Launching a Lean Venture in Connecticut

Seventh Edition

Entrepreneurship Foundation, Inc.
Launching A New Venture In Connecticut:
An Incremental Approach

Edition 7.0

Information in green boxes is specific to your state

Contact: Roer@EntrepreneurshipFoundation.org
# Table of Contents

The Startup Checklist .................................................................................................................. 6
   A. PERSONAL GOALS ............................................................................................................... 7
   B. COMPANY GOALS ............................................................................................................ 8

1 – Lean Startup Method ........................................................................................................... 9
   A. BUSINESS MODELING .................................................................................................. 10
   B. LESSONS LEARNED .................................................................................................... 11
   C. INCREMENTAL LAUNCH STRATEGY ............................................................................. 12

2 – Concept Development ......................................................................................................... 13
   A. IDEATION ..................................................................................................................... 14
   B. PATENT SEARCH ......................................................................................................... 16
   C. FEASIBILITY ANALYSIS OF IDEAS .......................................................................... 17
   D. FINAL CONCEPT (PRODUCT, OR SERVICE) ............................................................... 21

3 – Competitive Positioning ..................................................................................................... ERROR! Bookmark not defined.
   A. COMPETITORS ............................................................................................................... ERROR! Bookmark not defined.
   B. COMPARISON OF FEATURES TO COMPETITOR PRODUCTS ..................................... ERROR! Bookmark not defined.
   C. PORTER’S FIVE FORCES OF COMPETITIVE POSITION ANALYSIS ..................... ERROR! Bookmark not defined.
   D. TARGET MARKET NICHE ............................................................................................ ERROR! Bookmark not defined.
   E. SIZE OF TARGET MARKET ........................................................................................ ERROR! Bookmark not defined.
   F. COMPETITIVE STRATEGY ............................................................................................ ERROR! Bookmark not defined.
   G. BARRIERS TO ENTRY .................................................................................................... ERROR! Bookmark not defined.

4 – Business Model Canvas ..................................................................................................... Error! Bookmark not defined.
   A. LEAN BUSINESS MODEL CANVAS ............................................................................. Error! Bookmark not defined.
   B. TEMPORARY TEAM FORMATION ................................................................................ Error! Bookmark not defined.
   C. PROJECT MANAGEMENT (TEAM COLLABORATION) ................................................ Error! Bookmark not defined.
   D. SURVEY CUSTOMERS TO VERIFY ASSUMPTIONS .................................................... Error! Bookmark not defined.
   E. VALIDATE DEMAND (THE LANDING PAGE) ................................................................. Error! Bookmark not defined.
   F. PIVOT RECORD ............................................................................................................. Error! Bookmark not defined.

5 – Designing the Product or Service ..................................................................................... Error! Bookmark not defined.
   A. MINIMUM VIABLE PRODUCT OR SERVICE ............................................................... Error! Bookmark not defined.
   B. PHYSICAL PRODUCT PROTOTYPING ...................................................................... Error! Bookmark not defined.
   C. RESOURCES FOR PRODUCT PROTOTYPING AND MANUFACTURING .................. Error! Bookmark not defined.
   D. ELECTRONIC PRODUCT PROTOYPING ..................................................................... Error! Bookmark not defined.
   E. SOFTWARE AND MOBILE APP RAPID PROTOTYPING ......................................... Error! Bookmark not defined.
   F. SOFTWARE AND MOBILE APP FINAL DEVELOPMENT .......................................... Error! Bookmark not defined.
   G. TESTING THE PRODUCT OR SERVICE ....................................................................... Error! Bookmark not defined.

6 – Insurance ............................................................................................................................ Error! Bookmark not defined.
   A. TYPES OF BUSINESS INSURANCE ............................................................................. Error! Bookmark not defined.
   B. TYPICAL BUSINESS INSURANCE RATES AND COVERAGES .................................. Error! Bookmark not defined.

7 – Location .............................................................................................................................. Error! Bookmark not defined.
   A. SOURCING PHYSICAL LOCATIONS .............................................................................. Error! Bookmark not defined.
   B. COMPARISON OF LOCATIONS .................................................................................... Error! Bookmark not defined.

8 – Pricing the Product or Service .......................................................................................... Error! Bookmark not defined.
   A. PRODUCT COSTING ...................................................................................................... Error! Bookmark not defined.
   B. SHIPPING AND HANDLING COSTS ............................................................................ Error! Bookmark not defined.
   C. PRICING A PRODUCT THAT YOU MANUFACTURE .................................................. Error! Bookmark not defined.
   D. PRICING MULTIPLE PRODUCTS FOR RESALE ......................................................... Error! Bookmark not defined.
9 – Budgeting and Accounting
A. PERSONAL EXPENSE BUDGET ........................................... ERROR! BOOKMARK NOT DEFINED.
B. BUSINESS BUDGETTING AND ACCOUNTING .................. ERROR! BOOKMARK NOT DEFINED.

10 – Management
A. BUILDING THE MANAGEMENT TEAM ........................... ERROR! BOOKMARK NOT DEFINED.
B. INCENTIVIZING THE MANAGEMENT TEAM ................. ERROR! BOOKMARK NOT DEFINED.
C. ADVISORY COMMITTEE (NON-PAID MEMBERS OF THE TEAM) ERROR! BOOKMARK NOT DEFINED.
D. SELECTING AN ATTORNEY .......................................... ERROR! BOOKMARK NOT DEFINED.

11 – Brand Image
A. COMPANY NAME ............................................................ ERROR! BOOKMARK NOT DEFINED.
B. LOGO ............................................................................... ERROR! BOOKMARK NOT DEFINED.
C. PACKAGING ....................................................................... ERROR! BOOKMARK NOT DEFINED.
D. LABELING ......................................................................... ERROR! BOOKMARK NOT DEFINED.
E. PHONE NUMBER .............................................................. ERROR! BOOKMARK NOT DEFINED.
F. EMAIL ADDRESS ............................................................... ERROR! BOOKMARK NOT DEFINED.
G. BUSINESS CARDS ............................................................. ERROR! BOOKMARK NOT DEFINED.

12 – Website
A. SELECTING A DOMAIN NAME AND HOSTING SERVICE ERROR! BOOKMARK NOT DEFINED.
B. WEBSITE EVALUATION ..................................................... ERROR! BOOKMARK NOT DEFINED.
C. SEARCH ENGINE OPTIMIZATION (SEO) ......................... ERROR! BOOKMARK NOT DEFINED.
D. CREDIT CARD PROCESSING SERVICES ............................ ERROR! BOOKMARK NOT DEFINED.
E. ADDING A PAYMENT LINK TO A WEBSITE ...................... ERROR! BOOKMARK NOT DEFINED.

13 – Marketing
A. MARKETING AND SALES STRATEGY ............................... ERROR! BOOKMARK NOT DEFINED.
B. CREDIT AND COLLECTIONS POLICIES AND PROCEDURES .... ERROR! BOOKMARK NOT DEFINED.
C. POSTERS FOR TRADE SHOWS AND POP-UP VENUES .......... ERROR! BOOKMARK NOT DEFINED.
D. FLYERS AND BROCHURES ............................................... ERROR! BOOKMARK NOT DEFINED.
E. PAID WEB ADVERTISING (BUYING ADWORDS) ............... ERROR! BOOKMARK NOT DEFINED.
F. FREE WEB ADVERTISING (LOCAL SEARCH DIRECTORIES) .. ERROR! BOOKMARK NOT DEFINED.
G. BUILDING A SOCIAL MEDIA PRESENCE ......................... ERROR! BOOKMARK NOT DEFINED.
H. UTILIZING SOCIAL MEDIA INFLUENCERS ...................... ERROR! BOOKMARK NOT DEFINED.
I. MARKETING VIDEOS .......................................................... ERROR! BOOKMARK NOT DEFINED.
J. EMAIL MARKETING ............................................................ ERROR! BOOKMARK NOT DEFINED.
K. NETWORKING TO GENERATE LEADS ............................... ERROR! BOOKMARK NOT DEFINED.

14 – Production and Distribution: Supply Chain Management
A. PRODUCING GOODS AND BRINGING THEM INTO INVENTORY ERROR! BOOKMARK NOT DEFINED.
B. IMPORTING GOODS INTO INVENTORY ............................... ERROR! BOOKMARK NOT DEFINED.
C. DISTRIBUTION: PROCESSING ORDERS AND DELIVERING GOODS FROM INVENTORY ERROR! BOOKMARK NOT DEFINED.

15 – Protecting Intellectual Property
A. TRADEMARKS ................................................................. ERROR! BOOKMARK NOT DEFINED.
B. PATENTS ........................................................................... ERROR! BOOKMARK NOT DEFINED.
C. TRADE SECRETS ............................................................. ERROR! BOOKMARK NOT DEFINED.
D. COPYRIGHTS ................................................................. ERROR! BOOKMARK NOT DEFINED.

16 – Legal and Regulatory Matters
A. ALTERNATIVE LEGAL STRUCTURES ................................. ERROR! BOOKMARK NOT DEFINED.
B. SELECTING THE RIGHT STRUCTURE FOR YOUR BUSINESS ERROR! BOOKMARK NOT DEFINED.
C. NAICS CODE ..................................................................... ERROR! BOOKMARK NOT DEFINED.
D. FEIN NUMBER .................................................................... ERROR! BOOKMARK NOT DEFINED.
Startup Checklist

The Startup Checklist

Launching a new business can seem a daunting challenge. This text divides the process into manageable steps: Just click on a step to go to the applicable how-to section.

PHASE 1 - Conceive, validate, and package a winning business concept

1. □ Conceptualize ideas for a business
2. □ Conduct a Patent Search of products to make sure you have the right to make them
3. □ Conduct a Feasibility Analysis to narrow ideas to one and assess strengths and weaknesses
4. □ Recruit co-founders to build out a comprehensive team
5. □ Survey customers to verify market demand
6. □ Draft a Business Model Canvas as a tentative business plan
7. □ Design a Minimum Viable Product or Service to conduct market testing
8. □ Analyze Competition and position company within the competitive landscape
9. □ Select location for the business
10. □ Compute product price and the sales volume necessary to Break-Even
11. □ Create a pitch for investors or potential customers

PHASE 2 - Prepare to launch business

12. □ Choose legal structure
13. □ Determine NAICS code and obtain FEIN number
14. □ Protect intellectual property with patent, trademark and/or copyright as appropriate
15. □ Select name and build brand image
16. □ Formulate marketing plan
17. □ Create Website to establish presence in marketplace
18. □ Build Minimum Viable Product or Service
19. □ Conduct trial launches in temporary physical locations or on temporary landing pages

PHASE 3 - Launch business, generate revenue, and plan for growth (independent study course)

20. □ File legal documents to establish business
21. □ Open commercial bank account
22. □ Prepare Marketing Video
23. □ Determine how product/service will be produced and delivered
24. □ Launch on crowdfunding site
25. □ Conduct Marketing Campaign
26. □ Commence Production
27. □ Purchase Insurance as required
28. □ Retain talent as needed
29. □ Prepare budget
30. □ Prepare pitch to potential capital providers
A. PERSONAL GOALS

Your business will a part of your life; along with family, hobbies, sports, travel and learning. How much time do you want to allocate to each? If you plan to start a highly competitive business with ambitious goals, you can pretty much scratch off everything else on the previous list; at least until can afford to hire others to help.

Is owning a business an end-goal or perceived as the means to an end. If your goal in starting a business is to get rich, you will probably be better off buying lottery tickets. Granted, you could become the next Steve Jobs, but you have as much chance, mathematically, of becoming a rock star in business as becoming a rock star in music.

Being an entrepreneur is a career choice; a lifestyle. You gain more control over your life and time; but will work harder and longer, and for probably less pay. (An entrepreneur has the toughest boss.) But there are upsides besides independence. You have the chance to provide a living for others and to become a respected leader in your community; and to use your hard-earned profits to make the world a better place.

DO YOU WANT TO OWN A PERSONAL BUSINESS OR A VENTURE ENTERPRISE? WHICH OF THE FOLLOWING BEST DESCRIBES YOUR VISION?

<table>
<thead>
<tr>
<th>ASPECT OF BUSINESS</th>
<th>PERSONAL BUSINESS</th>
<th>VENTURE ENTERPRISE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business is Scalable (average product cost declines as volume increases)</td>
<td>No (e.g. – If it takes 3 people to roof one house, it takes 6 to roof 2 houses)</td>
<td>Yes (e.g.– software or music. The original may cost $100,000 to create; but the second is only $.50)</td>
</tr>
<tr>
<td>Annual Sales Potential</td>
<td>$100,000 to $500,000</td>
<td>$50,000,000 (amount necessary to attract investors)</td>
</tr>
<tr>
<td>Geographic Range of Market</td>
<td>Neighborhood or Town</td>
<td>State, country or world</td>
</tr>
<tr>
<td>Capital needed to launch</td>
<td>$5000 to $500,000</td>
<td>$50,000 to $250,000</td>
</tr>
<tr>
<td>Typical Sources of Startup Capital</td>
<td>Savings, credit cards, family</td>
<td>Savings, credit cards, family</td>
</tr>
<tr>
<td>Growth Capital Needed (once profitable business model discovered)</td>
<td>None. Can usually bootstrap (re-investing profits)</td>
<td>$1,000,000 to $20,000,000</td>
</tr>
<tr>
<td>Sources of Growth Capital</td>
<td>Business profits</td>
<td>Angel investors and venture capitalists</td>
</tr>
<tr>
<td>Management Structure</td>
<td>Horizontal (everyone works for you)</td>
<td>Hierarchical (every 5 employees has a boss; and every 5 bosses has a boss, etc.)</td>
</tr>
</tbody>
</table>
B. COMPANY GOALS

BY THE HALFWAY POINT IN THE COURSE

BY END OF COURSE

IN SIX MONTHS

IN ONE YEAR

IN 5 YEARS

The Entrepreneurship Foundation administers a Connecticut business proposal competition. For details, see http://www.entrepreneurshipfoundation.org/competition.html

“Creative Quotient + Passion Quotient > Intelligence Quotient” -- Tom Friedman
1– Lean Startup Method

A. Business Modeling

B. Lessons Learned

C. Incremental Launch Strategy

The LEAN STARTUP METHOD was developed by Eric Ries, based on lean manufacturing methods. It is designed to rapidly discover if a proposed business idea is viable.

This is accomplished through pre-launch market research and then testing limited versions of the product or service with customers to determine which (if any) product features and benefits are most important to buyers.

The Lean Method will save a new company significant time and money to discover and perfect a profitable and sustainable business concept.

Click on the link below for a 9-minute explanation of the key elements of the Lean Startup Method.

VIDEOLINK  The Lean Startup.
https://www.youtube.com/watch?v=QaoVWtLX038
A. BUSINESS MODELING

The new approach to startup entrepreneurship

Unlike many venerable disciplines, the art and science of Entrepreneurship continues to evolve and adapt to an ever changing business and economic environment. With the advent of the information age, it has become easier to start a new business. Software products and mobile apps do not require capital-intensive factories or long lead-times to market; and with the explosive growth of 3-D printing, many physical products can be prototyped and market-tested at prices affordable to even startup entrepreneurs.

A recent refinement within entrepreneurship curricula that is gaining broad acceptance is BUSINESS MODELING. The premise being that traditional business planning is not suited to new ventures. Formal business plans and pro forma financials presume the new venture must immediately support the founder on a full-time permanent basis (a legacy from large-company planning). But for a startup ...

- Long-range financial forecasts are largely discounted by investors. According to John Seiffer, former president of the Angel Investor Forum, "It is not an efficient use of time and energy to prepare elaborate 20-page pro formas on untested concepts."

- A new business concept is really a set of unproven hypotheses. Typically, these include: demand per price point, production costs, feasible distribution channels, cost for post-purchase customer service, production lead times, repeat sales rates, customer retention, and preferred features.

Champions of business modeling Bob Dorf (Columbia), Steve Blank (Stanford) and Thomas Eisenmann (Harvard) assert that startups need a plan to FIND a sustainable business model. Nathan Furr, a contributing writer to Forbes, differentiates the two approaches this way: “In a business plan, you are trying to plan, inside the building, the optimal solution that you can execute. In a business model process you recognize that everything is a guess that has to be tested, outside the building, with the goal of learning” what will work.¹

According to Eisenmann, “Most startups fail—usually due to lack of customer demand, not product development problems. These new ventures burn through their capital, wasting money on engineering and marketing before discovering they have built a product no one wants.” These new ventures fail not because the innovation did not work; but because the founders did not appreciate the market’s ability or willingness to adopt it.

“Startups are more likely to succeed when they rapidly and iteratively test assumptions about a new venture’s business model based on customer feedback, then quickly refine promising concepts and ruthlessly cull the flops. New ventures that follow this approach are lean startups, derived from Toyota’s management philosophy: short production cycles to reduce inventory and eliminate waste. Lean startups similarly rely on short product development cycles to eliminate waste and gain rapid market feedback.”

TRADITIONAL BUSINESS PLAN. But once you do arrive at a sustainable business model, you will need a comprehensive business plan to to secure growth financing. Still, as serial investor David Rose warns: “A real business plan is never done.” Tim Perry refers to the continuing updating process as PRRR: Plan, Run the plan, Review the plan based on results and customer feedback, and Revise as needed.²

² The Startup Checklist, David Rose, p. 33
B. LESSONS LEARNED

Successful entrepreneurs have arrived at a number of conclusions regarding the fine art of launching a new venture.

1. THE SCIENTIFIC METHOD APPLIES TO ENTREPRENEURSHIP, suggesting...
   - The need for well-structured experiments to confirm or disprove hypotheses about business model elements.\(^3\)
   - The need for metrics to gauge whether hypotheses have been validated, (e.g., click-through rates.)\(^4\)
   - The advisability of initially building a minimum viable product (MVP).

2. THREE HEADS ARE BETTER THAN ONE. Based on the experience of business accelerators, teams composed of diverse skills are more successful than solopreneurs.

3. ANGEL AND BANK FINANCING ARE NOT REALISTIC FOR PURE STARTUPS.
   - Investors will not risk their money on ventures without a proven revenue and profit model to achieve the financial goals. The time to pitch investors is after a successful business model has been established.
   - More realistically, the initial capital to test your concept will probably come from personal savings, friends and family, and crowdfunding.
   - However, entrepreneurs should avoid large investments in marketing and infrastructure until business model hypotheses are validated.

4. LAUNCHING A BUSINESS IS A NON-LINEAR PROCESS. As entrepreneurs work through one aspect of the business model (for example, optimal product price), in searching for a sustainable business model, an entrepreneur may have to go back periodically and revise budgets, production plans, distribution channels, or even the product itself.

5. NDAS (NON-DISCLOSURE AGREEMENTS ARE NOT ALWAYS OBTAINABLE). If your product is not patented, you may want to ask for a Non-Disclosure Agreement (NDA) before discussing details with a prospective employee, supplier, or financier. A boilerplate form appears in the appendices. However, it is a rare investor who will sign an NDA. Their concern is the same as film studios that do not accept unsolicited (“over the transom”) screenplays. The producer will return the scripts unopened because they may have a very similar film already in production. The producers assume, probably rightly, that the writer would not believe it was just a coincidence, and so the studio will have to spend time and money in court to defend itself against charges of plagiarism. Investors assume the same Russian roulette. If they sign enough NDAs, eventually they will agree not to disclose an idea they have already invested in, and that is about to be released into the market.

   The culture of most collaborative forums (Startup Weekends and entrepreneurship classes, to name two) is to operate on an open basis, assuming everyone will honor each other’s confidential information. As business modeling guru Steve Blank points out, discussing an idea openly in his Stanford University class risks intellectual property theft, but the upside is lots of feedback. He does not use NDAs in his class.

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\(^3\) The Lean Startup, Crown Publishing Group, 2011
\(^4\) http://www.forentrepreneurs.com/lessons-learnt-viral-marketing/
C. INCREMENTAL LAUNCH STRATEGY

The strategy recommended in this text is to establish a new business in stages, with each milestone achieved confirming the assumptions necessary to advance to the next.

START SMALL. Bootstrap the business with what you can save or borrow comfortably. If your dream is a restaurant, start with a food cart, second-hand. Consider what you can start while still a student. (Your personal overhead will never be this low.)

GROW ORGANICALLY. Use the proceeds from your first sales to buy the materials for your second round of sales. You may be able to gradually increase the volume of purchasing and production to grow without ever having to raise outside capital.

LAUNCH LEAN. If you do need outside investment, raise only the amount of capital required at each stage, rather than raising in advance the entire amount necessary to take an idea to profitability. Successfully mastering each stage before raising funds for the next will allow you to negotiate more favorable financing terms.

This incremental approach reduces risk. The process of launching a startup is divided into capitalization *tranches*, corresponding to the stages of development of the business. The incremental approach allows the entrepreneur or investor the opportunity to withdraw from the venture at an interim stage if expected results are not attained. For example, an investor might agree to provide a total of $250,000 to bring a new idea into the market, provided interim milestones are achieved. Initially, the investor might provide $25,000 to apply for a patent, but if the patent is not received, the investor would then not be obligated to provide the balance of the capital.

TYPICAL LAUNCH STAGES

STAGE 1: Advance the idea on paper—without financing—to the furtherest extent possible.

STAGE 2: Save your own money in a business savings account in order to build, bench test, and market test a minimum viable product, performing as much of the work yourself to conserve capital.

STAGE 3: Raise seed capital from crowd sources to launch business on a part-time basis. (Don’t quit the day job just yet.) Once you can live comfortably off the profits from the business, give the boss two weeks notice.

STAGE 4: Raise growth capital from an angel, VC or bank once the business proves itself as a long-term source of increasing revenue.

“The goal of an entrepreneur is to find a repeatable and scalable model.” – Steve Blank

“Fail fast; Succeed sooner” – Peter Drucker
If you do not yet have an idea for a product or business, start by investigating a market in which you have an interest. It might be a sport you follow like auto racing (one innovator developed a product to filter out carbon monoxide from the air drivers breathe); a hobby like drone photography, a career pursuit such as financial management or programming, or a social need.

What is the state of the industry? Who is successful now and why? What is missing? What problem persists? Which customer segment is still not been adequately served?

All successful companies start with identifying a problem, and then brainstorming and testing possible solutions until they discover a sustainable business model.
A. IDEATION

Conceiving winning products and services.

TYPES OF INNOVATION.

Solving Problems. Jane Porter, writing in *Entrepreneur* magazine, asks, “What bugs you?” then, “Do something about it!”

Many new solutions in turn create new problems (entrepreneurs see these as opportunities). For example, better interstate roads in the 1950s solved one problem: long delivery times for goods shipped by truck. The Interstate system also enticed more people to vacation to distant locations by automobile. This created a shortage of affordable places to eat and rest along the way, ushering in the motel (motor hotel) industry.

What problems or opportunities have been created by recent technological advances?

An example of an innovation that created a new problem is the mobile phone. The problem was the cost and inconvenience of having to replace one if dropped. What was the solution that thousands of entrepreneurs created?

Improving Existing Products or Services by making them...

- Cheaper (Model T Ford),
- Faster (McDonald’s hamburgers, Amazon delivery),
- Better (Starbucks coffee, Google search),
- Customized or personalized (American Girl dolls)

What successful businesses can you think of that did not invent the concept, but rather improved upon an existing one?

Bringing new efficiencies to mature industries. Find a business category lacking recent innovations.

Combining two products to make something new. Steve Wozniak wired a TV screen to a digital computer to invent the PC.

Finding Untapped Market Niches. Major corporations target a new product or service to the largest buying demographic. However, one size does not typically fit all consumers. Is there a need for a left-handed version, foreign-language version, disposable version (Pampers), or an unexploited market niche (SeniorPeopleMeet.com)?
Leapfrogging. What opportunities will emerging technologies create when they become commonplace. It may be foolhardy to compete with Google and Tesla in the self-driving car realm; but perhaps you can predict a spin-off opportunity. For example, we might send our car on errands to pick up cleaning or dinner; and stop at the ATM. But how, exactly, would this work?

KEEP IT REAL: Place-based businesses (restaurants, retail stores, gyms) may require $150,000 or more; and raising money from a bank or investors for a startup is not realistic. So pick something that you can fund now, or open a bank account in the name of the business and set aside $50 a week, $1000 per month, or whatever you can afford. And do not touch this money. It’s for your future.

BRAINSTORMING IDEAS: Here are a couple of links to sites that will get your creative juices flowing: http://www.entrepreneur.com/businessideas, http://www.Kickstarter.com

1. **SWOT.** Due an analysis of your Strengths, Weaknesses, Opportunities, and Threats. What are you good at doing? It’s probably what you like to do, what gets you up in the morning.

2. **Greenlighting.** Jot down ideas as quickly as they come to you. Then go back over the list and narrow to a manageable number to research. Think about innovation during down time: while driving, in the shower.

3. **Talk to consumers about what they feel is missing or needs improvement.** Do not worry about someone stealing your idea. Ideas do not matter; only developing, validating and executing matter.

4. **Seek insights from suppliers and service providers to your industry.** If you are planning a restaurant, talk to the food and beverage distributors; they will know what sells in your area.

5. **Outsighting.** Talk to people outside your industry or area of expertise, to gain fresh insights into solutions to problems.5

6. **Surf media:**
   - Amazon: what are the top nonfiction books (what problems are people trying to solve?)
   - *Wired* magazine (a publication that monitors the future)

   **Do not confuse a fad for a lasting trend.** A June 19, 2019, Wall Street Journal headline revealed the sobering reality of getting it wrong: “Sorry, collectors, nobody wants your beanie babies anymore.”

   On the other hand, don't dismiss a lasting trend, thinking it’s just a fad: “It’ll be gone by June.”– Variety Magazine on Rock n’ Roll, 1955.

   “There is a worldwide market for maybe five computers.” – Thomas Watson, IBM, 1943.

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Concept Development

B. PATENT SEARCH

If your idea is a product, make sure you have the right to make it (it is not patented). You can conduct a patent search at http://www.google.com/patents or www.USPTO.gov. The Patent office has a video guide on how to search at http://www.uspto.gov/video/cbt/patrsearching/.

Whether or not you should seek a patent is a very different question that you can postpone until you have verified that your idea is feasible and that there is adequate demand. For more information see section on Patents.

Give some thought to your search words and phrases. For example, if you have an idea for a better mousetrap, you would want to search for mouse, mousetrap, mouse capture, mouse eradicator, rodent trap, pest control, etc.

Enter below the terms you used to search for patents related to your ideas.

PRODUCT IDEA A ________________________________

PRODUCT IDEA B ________________________________

If you don’t find something it could be because...

- YOUR IDEA HAS NOT BEEN PATENTED by anyone else and therefore patentable; unless ...
- THE PRODUCT HAS NOT BEEN PATENTED BECAUSE IT IS “OBVIOUS,” and therefore not patentable.
  The non-obvious requirement is defined by the Patent Office as an invention or improvement that would not have been obvious "to a person having ordinary skill in the art to which the claimed invention pertains." For example, adding an external cursor controller (a mouse) to a computer was not obvious, but adding a battery to a computer to make it portable is an obvious improvement.
- THE IDEA HAS BEEN PATENTED, BUT YOU DID NOT USE THE RIGHT SEARCH TERM TO FIND IT.

HOW TO LOOK FOR SOMETHING YOU HOPE NOT TO FIND. This is probably the hardest thing for an innovator to do. Not finding an existing patent can be extremely expensive in terms of wasted time and capital. Several ways to reduce the chances of missing something in your patent search are:

- Have a disinterested party do the search for you. A patent attorney might charge $500 or more for this service.
- Try every conceivable search terms for your product or service, and their synonyms. For example, for a tic-tac-toe game for mobile phones, try mobile app, mobile application, mobile game, phone game, electronic games, tic-tac-toe, tic tac toe, and “noughts and crosses” (an early name for the game).

IF YOU DO FIND A PRIOR PATENT, Share the first page of your search results with your professor or a patent attorney. Your product may still be—or with some modification, could be—different enough from the original to not violate the existing patent. For example, if you search for a better mousetrap, you will find that thousands of patents have already been issued for mousetraps. So just because a mousetrap has been patented does not mean there isn’t room for your better mousetrap.

26,400 hits for “Mouse trap”

EVALUATION GUANTLET. At each stage, advance, pivot (modify the product or plan), or go back to square 1

1-IDEATION  2-PATENT SEARCH  3-FEASIBILITY ANALYSIS  4-MARKET VALIDATION  5-MVP TEST  LAUNCH
### C. FEASIBILITY ANALYSIS OF IDEAS

Evaluating your ideas to identify the one most likely to succeed.

Complete a feasibility analysis for each idea. Verify assumptions through research and discussion with other entrepreneurs and advisers. Total the score for each idea and enter on the Summary page at end of this section.

#### A. Industry and Competition (Variables affecting potential success of concept)

<table>
<thead>
<tr>
<th></th>
<th>+1</th>
<th>0</th>
<th>-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Growth rate of market:</strong> companies in industry are typically...</td>
<td>Stable or growing slowly. Busy, but no lines at registers.</td>
<td>Mature or declining. Advertising copy reveals desperation.</td>
</tr>
<tr>
<td></td>
<td>...New and adding employees (check help wanted ads).</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The Risk Management Association publishes financial data on over 700 industries. Ask if your library has the RMA Annual Statement Studies.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td><strong>Dependency on suppliers</strong></td>
<td>Few suppliers, but prices have been stable for years.</td>
<td>Only a few suppliers who set prices (e.g.- DeBeers diamonds)</td>
</tr>
<tr>
<td></td>
<td>Many alternative suppliers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td><strong>Competition in market niche</strong></td>
<td>A few small competitors, and most are new</td>
<td>Market crowded and some competitors have deep pockets</td>
</tr>
<tr>
<td></td>
<td>No direct competitors.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td><strong>Industry profitability</strong></td>
<td>Adequate to live on and repay a loan for startup costs.</td>
<td>Many similar businesses available for purchase.</td>
</tr>
<tr>
<td></td>
<td>PERSONAL BUSINESSES</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Adequate to live on and repay a loan for startup costs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><em>See <a href="http://www.bizbuysell.com">www.bizbuysell.com</a> for offering prices for businesses like the one you want to start.</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>VENTURE ENTERPRISES</td>
<td>Industry profits are a few percentage points above prime rate</td>
<td>Industry profits are at or near Consumer Price Index</td>
</tr>
<tr>
<td></td>
<td>Net profit of at least 10%; and adequate to repay investors 10 times in 5 years</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### B. Market Niche

<table>
<thead>
<tr>
<th></th>
<th><strong>Annual sales potential</strong></th>
<th><strong>Market trend (Total sales within industry year over year)</strong></th>
<th><strong>Purchase frequency. Do customers tend to make repeat purchases (as in banking, gyms, food products)?</strong></th>
<th><strong>Customer pain intensity</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PERSONAL BUSINESSES</td>
<td>$ 1,000,000</td>
<td>You sell blades that fit only your razor. Customers buy monthly.</td>
<td>Customers feel real pain or solution is a must-have: <em>Food</em></td>
</tr>
<tr>
<td></td>
<td>VENTURE ENTERPRISES</td>
<td>$ 100,000,000</td>
<td>Customers buy quarterly but not necessarily with you.</td>
<td>Customers desire the product: <em>Ice cream</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$ 50,000,000</td>
<td>Your product lasts a year or longer (when was last time you bought a hammer?).</td>
<td>Customers are ambivalent: <em>Banana</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$ 250,000</td>
<td>Stagnant. Item is passé; or anyone who wanted one has one</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$10,000,000</td>
<td>Demand has settled down but market still growing by 1% to 5% annually</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>A hot new trend</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td>You sell blades that fit only your razor. Customers buy monthly.</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td>Demand has settled down but market still growing by 1% to 5% annually</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>A hot new trend</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td>You sell blades that fit only your razor. Customers buy monthly.</td>
<td></td>
</tr>
</tbody>
</table>
### Concept Development

#### C. Customers (Likelihood they'll adopt new idea)

<table>
<thead>
<tr>
<th></th>
<th>+1</th>
<th>0</th>
<th>-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Customer Inertia. IF A NEW SOLUTION, to what degree will customers have to change practices or habits to adopt?</strong></td>
<td>Little or no change to habits necessary.</td>
<td>Substantial change in habits necessary for customers to try idea.</td>
</tr>
<tr>
<td></td>
<td>IF AN IMPROVED VERSION OF EXISTING PRODUCT, how willing are people in target market to adopt new ideas and solutions?</td>
<td>Customers are early adopters, tech savvy, unafraid or eager to try new ideas.</td>
<td>Customers tend to show brand loyalty, are risk averse, or tied to old ways.</td>
</tr>
<tr>
<td>2</td>
<td><strong>Customer satisfaction with current solutions and alternatives</strong></td>
<td>Desperate for a better solution.</td>
<td>Content with current solutions.</td>
</tr>
<tr>
<td>4</td>
<td><strong>Customer budget for product category</strong></td>
<td>High.</td>
<td>Low</td>
</tr>
<tr>
<td>4</td>
<td><strong>Customer bargaining power relative to yours (Walmart tells you price they will pay)</strong></td>
<td>Enough potential customers that you will only have to sell 1% or fewer to reach goal.</td>
<td>You will have to sell 5% of customer base to reach goal.</td>
</tr>
</tbody>
</table>

#### D. Concept

<table>
<thead>
<tr>
<th></th>
<th>+1</th>
<th>0</th>
<th>-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Stage of Development</strong> (degree to which technology risk has been mitigated)**</td>
<td>Product or service has been tested with beta customers.</td>
<td>Concept is a new, untested idea</td>
</tr>
<tr>
<td></td>
<td><strong>Degree of improvement of new idea over existing products or services</strong></td>
<td>Market disruptor; earth shaking improvement.</td>
<td>Equal to, but different from current solutions.</td>
</tr>
<tr>
<td>3</td>
<td><strong>Your can erect “barriers” to keep other companies from copying your concept (protection of Intellectual Property)</strong></td>
<td>Patentable or you have an exclusive Contract.</td>
<td>No way to protect your idea.</td>
</tr>
<tr>
<td>4</td>
<td><strong>Scale advantage. Is each successive product or service cheaper to produce and deliver?</strong></td>
<td>Cost of each additional product is lower than first (e.g.-software).</td>
<td>No. Each product costs as much as the one before (e.g.-kitchen remodeling).</td>
</tr>
</tbody>
</table>
## Concept Development

### E. Costs

<table>
<thead>
<tr>
<th></th>
<th>+1</th>
<th>0</th>
<th>-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Startup cost:</strong> the amount of capital required to launch business</td>
<td>Well within your personal budget. No need to raise capital.</td>
<td>Significant amount, but loan payments manageable – even if business fails</td>
</tr>
<tr>
<td></td>
<td>FOR PERSONAL BUSINESS</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>FOR VENTURE ENTERPRISE</td>
<td>$ 10,000 or less</td>
<td>$ 25,000</td>
</tr>
<tr>
<td></td>
<td>$ 250,000</td>
<td>$ 500,000</td>
<td>$ 1,000,000</td>
</tr>
<tr>
<td>2</td>
<td><strong>Space costs</strong></td>
<td>Can work out of your home.</td>
<td>Only need small office or shared space.</td>
</tr>
<tr>
<td>3</td>
<td><strong>Labor cost</strong></td>
<td>Plentiful low-cost talent available.</td>
<td>Moderate cost (e.g. – salespeople).</td>
</tr>
<tr>
<td>4</td>
<td><strong>Advertising cost</strong> <em>(Customer acquisition cost)</em></td>
<td>Free. Only need social media</td>
<td>Affordable; only local advertising needed.</td>
</tr>
</tbody>
</table>

### F. Team (Relevant Skills and Experiences of Founders)

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Team passion for industry</strong></td>
<td>It's why you get up in the morning. Nothing is more important.</td>
<td>This is a deal breaker. If you would not crawl through a desert to make this business a success, pick something else or do not be an entrepreneur.</td>
</tr>
<tr>
<td>2</td>
<td><strong>Skills</strong></td>
<td>Highly skilled in technology or service.</td>
<td>Average skill level.</td>
</tr>
<tr>
<td>3</td>
<td><strong>Experience</strong></td>
<td>Successful management and marketing experience.</td>
<td>Some management or marketing experience.</td>
</tr>
<tr>
<td>4</td>
<td><strong>Industry connections</strong></td>
<td>Well known in industry; strong connections with suppliers and resellers.</td>
<td>Connections with a critical supplier or marketing outlet.</td>
</tr>
</tbody>
</table>
Concept Development

**Summary** (Overall Potential of the Business Idea.) Add up scores from preceding pages. Then brainstorm ways to raise low scores. That is, how might you modify the concept so that it becomes realistically doable? If the idea is just not viable, no problem, just go back to the drawing board. You have not spent a lot of time or any money on the idea.

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>SCORE</th>
<th>WAYS SCORE MIGHT BE IMPROVED</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Industry and Competition</td>
<td>4 max</td>
<td></td>
</tr>
<tr>
<td>B Market Niche</td>
<td>4 max</td>
<td></td>
</tr>
<tr>
<td>C Customers</td>
<td>4 max</td>
<td></td>
</tr>
<tr>
<td>D Concept</td>
<td>4 max</td>
<td></td>
</tr>
<tr>
<td>E Costs</td>
<td>4 max</td>
<td></td>
</tr>
<tr>
<td>F Team</td>
<td>4 max</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL (24 max)</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**D. FINAL CONCEPT (PRODUCT, OR SERVICE)**

*Caution: Do not get married to an idea until you are sure it’s the one.*

<table>
<thead>
<tr>
<th>PROBLEM (Customer pain or desire)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>SOLUTION: product or service (the painkiller)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TARGET MARKET. Who is the intended USER who will benefit from the product? Who is the CUSTOMER (the person who will pay for it)?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PRODUCT OR SERVICE FEATURES, especially innovations that make it unique and competitive. This is usually a zero-sum game; that is, to make a sale, you will have to take a customer away from a competitor. To do this you must offer either: a) lower price, b) better performance, c) greater variety, d) faster delivery, e) more liberal return privileges, f) better customer service, or g) serve a new market niche.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BENEFITS. What are the benefits your product/service provides to the customers in your target market? (Benefits are the answer to “So what?” for every feature you listed above.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>