to the *market potential* for an envisioned business

- ◆ The first market-driven issues deal with need. Is there a TRUE need for the products or services your enterprise will offer the marketplace? (Are you absolutely, positively sure there is a present need, or are you merely "anticipating" a need in order to justify the "great" idea you have?) How do your prospective customers describe the product or service benefits that could satisfy their needs? What are the dimensions of those needs? How large? How pressing? How current?
- ◆ The origins of the need can also reveal a lot about the long-term market potential of the venture. How did this need originate? From a newly discovered market? New, enabling technology? Recent government regulation? Market shift? Withdrawal of existing provider? What do the needs' origins say about the tangibility, magnitude and durability of the demand they will generate? Will your proposed item give you a competitive advantage? (Is there something unique about it? Is it "more" or "better" in some way than the alternatives that are available? ) Will the demand last long enough to warrant the investment required? Will you have to re-engineer the item in the foreseeable future in order to maintain its relevance in the marketplace? When? How much will that cost? How long will it take?
- ◆ Who are your ultimate customers? Intermediate customers? What are the demographics, psychographics, geographics of your target customers? Can they afford to have their perceived needs satisfied?
- ◆ Who will be the first ten people you will attempt to sell to? (Names, addresses and telephone numbers, please!) How much do you believe they will buy?
- ◆ Assuming proper marketing, how many dollars will your target customers be able to spend for the product, service, or process you intend to offer? What will be necessary to "close" a sale? Will you be able to keep up with the anticipated growth in demand given the resources available to you? What will it cost to keep up with projected growth? What will happen if you can't keep up with demand?

## *Should I, or Shouldn't I?*

### *Evaluating an Opportunity*

- ◆ It's also important to have a handle on anticipated physical volume. How many units of the item will be sold upon introduction? In the first year? Second year? Fifth year? How many times per year will a purchaser buy your item? How long is the replenishment cycle? (In other words, how much time will pass between purchases by a typical consumer.)
- ◆ If you are planning to offer more than one item, what will be the composition, by category, of your sales mix? How many items will you be able to sell your customer "the second time around"? If you divide your anticipated dollar sales volume by your anticipated price per unit, how many transactions must there be per year to reach your sales goals? Do you have the resources to handle this volume? How many individual purchasing units must there be to generate this kind of demand? Do you realistically think you can find this many purchasers?
- ◆ How are you going to get your items "used" by the intended consumers? Delivered to them? What channels of distribution will you have to utilize? Do they presently exist?
- ◆ Do you have access to them? Will your item readily fit into those channels? Into a distributor's line? What costs will be associated with using those distributors or systems?
- ◆ What sales methods and techniques will be necessary to market your product? Where will you get this salespower? How much will it cost? Will you be able to keep it if new competition emerges or if existing competition intensifies?
- ◆ How long is the sales cycle? (In other words, how much time -- and money -- must be spent selling the product before it is purchased and paid for?) This is important in the calculation of the cash you will need to start the firm and keep it operating.
- ◆ How will you enter the market? How will competitors respond to your entry? Price cutting? Better warranties? Product refinement? Better purchase terms? More aggressive selling? Better service? How will you respond?
- ◆ What will be your pricing strategy if low price competition emerges? How much control will you have over pricing? What is the price elasticity of your item? (Said another way, how will demand for your product change as the price moves up or down?) Can you afford to be competitive on the basis of price over the long-term? For how long?

The decisions that an entrepreneur makes before launching his or her venture determine, in large measure, the degree of success that an aspiring entrepreneur will ultimately enjoy.

Unfortunately, the thrill that typically attends the birth of a new opportunity often obscures the need for thorough due diligence. Nitty-gritty evaluation of the "boring" financial aspects of a deal are too often given short shrift, as a nouveau entrepreneur is blinded by the alluring glitter of a new idea.

Once the marketing issues are resolved, follow-on concerns regarding the financial structure of the venture naturally emerge for the bedevilment of the anxious entrepreneur.

Here are some critical **Brass Tacks** questions concerning your venture's financial implications.

- ◆ What real estate, machinery, equipment, technology, and systems will be required to support the envisioned enterprise now and in the future? Are they available at a price you can afford? How will you pay for them?

## *Should I, or Shouldn't I?*

### *Evaluating an Opportunity*

- ◆ Is your proposed per-item selling price at each market level realistic? Does your intended pricing accommodate the price tolerances of your intended consumers? What kind of per item "gross profit margin" (i.e. the difference between the cost of the item and its selling price) does your pricing afford you? Is the margin between the selling price to your buyer (e.g. the wholesaler or retailer) and the price to the ultimate consumer sufficient to appropriately compensate the external distribution channels you'll require? Will everyone in the distribution chain earn a return sufficient to *keep* him or her involved? Will your firm's total gross margin (assuming you, in fact, realize the sales level you project) be sufficient to absorb all of its attendant sales and administrative costs, and still allow for an adequate return to you?
- ◆ What is your pricing strategy? Is it flexible enough to counter competition? What is your break-even point in terms of the volume of items that must be sold? How many items must be sold, in what period of time, to get you to a cash flow break-even point?
- ◆ How much cash, in total, will have to be invested in your venture to achieve and sustain a level of operation that will produce break-even sales volumes? To generate a reasonable return on your investment?
- ◆ Do you have enough cash available to get you to that break-even point *and* still provide you and your family with a reasonable standard of living in the process?
- ◆ How much time will pass, on average, between the point at which you sell an item and the point at which you collect the cash from the sale? What will you do if purchasers do not pay you as projected? How will this affect your projected cash flow?
- ◆ What percent of your personal liquid net worth and credit capacity will be encumbered with business obligations at the point in time at which you finally start to make sales? At the point at which you break-even from both a cash and profit perspective? What will your *contingent* liabilities be at that point?
- ◆ What additional financial resources will be required to facilitate the growth you will need to achieve a level of continuing, profitable sales (In other words, how much will you need to fund operating expansion *and* acquire necessary capital equipment)? At what points in time will this funding be needed? At what plateaus of profit and cash flow will the company find itself at that time? Where will the funds to fuel this growth come from?
- ◆ If you are buying a business from someone else, why are they selling? What evidence of past performance – and assurances of *future* performance -- can they give you?
- ◆ Will the nature of your business appeal to investors and lenders? Will they easily understand the business and its risks? Will your venture be generating enough return to induce them to provide the funds you'll need? How much money do you realistically expect they will provide? What will it "cost you" in terms of interest expense, equity give-ups, covenants, restrictions, etc.
- ◆ What is the "internal rate of return" generated by the business (i.e. the interest rate that is required to present-value both cash inflows and cash outflows to an equal amount or a "zero-sum gain")? Do other ways of using or investing your personal funds offer you a better return than that? Could you secure a job that would pay you – monetarily -- as much as your new business will offer you? Would the psychic benefits be the same? How many hours a week do you believe you will have to devote to your business and related matters?

Will this be enough to achieve the success you seek? Are you and your family really willing to pay this price for a long period of time?

- ◆ What are the opportunity costs of this venture? (i.e. what financial or personal give-ups will you experience by virtue of not having taken advantage of the most attractive alternative investment and occupational opportunities open to you?)

**The Billion Dollar Brass Tacks Questions:** Is this the best use of your time? What wealth will the business allow you to build? How will you ultimately exit from this business? (If the aggregate personal return provided by the business does not exceed the return on other, available passive investments of comparable risk, plus the salary and perks provided by a non-entrepreneurial occupation with similar dimensions, the business will not be building residual value.)

Keep in mind, it takes more than money and a market to create a successful business. An aspiring entrepreneur must also be willing to devote a full measure of his or her talents and energies to the enterprise.

In addition to the above-cited litany of questions that should be answered by entrepreneurs before they commit their time and money to a new business, there are some really vexing questions that pertain to the personal constitution of the entrepreneur. A venturer must do a lot of personal "soul searching" before taking the big leap.

In the paragraphs below you'll find some key, gut-focused, questions that an entrepreneur must intimately confront – and satisfactorily answer -- *before* attempting to convert an idea into a business. An enterprise definitely won't survive if its "founding father" -- or "mother" -- isn't completely committed to its long-term success, and willing to give it, unconditionally, everything it takes. To do this, he or she will have to carefully answer **Brass Tacks** questions like the following:

- ◆ How complete is my understanding of this proposed new business venture? How much research have I done? Do I know what a typical "day at the office" will be like?
- ◆ Have I talked with entrepreneurs in similar businesses? Do I sincerely believe I have the experience and talents that the business will require? How do I know this? Who told me?
- ◆ Have I had any experience that relates to this type of business? How knowledgeable am I about my target markets? About the industry of which I will be a part?
- ◆ What kind of financial return will this venture provide when it finally achieves steady-state operation? What, in fact, will be the "cash-received-on-cash-invested?" Will it really satisfy me? What will be my personal return on my invested capital (beyond the kind of normal salary and perks I could earn working for someone else)? Will there be other kinds of non-monetary return provided (e.g. job for the kids, travel, automobile, etc.)?
- ◆ Will my total return be as much as, or more than, I can get on an alternative *passive* investment that doesn't demand my time and effort (and risk)? How do the personal risks of this venture compare to those of passive investments with comparable returns? Am I willing to risk most of the assets I own on this venture?
- ◆ Will this really be something I will enjoy doing day in and day out? Do I see the business as fun? Am I willing to sacrifice all of my time for the business? Do I understand the impact that the business will have on my family? My personal relationships with my spouse? My children?

## *Should I, or Shouldn't I?*

### *Evaluating an Opportunity*

- ◆ Am I capable of focusing and concentrating in confusing, distracting or threatening situations? Am I comfortable operating in situations where there is incomplete information upon which to base my conclusions and action plans? Am I intuitive? Do I enjoy tackling complicated problems?
- ◆ Is a "try and re-try till you get it right" operating style comfortable for me? Can I live with ambiguity and uncertainty? Do I have an achievement motivation? In sports, how important is it for me to beat my last best score? Are my fortunes dominated by an "internal locus of control?" In other words, do I truly believe that I am the master of my destiny, no matter what happens in the "outside" world? What techniques do I use to handle my anxieties? How successful am I?
- ◆ Am I action-oriented or do I have a penchant for deliberating? How independent am I? Can I work well alone? Who am I going to rely on for advice, criticism, and help? Do I have access to able advisors and professional support?
- ◆ Do I have what it takes to line up the vendors and employees I will need in order to operate efficiently and competitively? What skills will my employees require? What will it take to recruit, keep and properly motivate the right team? Am I a team builder and a leader? Can I communicate?
- ◆ Can I sell myself as well as my product or service? Am I able to make "cold calls?" Do I have what it takes to close a sale? How well do I handle rejection? Repeated rejection? More rejection???
- ◆ Do I have a written strategic plan? A business plan? How closely will I adhere to them? Under what circumstances might I change them?
- ◆ How will this venture impact my personal financial security? What would happen to the business if I could no longer be actively involved in it? What would it be worth? How long could I be absent before the business lost real value? Before it would cease to operate?
- ◆ How confident am I that I will be successful?

### **The Trillion Dollar Brass Tacks Questions:**

- DO I SINCERELY WANT TO DO THIS MORE THAN ANYTHING ELSE I COULD DO???*
- AM I WILLING TO RISK EVERYTHING I HAVE IN ORDER TO DO IT???*

Once you have answered all of these questions, you are ready to get down to the real work – *and fun* – of entrepreneuring.