

MODULE 2: FROM IDEA to REALITY

Teaching Notes:

Module 2 Objectives:

- Understand tools for turning a business idea into reality.
 - Understand importance of assessing overall market climate.
 - Develop skills to gather market information.
 - Weigh risks of starting a small business.
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Understand tools for turning a business idea into reality. (overheads 2-A, 2-B, & 2-C)

- **Creativity in business – real life examples** (see overhead 2-A)
 - **Introductory thoughts: “Don’t limit yourself in thinking about your business.”**
 - Ask students: When you think of a business you would start, what is it? (Encourage students to share answers).
 - After each answer a student gives, the class (or instructor comments) if it is a product business, a service business, or a combination of both. (Tip: One way to clarify thought on this is to ask, “What are you selling?”...product, service, combination).
 - Encourage students not to limit themselves in thinking about their own businesses. They don't have to produce a “widget”, they could provide a babysitting service.
 - Remind students of fact from Module 1: That approximately half of sole proprietorships (the most popular form of ownership for small businesses) are service businesses. (Note: See overhead 1-D – the aggregate of service related line items totals approximately 52%).
 - Wrap up with examples:
 - A business that sells dog toys and supplies – what is it? (Answer: Product-focus).
 - A business that provides grooming services for dogs – what is it? (Answer: Service-focus).
 - A business that sells dog supplies and provides grooming – what is it? (Answer: Dual focus, product and service).
 - **Staying ahead of the competition.** Entrepreneurs today must be creative and innovative in order to stay one step ahead of their competitors. In fact, entrepreneurs must continually come up with new ideas for products and services, for marketing, for sources of funding, for all aspects of their business. In short, they are being creative.
 - **Note:** Competitive advantage is not just something good you do, it's something you do BETTER. It is wise to add the term “unfair” in front of competitive advantage....it emphasizes the fact that the goal is to create an unlevel playing field. (Students will have an opportunity to develop a “competitive advantage” in the Mind Mapping exercise).

- **Example of creativity in business.** A good example of creative thinking is the humble little product, baking soda. When your parents and grandparents were growing up, it was used for baking, tooth powder, and in the bath to stop itching from chicken pox.

➤ **EXERCISE: 2-1 – PART 1**

- **Line extensions and partnerships = creativity in business.** (Discussion followed by overhead 2-B) There are now so many products that the products that contain baking soda:
 - Refrigerator/freezer freshener
 - Carpet freshener
 - Cleaner in bathrooms and kitchens
 - In toothpaste
 - Deodorant, etc.
 - Has the product changed much? No. Arm & Hammer creatively came up with new ideas and marketed them well. And are earning nice profits from the new ideas.
- **Keeping the creative cycle going.** (Refer back to overhead 2-A) It is not enough to have one creative idea, there must be others to maintain competitive advantage.
 - A creative idea can be protected, through a patent, but only for 20 years. Pharmaceutical companies spend many of those 20 years testing a drug, giving them only a few years to earn back all the money they spent on research.
 - Palm Pilot soon faced many competitors, including HP, Sony, and cell phone manufacturers.

➤ **EXERCISE: 2-1 – PART 2.**

- **Takeaways from the Arm & Hammer Website.** Arm & Hammer uses the following words, indicative of certain issues of which they are likely aware because of market research:
 - “Hip” - The company is likely thought of by certain demographics as being a grandparent’s product. Arm & Hammer is likely employing a strategy to try and target a younger demographic.
 - “Easy to use” - Some consumers have probably told Arm & Hammer their traditional cardboard box is hard to use.
 - “Shapes and sizes” – Arm & Hammer is updating their packaging to accomplish both of the goals above: Attract a younger demographic and allow for ease of use. In addition, the company has likely learned even MORE uses for their product, and have developed packages that suit these uses.

➤ **HOMEWORK 2-1**

- Homework 1: Determine other products which have used creativity as a competitive advantage, report back in next class.

- Homework 2: Look up the definitions of the following and provide an example of each – Patent, Trademark, Servicemark, Copyright.
 - **Personal creativity: How to capture it.**
 - **Personalizing creativity.** We see how businesses employ creativity to achieve success and competitive advantage. But, how does an idea get from a thought from a lab technician in R&D to a product that we see on the shelves of the grocery store? How does a need you perceive into the community turn into a service provide to that community? How does an area in which you're interested evolve into a service or product idea...that is, an actual business?
 - **EXERCISE:** 2-2. Mind Mapping exercise (see instructor supplement and overhead 2-C)
 - **Review of Mind Mapping exercise, discussions of other tools for creativity.** "What did we learn from the Mind Mapping Exercise?" Ask for takeaways from students. Instructor takeaway can be demonstrated visually: What started as a general area of interest or a personal passion has, in a matter of a class period, been turned into an actual business idea.
 - **Creativity in daily life.** Mind Mapping is just one tool. Where do students find they get their best ideas?
 - **EXERCISE:** 2-3. Personal creativity exercise
 - **HOMEWORK:** 2-3. Idea logging assignment
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Understand importance of assessing overall market climate. (overhead 2-D)

- **Intro** - Developing a viable market strategy is part of the overall business plan preparation.
 - **What is market strategy? What do you need to know to have a market strategy?**
 - **Customers** - The strategy is actually a projection of who you expect your customers to be, where they are located, and why you believe they would be interested in your product or service.
 - **Pricing (willingness to pay)** - In addition, you need to decide how to price your product/service (this can be based on an economic term called "willingness to pay")...for instance, what would you be willing to pay for a Palm Pilot, or some other product or service?
 - **Timing** - When you will start your business, and how you will actually begin to sell your product or service? For instance, a flag business might want to start several months before the 4th of July (market-based decision). You might not be able to start your business until

the end of the summer when you have enough money saved to invest in it (start-up capital based strategy/timing).

- **Competitors** – How many are there, who are they? How are you different than they? Are you “inventing” a market (something that hasn’t been done before), or competing in an existing market?
- **Summary** - The strategy that you will develop is a first step in determining if your idea is really possible – that is, a realistic view of the marketplace you wish to enter.

➤ **EXERCISE:** 2-4. Real Life Market Research Exercise.

- **Takeaway:** (From exercise, and a lesson for class).
 - **Investors expect you to know your market.** There is a reason for this....
 - **Business owners who know their market are more successful.** Market research helps owners to “mitigate” or lessen risk as well uncover market opportunities.

Develop skills to gather market information. (overhead 2-E)

➤ **EXERCISE/HOMEWORK:** 2-5. SWOT CHART (Transition from previous learning objective. To complete as pre-work for this learning objective. Alternative: Bring SWOT chart to class and use for basis of in-class discussion).

- **Exercise Summary:** The SWOT chart exercise is a tool that teaches us about gathering marketing information, then analyzing it (in the “action steps” section) and setting the stage to move forward with those action steps. Where does this information come from? This is what we are covering during this learning objective.
- **Questions to ask.** In the Doggie Services market research role play, the investor questions closely mirror some of the basic questions you should be asking in starting your business:
 1. Who is your market?
 2. What are your customers' likes and dislikes?
 3. Where are they?
 4. How are you different?
 5. How should you price your product or service?
 6. When should you start your business?
 - Takeaway: When you have answered these questions, you will have a pretty good idea whether the business will succeed.

1. Who is your market? The first step of your plan will be to determine who would pay for your services. Many people have great ideas for businesses, but unless there is someone willing to buy a product or pay for a service, the ideas fail. It takes time, energy, and money to start a business; by planning

ahead, you will know whether your particular idea has a good chance of succeeding.

Doggie Services example: Let's use the Doggie Services role play example. Let's pretend the new services you want to offer is the start of a whole new business. Having the "home base" of the groomers allowed us to think creatively and in a more empowered way: "Sure...if I had a groomer's business already, I could give them a survey and learn about a new market." Unless we have a good friend in the grooming business who will let us survey they're customers, we're starting from ground zero. Where do we start?

- **Where can we find this information? To start - Secondary data** - To begin your search for information about your potential customers, you should begin with information that someone else has already gathered and analyzed – this is called "Secondary Data." You can obtain secondary data from local, state, and federal governments, through the local chamber of commerce, your local library, local, state, and federal governments, competitor brochures, market research reports, and the internet.
- **What should I collect? Information to be gathered** - Some examples of information you might find helpful include:
 - a. **Demographic information:** The **Census** can provide data on income, populations, types of employment (blue collar, professional, etc.). Local census data by county enables you to draw even more detailed conclusions regarding your target market. The **Small Business Administration** and the **National Federation of Independent Business** also can provide a wealth of information regarding all phases of start-ups, in addition to demographic data (students will see that "one thing leads to another" and they will find resources and links of their own when researching). You might also review trade journals and attend trade shows. The purpose of gathering this information is to provide you with a clear picture of where your potential customers live, work, and their income levels. For our example business, would they be able to afford your services? Does it appear that most families have working adults? If so, they might need your services. This data also helps you determine the potential size of your market – an invaluable piece of information when it is time to do your feasibility plan.
 - b. **Competitor information:** Finding out about your competitors will help guide you in making decisions about the types of services you will provide and how you will price them. This information can often be obtained through the **local chamber of commerce**, through

their **advertising**, or through **local government sources**. They may even have a **web site**. The questions you might need answers to, in this example case, are: Who are their customers and why? What can you provide customers that they are not providing? How much are they charging?

- c. **Other interesting “nuggets”**: You can use the internet and article databases to learn other interesting information impacting your business be it about your customers, competitors, or market trends.

2. What are your customers' likes and dislikes? Now that you have some basic demographic data about your target market, it's time to dig a little deeper for information. You can obtain information about customer likes and dislikes from some secondary data sources. However, to get the focused information specific to your business you will likely need to gather primary data.

- o **Best way to uncover: Primary data** is information that you gather yourself. Try to slip into the mind of a potential customer. What services would help him or her? The most common methods of obtaining this information are through focus groups, surveys, and interviews.
 - a. **Focus groups** can be helpful because you get information from larger numbers of people in a shorter amount of time. You can gather friends or strangers to ask their opinions of your potential product or service. Because this group process takes a certain amount of facilitating skill, you might wish to use this technique at a later time to refine your offerings.
 - b. **Surveys** are also often helpful, but take valuable time and considerable preparation time in order to get the information you actually need.
 - c. **Interviews** are the usually the best way to gather primary data for small start-up businesses because you are usually able to gather better and more in-depth information about your target market and their needs. In addition, you are making valuable contacts and getting “face-time” with potential customers.

Doggie Services Example - For our example, some possible sources for interviews might be:

- Talk to dog owners (stop and ask people who are walking their dogs, ask neighbors, etc.).
- Visit your local veterinarians.
- Go to dog shows and talk to breeders and owners (dog owners love talking

about their pets).

- Ask what frustrates them about being dog owners, and what services they would pay for. Also ask if they know of anyone who currently provides these services.

- **Up-to-date market trends** - One final way of finding more out about your potential customers is to figure out “where they’re at and where they’re going.” This is accomplished by stepping back and taking a look at the “big picture” of our society. Successful business people know what is happening in the marketplace today, and are adept at foreseeing future market trends. How do they do this? They watch the news, read popular and business magazines, and talk, talk, talk, to other people about their interests, their lives, and work. Sure, it would be easy to check a few internet sites and make a quick market assessment. But, the best way to accurately assess a market is with a **combination of primary and secondary research**.

Doggie Services Example - For our example business, let’s look at 2 market trends that might define or have an effect on our target market:

- **Baby boomers** will hit peak spending years between 1992 and 2010 (many can afford our services). Their time is valuable as many have long commutes and long working hours (less time with their pets).
- **Older adults/Elderly people** appreciate the companionship offered by animals but may have problems driving them to appointments.

- **Takeaway:** Evaluating and re-evaluating market trends is a continuing process that will help you define your target market as well as refine your service or product offerings.

3. Where are they? Because of the research you have done so far, you should have a fairly clear vision of who your market is and what they would buy. It is now time to realistically determine your market area. This, of course, will depend on your goals, resources, and time available.

- **Parameters – good move for small business.** For many small business start-ups, it is a wise move to set geographic or demographic parameters so you are able to focus your efforts at getting the business going.

Doggie Services Example: For our example business, you might decide to concentrate your market efforts on housing developments or apartments and housing for the elderly. This would lower your travel time between customers (thus increasing your potential profits) and could increase your visibility to other customers. As your business grows, you could expand your customer base and geographic areas, but this also means that you might need to hire additional staff.

4. How are you different? The previous steps have provided you with the basic skills you will need to conduct an environmental scan for your own business. The keys to your marketing plan should be an accurate assessment of your customer's needs and a determination of how your business differs from your competitors.

- **Customer Needs:** At the very least, you must meet a customer need. If you are the only company that is able to meet these needs – you have a competitive differentiator. If you do not, you must meet the basic need and keep exploring the topic of competitive differentiation. At a very basic level, does your product or service:
 - Save time?
 - Save money?
 - Ease anxiety or create more life enjoyment?

Doggie Services Example: In the case of our example business, saving time and easing anxiety are important factors that would appeal to potential customers.

- **Competitive Differentiation / Competitive Advantage** - If you are starting a business that has no competitors, you are truly lucky! In most cases, however, there will already be businesses offering some type of product or service similar to yours. How you differentiate your business offerings from those of your competitors is an ongoing issue; that is, even when your business is growing and expanding, you must always be aware of what your competitors are doing.
- **Thinking about your business** – In the Mind Mapping exercise you developed a “competitive advantage” as part of your pitch. Think about that now. The role of research would be to make sure no other companies have that same competitive advantage. Bottom line: Why might a potential customer would choose your product or service over those of another business?

Doggie Services and Mind Mapping Examples: Think about the Doggie Services our entrepreneurial team wanted to start. What is their competitive advantage? An established loyal customer base? Even that could be taken away by another competitor. (Note: Think about the “threats” section of SWOT chart). What if we were starting from scratch? Maybe it would be that as a dog owner yourself, you may have the ability to get along with animals of all kinds. Or perhaps you worked part-time at a veterinarian's office or kennel. Or, you may have special dog training skills. You may, therefore, wish to focus on personalized, professional customer service – meeting each individual's dog owner's needs.

Mind Mapping Exercise - “From scratch”...That is the situation we were in for the Mind

Mapping exercise...a brand new idea with no history. We “invented” competitive advantages of a partnership with the World Veterinary Association and with a manufacturer.

- **Competitors are not flawless** – Remember that competitors have faults too. Don't use competitor weakness as an excuse to not develop a competitive advantage, but, realize that flaws do exist – and that you might be able to do the same thing they do, only better.

5. Pricing - Evaluating how you will be compensated for your product or service is integral to market planning. Determining what kind of image you want to have – such as bargain pricing, or exclusiveness, or highest quality, or convenience – will have an effect on all of your start-up efforts.

- **Cost considerations** - Pricing of products must take into account your costs of manufacturing or wholesale purchase, advertising, start-up costs, and overhead expenses (including your pay!).
- **Customer considerations** - Looking at what competitors charge and talking to potential customers about what they might be willing to pay would be good starting points.

Doggie Services Example - For our example business, we are offering a service that meets customer's needs of saving time and easing anxiety. Because you are providing a quality service, that is personalized – and that is the image you are focusing on – you might consider pricing slightly above your competitor's prices. This presents your business as a professional establishment interested in expert care for the owner's dogs.

6. When Should You Start Your Business? - Timing is an issue for some start-up businesses.

- **Planning ahead is key** - For example, if you were offering a holiday season item for sale, you would probably not want to start your business in February! As part of your planning process, you will need to assess whether there are certain times of the year that would be more advantageous for you to begin offering your product or service. As you can see from our discussion and in other modules, there is a great deal of advanced planning involved with starting a business. Laying out a timeline ahead of time can be helpful.

Doggie Services Example - For our example business, find out what are the busiest months for groomers. You could offer transportation services for dogs, and supply delivery, during these peak times.

- **Summary:**

- **Market research = critical component** - Market research is a critical component to the planning and operation of a business.
 - **Business owners. Knowing market = success** - Business owners who know their market are more successful. Market research helps owners to “mitigate” or lessen risk as well uncover market opportunities. Students will do research around each of their business ideas to help bring their business into reality.
 - **Get out there, talk to people, start reading** – Market research can be done informally each day if you know what you're looking for. Now that you have picked a hypothetical business to start, be on the lookout for articles, conversations, websites, and other information sources that might be relevant to your business.
- **HOMEWORK:** 2-6. Market Research for My Business Idea.

Weighing risks of starting a small business.

The following risk categories are based on the “Potential Drawbacks of Entrepreneurship” section of the book by: Zimmerer, Thomas W. & Scarborough, Norman M. Essentials of Entrepreneurship and Small Business Management, Prentice Hall: 2005, p.7.)

- **Intro** – There are many benefits to starting your own business, such as ability to be your own boss and control your own destiny, ability to be rewarded with profits from the business, ability to give back to the community, and many others. It is also important to recognize some of the risks in starting a business.
- **Review and reflect** – Let's discuss some common risks, and also talk about solutions. Next, you will write down some of your own thoughts on risks.
 - **Uncertain income** – When you work for someone, it is the employer's job to make sure you are paid. When you work for yourself, you are that person! Making the jump from employee to employer can be hard.
 - Tip: Many entrepreneurs take measures to reduce expenses while they are starting their business; for instance: Living at home, working first for someone else and saving money, bartering or “trading” for supplies or needed services.
 - **Risk of losing investment** – Recent research tells us that 35% of new businesses will fail within two years, and 54% shut down within four years. (Source: NFIB Small Policy Guide, National Federation of Independent Businesses, Washington, DC, 2003, p.16).

- Tip: Many entrepreneurs try to lower their risk of failure by doing things proven to help businesses succeed. This includes business planning (of which market research is a part).
- **Long hours and hard work** – Burning the midnight oil is typical for entrepreneurs in the early stages. Entrepreneurs have the drive and determination to make their business succeed, and this can often translate into many late nights and weekends.
 - Tip: While there is no substitute for hard work, most smart entrepreneurs try to set up their businesses in a way that allows them to create support systems as the business progresses. *"When I started my consulting firm, I did everything. I would go to a client site, then come back and have to prepare invoices late into the night,"* says Kathy Korman Frey, founder of Vision Forward (www.VisionForward.com). *"After about 2 years in business, I thought 'This has got to be easier'! When high speed internet access became more popular, I was able to create a great support structure comprised of experienced professional moms who helped me part time from their homes. I call them 'The Hot Mommas' and they allow me to work less and enjoy life more. We now use this model for all types of workers including top-performing college students."*
- **Lower quality of life in early years of business** – Owning a business can run detract from an entrepreneur's family and social life. Part of the reason for this, according to a 2002 Dun & Bradstreet Report, is that half of all entrepreneurs start their businesses around the time they are also starting families (ages 25 to 39). (Source: *Dun & Bradstreet 21st Annual Small Survey Summary Report*, 2002, p.35)
 - Tip: Entrepreneurs work hard and play hard. They learn to work smart, plan carefully, and make the most of the time they have with their family and friends. Many entrepreneurs try not to "bring the business home with them" and give their full attention to friends and family outside of the office.
- **High levels of stress** – The National Federation of Independent Business notes, "Starting and building your first company can come with increasing amounts of stress. The stress level will be directly related to many aspects of your life -- personal relationships, your marriage, your spouse's comfort level with you leaving the corporate world, starting a business or pulling money out of your savings that was intended to be a nest egg for home remodeling." (Source: Sapp, Jim. "Prepare for Stress". NFIB Website, 2004: http://www.nfib.com/object/IO_16726.html).
- Tip: Entrepreneurs are often a high-strung bunch and have to seek out ways to relax, and keep their relationships intact. Young Entrepreneurs' Organization (www.YEO.org) helps entrepreneurs support one another through the support of their peers. They include families in events to help the entrepreneurs in their quest for a balanced life. At a recent "YEO University" in Dubai, United Arab Emirates, featured a meditation exercise to help entrepreneurs learn to relax.

- **Complete responsibility** – As mentioned earlier, when you are an employee it means someone is a level or two above shouldering some of the business responsibility. When you are the employer, you shoulder that responsibility. “It's great to be the boss, but many entrepreneurs find that they must make decisions on issues about which they are not really knowledgeable,” notes Norman Scarborough in his book Essentials of Entrepreneurship and Small Business Management. The National Federation of Independent Businesses found that 34 percent of business owners have no one person to turn to for help when making a critical business decision. (Source: Dennis, William J. “National Small Business Poll,” Volume 2, Issue 5, NFIB Foundation Series, 2002, p.1).
 - Tip: “My mentor and advisor network is critical,” notes Josh Frey, Founder of On Sale Promos (www.OnSalePromos.com). “When I started my first business, Granny's Goodies, I did it all on my own with my brother. We did not have the business experience we needed, and wound up ‘winging it’ a lot. In my current business, I operate differently. I get out there and meet with advisors and mentors on a regular basis so I am getting experienced opinions and support. I feel a lot less isolated as a leader, and I believe that it truly makes me more successful.”
- **Discouragement** – If there is no one to help you make decisions, there is surely no one there to help give you a pep talk. There are many obstacles from which the entrepreneur needs to bounce back.
 - Tip: “Successful entrepreneurs know that every business encounters rough spots along the way, and they wade through difficult times with lots of hard work and an abundant reserve of optimism,” notes Norman Scarborough, author and professor. (Source: Zimmerer, Thomas W. & Scarborough, Norman M. Essentials of Entrepreneurship and Small Business Management, Prentice Hall: 2005, p.7.)
 - **EXERCISE:** 2-7. Weighing My Risks in Starting a Business.
- **Summary:** In this module we have begun to lay the foundation for a business, and a business plan:
 - Turning an idea into a business reality – Mind Mapping and tools for capturing our creativity.
 - The importance of market research – The Doggie Services role play and why knowing our market is critical.
 - How to market research – SWOT Charts, Questions we should answer in defining our market, and primary as well as secondary research.
 - Weighing risks in starting a business – If I have an idea, and I have information to support its success, how can I think about, weigh, and begin to overcome the obstacles for starting a business?
- **Thinking ahead** – In the next module we will explore business planning, interacting with agencies, and overcoming business obstacles. Thinking ahead, look up the term “Business Planning” on a search engine.
 - **EXERCISE:** 2-8. Basics of Business Planning.