The Right Product, in the Right Market, at the Right Time

A Three Step Plan for Defining a Sustainable Business Model

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EXECUTIVE OVERVIEW

All entrepreneurs know that a creative idea is the start of any new venture. But the next step may not be as obvious. Many entrepreneurs believe that the business plan must be written immediately.

However, writing a business plan too early—without having a fully developed product or clearly defined customers—will create very little value. Instead, refining the creative idea, verifying the market demand, and defining a business model are all critical to the start-up process.

This white paper outlines a three-step process for defining a viable business model. During the process, you will determine whether your product provides a viable solution to a problem, and then change or refine your ideas to meet market demand. The final step of the process is writing the business plan. By accumulating customer and market information early on, entrepreneurs can avoid wasting significant time, energy, and resources in the future.

STEP 1: NEED IDENTIFICATION AND PRELIMINARY RESEARCH

The biggest risk for a startup is building a product nobody needs, wants, or cares about. In Step 1, you want to quickly identify whether or not you have an idea whose time has come. Instead of spending an enormous amount of time writing a business plan, your effort is better spent observing and interviewing potential users and customers. Look for significant evidence to decide whether you have a problem worth solving.

Asking yourself the following questions will help you concretely define the problem and the solution you plan to offer:

- Can I define a specific problem?
- Can the problem I’ve defined be solved?
The focus here is to learn your market space and decide whether anything needs changing. Don’t be surprised to learn that your solution doesn’t quite fit the problem or that your customer is not who you thought she would be. It is good to discover this information early and refine your idea, if needed.

After you have clearly stated the problem and validated that your solution addresses it, you are ready to conduct preliminary research. Although you are probably excited about your new idea and can’t wait to get it off the ground, you must still evaluate your own capabilities, identify any competitors, and examine your finances. Use the following questions to evaluate your own capabilities and readiness:

- Will the solution significantly improve the customer experience?
- Is this a solution that customers are willing to pay for?

The number one thing was timing. Timing accounted for 42 percent of the difference between success and failure. Team and execution came in second, and the idea, the differentiability of the idea, the uniqueness of the idea, that actually came in third.

Bill Gross
Founder of IdeaLab
TED talk, June 2015

I looked at [200 startups] for the factors that accounted the most for success and failure, and the results really surprised me.

The most critical information you need to gather will involve customer segments. You must be able to identify your most profitable customers—those who will be most likely buy your product or services. Because you are likely to be resource constrained at the launch of a new business, it is best to target your marketing effort on a manageable number of segments comprised of customers or businesses that have common needs and priorities you can serve well. Attempting to be all things to all people usually proves to be costly and ineffective.

**STEP 2: MARKET RESEARCH AND BUSINESS MODEL**

During Step 2, you will determine whether you have a superior product that fits with the market. You will describe the fundamental ways your business model can create a product, deliver it to market, and capture a profitable return.

Research conducted in Step 2 will require greater detail than that collected in Step 1. The most critical information you need to gather will involve customer segments. You must be able to identify your most profitable customers—those who will be most likely buy your product or services. Because you are likely to be resource constrained at the launch of a new business, it is best to target your marketing effort on a manageable number of segments comprised of customers or businesses that have common needs and priorities you can serve well. Attempting to be all things to all people usually proves to be costly and ineffective.

- Do I have the skills to implement my idea?
- Are there resources I can access for help?
- Who—and how many—will use my product?
- Do any other offerings in the marketplace solve the same problem? If yes, can my product do it better?
- How much money will launching the idea require? How much am I willing to invest?

At the end of Step 1, you've determined whether you have a problem/solution fit. You've done your homework and, except for time, you've invested very little. Now you need to decide whether you are willing to take on this venture. Is your entrepreneurial spirit still intact? Do the numbers make sense? Has your preliminary research given you encouragement to go to Step 2?
These questions, and those identified in the flow chart in Appendix A, can guide you through the information gathering:

- Which customer segment do you plan to serve immediately? Which segments will you set aside to be looked at later?
- What customer relationships need to be established?
- What is the cost structure for delivering the solution?
- How will you generate revenue?
- What is the best pricing strategy for each customer segment?
- What partnerships—outside of your company—will be created and maintained?
- What key resources and activities are required to make the business model work?

Answers to these questions and others can be used as a basis for making important decisions. The information you gather will be used later in writing a business plan.

**STEP 3: BUSINESS PLAN**

Your research has given you a deeper understanding of your customers, your competitors, the features of your offering, and your ability to generate revenue and profits. Now, you are you ready to write a business plan.

Many entrepreneurs believe that business plans are written only for bankers and investors who might grant loans to a fledgling enterprise. In truth, business plans provide guidance as you begin executing your idea. If it is well written and periodically updated, your business plan will help you stay true to a defined business model that generates revenue. It provides a road map for growing a profitable business and maintaining a sustainable business model. You can also use your business plan as you begin to search for key employees, prospect for new opportunities, and deal with suppliers.

Business plans are critical to launching a business, but you don’t have to be an MBA student to write a high-quality one. A well-organized business plan should include an executive summary clearly explaining your business model; plans for marketing and operations; and detailed financial analysis. Templates to guide you can be easily found online and at the SCORE website.

**CONCLUSION**

The decision to start a new business requires hard work and a tolerance for risk. Asking tough questions and doing market research up front can help validate whether you have the right idea, for the right market, at the right time—and thereby increase your chances of success.
APPENDIX A

The flow chart below guides you through the three steps of defining your business model by suggesting the questions to ask at each step. The answers you receive will help determine whether you have a viable business idea and provide guidance on how to structure a business model, if you choose to go forward.