

Lecture : Creation of a new business- Part I-

Creating a new business is a process. A process that goes well beyond the insightful flash that hits you during your morning shower. However, there is no magic 10-step program that will guarantee you a new successful business. The process is highly stochastic (not all business ideas make it) and iterative (based on what you learn as you proceed, you will likely have to modify your thinking and repeat parts of earlier steps).

At the Samuel Zell & Robert H. Lurie for Entrepreneurial Studies at the University of Michigan, the development of a new venture and its growth as a series of phases can be described as:

- **Phase I: Discovery -- identifying opportunities and shaping them into business concepts;**
- **Phase II: Feasibility analysis and assessment;**
- **Phase III: Creating your business plan;**
- **Phase IV: Launching your business;**
- **Phase V: Growing your business;**
- **Phase VI: Exiting your business -- from succession planning to IPOs.**

While no two companies are exactly alike nor will they likely follow the exact development path, these generic phases describe most new ventures' evolution. In some cases, a phase may be passed through so quickly that one hardly recognizes it as a distinct phase. In other cases one could linger in that same phase for a significant period of time. Either way, the overall framework provides a view of the road ahead before you take the first step.

- Phase 1: Discover

Phase I of the venture formation and development process is all about recognizing opportunities and shaping them into business concepts that have a chance to thrive. While high-potential new venture concepts can be ultimately destroyed through poor business execution, great execution cannot rescue a hopeless concept. Innovative new businesses with high impact potential will generally exploit the changing business environment. These new opportunities are built upon the identification of one or more of the following:

- New or underserved market
- New product or service
- New channels to market

In short, successful new businesses become so by either filling a new or underserved market need or by filling an old one better. The new market needs tend to have their roots in shifting demographics, psychographics, or changing laws. Changes in technology generally alter the means by which markets can be served, but do not create market needs.

For instance, the Internet, beyond creating nearly instant communications, has allowed for the economy of scale of services. Manufacturing has had economy of scale since the industrial revolution -- you can create large centralized facilities to produce your widgets more cost effectively and then distribute them globally -- but services generally had to be local and scaled only linearly.

There are countless examples and virtually endless opportunities. But are these opportunities the foundation for a successful business? A technology may be new and exciting, but does its benefits satisfy a customer need? Other questions that you must derive satisfactory answers to in Phase I include:

- How do you create value for your customer?
- Can you capture any of the value you are creating for your customer? Can you articulate that value proposition? (Fulfilling a market need without compensation is a hobby or non-profit.)
- Is this customer base large enough to sustain a business?
- What is your differentiation? What makes that sustainable?
- Is the business repeatable? Is this an on-going business or an event? (Many fads are really events -- once people buy your pet rock, then what? That does not necessarily mean an unprofitable venture, you just need to be aware from the start that it will be short-lived.)
- What is your business model? Sales and service? Manufacture and distribution? Design and license? Something else?
- Do you fit into any existing supply chain or value chain?
- Is the business scalable? Are you thinking of a niche business whose smallness will ensure its sustainability or are you planning to expand. If you are expanding, what is your path for growth? Generally you want to start with smaller high-margin markets and work up to larger lower-margin markets as you grow.