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Insight Solutions Success



How to Recognize a Business Opportunity

Whether you are contemplating a new business or want to re-energize or expand your current one, you need to be able to recognize a business opportunity when you see one. You have probably had visions of one—customers buy things it cost a fraction to produce and you become fabulously wealthy. A business person's dream come true! However, the reality is good business opportunities are hard to find.

Even if you think you have found one, it takes risk, skills and ability, and timing to take advantage of it. Risk attaches itself to any business opportunity. Therefore, objectively analyze the feasibility of your concept. Successful businesses have a product or service people want, at a price they are willing to pay, and it is easy to get. If you offer something you think people want without knowing it, you are risking more than necessary.

Let's say you think an opportunity exists for a new restaurant. There are a number of things you can do to test your assumption. First, find out what is happening in the overall industry. Trade associations, magazines, and current books can give you an idea of current demand. Examples are the trend towards small, highly specialized food establishments (e.g., pretzel, cookie, ethnic, etc.) and mixed-use restaurants (e.g. play areas, movies, games, Internet, etc.).

You can also gain a lot of information through observation. Stay current with local news and business periodicals and gain insights from the perspective of other businesses. You should also gather statistics on consumer behavior for your type of business. For a restaurant, you need to know how often people eat out, how much they spend, common personal or demographic characteristics, and preferences in dining atmosphere or services, etc. From there, you can evaluate your geographic area and see how well competitors are filling those needs.

Once you have gathered information, you can form a hypothesis about supply and demand. A business opportunity could be lurking somewhere between what people want and what they are getting. Find out how they are currently meeting their needs. For our restaurant example, you might find grocery stores have designated a special department or menus of established restaurants have been updated. Your challenge is to find out how well needs are being met and where people go to meet them. If people need something, they will find it. Locating establishments on a map will give you a geographic sense of how far people must travel. If convenience is a significant buying factor, you will be able to identify underserved areas. Once you complete this analysis, you will be in a better position to develop your own competitive strategy.



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How to recognize a Business Opportunity Continued ...

At the heart of your competitive strategy is your distinctive competence. Your distinctive competence is something (e.g. a skill, specialty, level of service, etc.) that sets you apart when compared with competitors. This differentiation and your pricing strategy define your business in the minds of consumers. A sound competitive strategy depends on your knowledge of the customers and their needs, the ways your competitors meet their needs, and the perceived value of the goods and services you offer. It's what separates a business opportunity from a good idea.

It takes money to make money, so that means every business opportunity will have costs associated with it. Take the time and effort to know exactly what resources are required to optimally run the business. Capital expenses include hard assets like equipment and beginning inventory. It may be difficult to find a site designed for your purpose; therefore, you must anticipate costs associated with renovating a space. Be sure not to underestimate your working capital needs. Working capital is used to replenish inventory, pay employee wages, and finance other continuing operating expenses. You will always have a need for working capital because the timing of cash coming into the business does not always match the timing of cash going out. It takes most busi-

nesses a long time to achieve a predictable profit. Be sure you know if you have the financial reserves to cover the costs of start up (or expansion) and operation. If you must leverage your own money with a loan, be prepared to offer sufficient collateral to secure it. A true business opportunity will generate sufficient sales to support the cost and provide a profit.

There are many resources to help you analyze a business opportunity. A good place to start is the Fort Vancouver Regional Library. You can find books on the above-mentioned topics, reference materials, and access to periodicals and the Internet. When you have completed your initial analysis, take advantage of no-cost, confidential business counseling from SCORE or the Washington State University-Small Business Development Center. Counselors will help you evaluate your findings and assist you with the development of your business plan.

This article was written by Janet A. Harte, a Certified Business Advisor with the Vancouver Small Business Development Center, which is part of a network of 25 centers in Washington managed by Washington State University. Advisors provide in-depth, confidential, and no-cost customized advising to businesses on any management issue. To locate your local SBDC advisor please visit the SBDC web site www.wsbdc.org/contact-an-advisor.