Abonar Newsletter

SIX FUNDAMENTAL AREAS OF NEW VENTURE FAILURE

1. THE FAILURE TO INNOVATE
2. THE FAILURE TO CREATE VALUE
3. THE FAILURE TO PERSIST OVER TIME
4. THE FAILURE TO MAINTAIN ECONOMIC SCARCITY
5. THE FAILURE TO PREVENT THE APPROPRIATION OF CREATED VALUE
6. THE FAILURE TO MAINTAIN FLEXIBILITY

Entrepreneurship

How To Knowledgeably Assess Your New Or Ongoing Business

It seems like a great idea doesn't it? Starting your own business and having the freedom to do your own thing. As a business owner you are your own boss, you can tell others what to do, and you can make it rich. Simple, right? But anyone who has ever failed in business will tell you that it's not that simple. The idea was great but there was no market. There were too many competitors. The margins were too low. Not enough sales. There are endless factors that can contribute to failure of a business. So how do you make a knowledgeable decision on whether your venture is worth investing in or not?

Unfortunately, there is never a guarantee that your business will be successful. However, we do have a methodology that can allow you to make an educated business decision before investing in your new project. There is a general framework that every entrepreneur/business should follow when pursuing a new business idea, evaluating a current organization, or when making an investment decision. It is called the New Venture Template.

You always have to question yourself. Is this a real business? Can you keep it? Can you do it? The New Venture Template, developed by Ronald K. Mitchell, is a systematic approach that can be used to evaluate any business venture and answer these simple, yet complicated questions.

We have found that this template can serve as a powerful tool when evaluating a new business idea or improving an existing venture. It allows you to view the business from the eyes of venture capitalists or other financiers such as banks and private investors. It is a guideline that can help you answer critical questions and identify opportunities and gaps in your business idea or existing venture.

Mitchell states that there are six fundamental areas that need to be addressed to evaluate new ventures as well as ongoing businesses. The first three areas address market issues that answer the question, "Is it a business." The remaining three categories address competitive issues that answer the question, "Can you keep it?", in other words, "Is it sustainable?" Mitchell also provides questions to address the question, "Can you do it?"

Mitchell identifies six fundamental areas of new venture failures:

1. The failure to Innovate
2. The failure to Create Value
3. The failure to Persist over time
4. The failure to Maintain Economic Scarcity
5. The failure to Prevent the Appropriation of Created Value
6. The failure to Maintain Flexibility

There are a series of questions under each fundamental area which allows an entrepreneur/manager to decide whether or not to proceed with the venture.

"We have found that this template can serve as a powerful tool when evaluating a new business idea or improving an existing venture."

"It allows you to view the business from the eyes of venture capitalists or other financiers such as banks and private investors."

"It is a guideline that can help you answer critical questions and identify opportunities and gaps in your business idea or existing venture."

A) Is it a business?

1. Innovation (Is It Innovative?)

In order to address whether your business idea or current venture is innovative, you must answer two sub-questions.

Is it a new combination?

A new combination occurs when a new entrepreneurial discovery is found. There are two categories of entrepreneurial discovery (Scientific & Circumstantial). Scientific discovery occurs when something is invented and applied in a new and valuable way. Circumstantial discovery occurs when something of economic value is revealed.

As the following table illustrates how new combinations may vary in the level of innovation present.

Low	If the discovery is not new to the marketplace
Medium	If the discovery provides a definite improvement
High	If the discovery is a real breakthrough

If the level is low, it means that your business idea or current venture is not a new combination and therefore not innovative. At this point, you should not continue with your start-up venture or current business until a higher level of new combination is found. If the level is high, then your answer to "Is it a new combination?" is yes and you continue to the next question.

Is there a product-market match?

A product-market match occurs simply when your business is able to sell its product/service to a buyer, which we also call finding a purchase order. If you cannot find a purchase order, you do not have a business.

Low	If there are no purchase orders
Medium	If there are some orders or sales currently exist
High	If there large quantities of orders

If the product-market match level is low, then you should not go on with your start-up venture. If you have an ongoing business, and your product-market match level is low, you must assess whether you really have a viable business and consider re-orienting your efforts. If you don't want to re-orient, and want to build a better business venture, then begin to find a better product-market match. If the level is high you continue onto the next question.

2. Value (Does it create value?)

Three questions decipher whether your business idea or current venture creates value.

Is there net buyer benefit (NBB)?

Simply stated, the net buyer benefit is the difference between the value that the customer sees in your product/service and the price you want to charge.

Low	If you are forced to reduce prices in order to sell your product/service
Medium	If your product/service price remains stable
High	If you are able to increase prices without a reduction in demand

If the net buyer benefit is low, then you should not go on with your start-up venture. If the NBB is low for your existing business then you must try to differentiate your product/service to raise its value to customers. If the level is high then go onto the next question.

Are there margins?

Margins determine the value produced for your business. It is the money your business earns as profit once all expenses are accounted for.

Low	If your margins are lower than industry averages
Medium	If your margins are in line with industry averages
High	If your margins are higher than industry averages

If your margins are too low, then you should not go on with your start-up venture; unless you can justify this issue with high volume sales. If margins are low for your existing business then you must immediately address this issue by lowering costs. If your margins are high then go onto the next question. It is useful to relate margins to volume (see below) for a complete analysis.

Is Volume Sufficient

Volume is a critical component of value. It reflects the expected amount of sales your product/service can generate. Sufficient volume will depend on the size of margins. Therefore it is useful to compare volume to margins when evaluating this category.

Low	If the expected volume is too low to achieve profit targets
Medium	If the expected volume is sufficient to achieve profit targets
High	If the expected volume is more than sufficient to achieve profit targets

If the volume is low, then you should not go on with your start-up venture. If the volume is low for your existing business, then you must either find a way to sufficiently increase margins or increase demand for your product/service. If the level is high then go onto the next question.

3. Persistence (Is it persistent over time?)

There are three questions that allow you to distinguish whether your venture is persistent over time.

Is it repetitive?

You may have a very valuable product or service but it is only valuable to your business if you are able to sell that product/service over and over again.

Low	If the purchase of your product/service is rare or unpredictable
Medium	If your product/service is purchased occasionally or slightly predictable
High	If the purchase of your product/service is frequent or predictable

If the purchase pattern of your product/service is low then you should not go on with your venture. If the purchase pattern is low for your existing business then you must find ways of increasing the purchase frequency of your product/service. If the purchase pattern is frequent or predictable proceed to the next question.

Is there a long-term need?

For your venture to be successful there must be a long term need for your product/service. It is obvious that your venture will not survive if what you are offering is not needed after some point in time. It is very important for entrepreneurs to be aware of their product/service life cycle. The cycle consists of four stages: Product Introduction, Growth, Maturity, and Decline. Once you determine what stage your product/service is at then you have to analyze how long it will take to get through the life cycle. This will allow you to assess the long-term need for your product/service.

Low	If your product/service is a fad
Medium	If your product/service has a medium term need
High	If your product/service is expected to have long term needs

If the long-term need is low then you should not go on with your venture; unless you are prepared to replace your product/service with something else once demand runs out. If the long-term need is low for your existing business then you must acknowledge that your product/service is a fad and plan for something else in the long-term. If the long-term need is high then go onto the next question.

Are resources sufficient to Sustain the Venture?

Up to this point in the assessment of your venture, if you have answered yes to all of the preceding questions it means you have a venture that is innovative, valuable, repetitive, and has a long-term need. So now it is necessary to assess whether you have sufficient resources to support your venture. Without sufficient resources, i.e., capital, raw materials, labour, etc., you will not be able to operate your business for long.

Low	If resources are too hard get or non-existent

IS THERE NET BUYER BENEFIT (NBB)?

"Simply stated, the net buyer benefit is the difference between the value that the customer sees in your product/service and the price you want to charge."

"If the net buyer benefit is low, then you should not go on with your start-up venture. If the NBB is low for your existing business then you must try to differentiate your product/service to raise its value to customers. If the level is high then go onto the next question."

Medium	If there are a small number of resources
High	If resources are abundant

If the level of resources is low, then you should not go on with your venture. If the level is low for your existing business then you are in danger of halting operations. If the level is high proceed to the next question.

B) Can You Keep It?

4. Scarcity (Can it preserve scarcity)

Is it non-imitable?

How easily are competitors able to "copy" your product/service? What value do you add to your product/service that makes it harder for others to imitate? These are important questions you must ask yourself when analyzing whether your product/service is non-imitable. Competitors may be able to offer essentially the same product/service that you are offering, but there are still ways to differentiate yourself from your competitors. A distinct brand name, reputation for product/service quality, and first movers advantage are among many things that can differentiate you from competitors. That's what makes you non-imitable. Take a look at West Jet airlines. This company was founded in 1996 and has quickly become one of the top airlines that customers prefer to fly with. They were able to differentiate themselves by offering low cost fares and providing fun, quirky in-flight experiences for customers. Although competitors began to offer low cost fares as well, they were unable to imitate West Jet's customer service and did not have first mover's advantage in the low-cost segment. West Jet is able to preserve its scarcity because it has developed a strong brand name and a reputation for high quality, fun, and quirky service.

The main point behind this category is to understand the importance of scarcity and be aware that there are ways to make your product/service unique and differentiate yourself from competitors.

Low	If your product/service is easy to imitate and non-differentiable from competitors
Medium	If your product/service is somewhat differentiable from competitors
High	If your product/service is difficult to imitate and differentiable from competitors

If the level is low then you should not go on with your new venture. If the level is low for your existing business, you need find new ways to differentiate yourself; especially through changes in product/service quality. If your level is high, move on to the next question.

It is non-substitutable?

Substitute products are similar to imitators, however, substitute products/ services do things in a different way. For example, Triumph Motorcycles may try to imitate Harley Davidson, but a car is a substitute for a Harley.

Low	There are substitutes that directly reduce product/ service demand
Medium	There are substitutes that indirectly reduce product/service demand
High	There are no substitutes

If the level is low then you should not go on with your venture. If the level is low for your existing business, you have to start finding ways to reduce this effect. If your level is high continue to the next question.

5. Non-Appropriability (Is it appropriable?)

Appropriation is defined as the act of taking something for one's own use, typically without the owner's permission. When a venture is projected to be very profitable there are those who will attempt to appropriate the profits of the venture. Two questions answer whether your venture is appropriable or not.

Is there no slack? (waste & inefficiency)

Slack occurs when profits are reduced due to certain actions of players in the vertical supplier-customer chain. For example, when suppliers are inefficient (mismanagement, high wastage) then your profits shrink due to higher costs. An effective way to combat slack is through strategic structuring of incentives.

Low	There is a significant amount of waste and inefficiency
Medium	There is some waste and inefficiency
High	There is little or no waste and inefficiency

If the level is low, then you should not go on with your venture. If the level is low for your existing business, you should try to re-structure your incentives to reduce slack. If your level is high continue to the next question.

Is there no holdup?

Holdup refers to the bargaining power of buyers and suppliers. If the bargaining power of suppliers/buyers is high, then there is a holdup. If the number of suppliers in your industry is low, then the supplier may have a lot of bargaining power. For example, if a supplier wants to increase the price of products delivered to you, they can hold you up because you don't have many other options.

Low	Bargaining power is high for suppliers/buyers
Medium	Bargaining power is medium for suppliers/ buyers
High	Bargaining power is low or non-existent for suppliers/buyers

If the level is low then you should not go on with your venture, unless you can reduce hold-up through negotiation, contracts, or posturing methods.. If the level is low for your existing business, then you should try the above methods as well. If your level is high proceed to the next question.

6. Flexibility (Is it flexible?)

Things don't always go as planned. Which is why it's important to build flexibility into your business plan so you can be prepared to handle unforeseen situations. There are two questions that answer "Is it flexible?"

Is Uncertainty Minimized?

Uncertainty in business is knowing that a certain event will eventually occur but you're not sure when. For example, in customer service we know that every so often a customer will complain but we're not sure exactly which one or when. When we know that a certain event may occur, we are able to manage that risk and minimize uncertainty.

Low	Steps have not been taken to manage risk (i.e. insurance, tax planning)
Medium	Some steps have been taken to manage risk
High	All expected risks are being managed

Uncertainty in business can somehow be planned for. So, if the level is low for your new venture or existing business, then you should begin managing your risk. It is important to keep in mind that you need to set aside cash to pay for risk management. If your expected risks are being adequately managed then proceed to the next question.

Is Ambiguity Reduced?

Ambiguity in a venture refers to not knowing future events. So how do you plan for future events that are unknown? Unfortunately, its almost impossible to deal with ambiguity in a venture. However, simply trying to reduce it separates ventures that last from those that fail. When trying to reduce ambiguity it means that you are thinking at a higher level. You're looking at more than daily operations, you are thinking about competitors, industry changes, and any outside factors that can influence your business.

Low	There is no long term planning
Medium	Some long-term planning
High	There is long-term planning directly related to the venture

C) Can You Do It?

If you have reached this point, it means that your venture is both a business and sustainable ("You can keep it"). However, before you actually proceed with your venture, you must ask yourself one more question, "Can you do it." You might have a great idea/plan,

but it can be very difficult to put your idea/plan into action.

What is your level of core competence?

Your core competence is what you specialize in or in simple terms what you're good at doing. In this case it refers to you and/or your teams experience. Have you and your team members managed a venture in the past? Are you and your team members experienced in this industry? Are you missing team resources that would help your venture succeed? These are important questions to consider to adequately evaluate you and/or your team's capability to successfully carry out your venture.

Low	Team members are in-experienced in managing ventures and are not specialized in this field
Medium	Team members have some experience in managing ventures and some specialization in this field
High	If team members are very experienced in managing ventures and have specialization unique to this field

The New Venture Template is a powerful tool that can be used to support the viability of your business venture. If used adequately, it can help you avoid risks and be better prepared for your new venture or existing business. However, answering the above questions can be very difficult without adequate market research and business experience. If you need help assessing your existing business or new venture, please contact Abonar Business Consultants Ltd. for more information.

ABONAR BUSINESS CONSULTANTS LTD.

We offer innovative and customized solutions to enhance organizational and business performance. We work together with our clients to turn ideas into successful business practices.

Sean McAlpine
(306) 291-3241
sean.mcalpine@abonarconsultants.com

Nav Khinda
(780) 862-0282
nav.khinda@abonarconsultants.com

Scott Kopelchuk
(306) 290-2174
scott.kopelchuk@abonarconsultants.com

Mailing Address
3110 8th St. E. Unit 8B-376
Saskatoon, Saskatchewan
S7H 0W2