

CHAPTER 5

DEVELOPING AND TESTING THE BUSINESS CONCEPT

Author's Note

One of the most critical stages of the entrepreneurial process is the development and testing of a business concept. The concept is tested by means of an analytical tool known as feasibility analysis, which tests the product/service, the customer, the benefits, and the distribution in the marketplace. Once these have been refined, feasibility analysis turns to the issue of financial feasibility, in other words, what the start-up capital requirements are.

If the feasibility study is the means by which we test the concept, then the business plan represents a plan for the execution of that concept via a business organizational structure. Without feasibility analysis, a business plan is merely a work of fiction. To prepare a business plan, you need to know that you have a feasible business. The business plan then looks at the type of business operation that will need to be put into place to successfully execute or carry out the business concept.

Learning Objectives

This chapter will give students an understanding of:

- How to develop a business concept
- The nature of feasibility analysis
- Effective methods for presenting the feasibility analysis to third parties

Supplementary Lecture Material

A New Concept in Travel

What if you could take away the frustration of airports, long lines, and the need to change planes? That's the goal of Vern Raburn, the president and CEO of Eclipse Aviation Corp, which in July of 2002 is expected to launch a new kind of airline travel. His concept? A jet-engine powered cab service, an airline taxi. His plane, the Eclipse 500, seats six, travels at 408 miles per hour, and costs substantially less than a similar capacity Cessna CJ1. Raburn plans to sell thousands of these air-taxis to operators who will fly passengers from point to point. He has identified 5,000 small airports that could handle the planes and a customer willing to purchase the first 1,000 planes. That customer, Nimbus and its CEO Ilia Lekach, has an exciting business plan for an air-taxi service. Yet, it appears that Nimbus has its own problems and, in its 2001 annual report, its auditors questioned the company's ability to continue as a going concern. Nimbus may not be able to make good on its contract, but Rayburn is not concerned because his order book is filled, suggesting that he has already proved the feasibility of his concept. If Rayburn can keep his financial house in order, the first Eclipse will take its inaugural flight late in the summer of 2002.

In his business model, Rayburn positioned Eclipse as the producer in the value chain and saw his primary customers as companies that wanted to create air-taxi services. Still it was important that he understand and prove the pain in the consumer and business markets so that other entrepreneurs

would be encouraged to start the service side of the business. What will determine his ultimate success? Does he have to be concerned about the business models of the taxi services?

Source: Hesh Kestin, "The Plane Truth," *Inc. Magazine*, June 1, 2002. <http://www.eclipseaviation.com/>

Films to Rent

Birth of the Computer

This film examines the work of John von Neumann and the basic theory of computers, moving from theory vs. technical feasibility to a business model.

www.films.com

Item: **BVL2298**

Format: **VHS**

List Price: **\$89.95**

Cases Relevant to This Chapter

Highland Dragon

Roland International Freight Service

Answers to Issues to Consider

1. *Are there instances where a feasibility study is not warranted or can be reduced in scope?*

Any time you are going to spend the time and effort to start a new venture, a feasibility analysis is warranted. It helps you test your idea early before you have expended a large amount of time and capital. It also helps you understand your business better and prepare for contingencies. Preparing also gives you more credibility in the eyes of potential investors and lenders. The scope should probably remain the same, but the depth of analysis will depend on the business and whether your initial findings are sufficiently strong.

2. *Why are the purposes for a feasibility study and a business plan different?*

A feasibility study gives you a way to test a new concept in the marketplace. By contrast, a business plan is a more comprehensive analysis that includes, in addition to the market research, a discussion of the operational and financial management and controls of the new business. The business plan focuses on the execution of the concept and the company.

3. *How can a feasibility study be made more effective as a medium to persuade a potential investor?*

You want to demonstrate that you have answered the key questions from Table 5.3. The report should be structured so that evidence for feasibility is sufficient so as to leave no doubt in the reader's mind that the concept has the potential for market success.

Suggestions for Experiencing Entrepreneurship

1. *Define a concept for a new venture using the four components discussed in the chapter: product/service, customer, benefit, and distribution. Quick test on some potential customers through a focus group, interviews, or a survey. Did you get enough information to feel confident to move forward to a feasibility study? Why or why not?*

Besides doing a quick test on the customer, it would be important to decide if this is something you really want to do and determine if there is a way to make money doing it, in other words, an effective business model.

2. *Using a business concept that you develop, identify the key arguments that will have to be supported in the feasibility study.*

Make sure that students include all the components of a business concept: product/service, customer, benefit, and distribution. Each student's answer will be different depending on his or her concept and what aspects of it require the most defense.