<u>**How to evaluate a new business opportunity**</u>

A LOT OF THIS IS COMMON-SENSE THINKING: DON'T OVERTHINK IT

The assessment always starts with the need / pain point / value proposition:

- **The need –** What is the unmet need(s)? *Need to disaggregate the need into its individual value drivers (e.g., a buyer of chemicals: he needs a chemical, but really more specifically what he needs is a quality product, reliable delivery, technical support, responsive customer service, understanding of their business (e.g. empathy) etc.*
    - How acute is the need & why? Why do customers buy (value proposition)?
    - Who is the customer target(s) and specifically who is the purchase decision-maker(s)?
    - Do you need to segment your target customer into sub-groups? You need to do this if your set of target customers vary in their mix of needs and/ or how they make a purchase decision.
        - Furthermore, if you *do* have distinct customer segments, how would you prioritize each in terms of the opportunity each represents to your business?
    - How important is it to understand the needs of the *customers of your customers*?

Everything else flows from the need analysis:

- **Differentiation** – how could you uniquely meet the need?
    - Does it play to your strengths?
    - Are there any "capability gaps" you'd need to fill to meet the need?
- **Sales potential**
    - How big? What are the various customer segments & rank in terms of attractiveness?
    - Put yourself in the head of the buyer(s) / key decision-maker(s) and 'what they think about' – they are thinking about meeting their customer's needs successfully and how you are support that – and not putting it at risk
    - How is the overall market trending?
    - Would you be growing the market or grabbing market share?
- **Competition** – through the lens of the purchase decision-making process
    - How does / do the decision-makers make purchase decisions; value- versus price-orientation
    - How many purchase options does the decision-maker have to choose from?
- **Business economics** – develop a "one customer model" to assess the potential financial viability of the business opportunity you are considering
    - A "one customer model" defines the revenue you expect from an average customer over time, the gross margin for the customer (that is, the profit left over after you subtract the cost of goods sold / variable costs from the customer's revenue) and the customer's acquisition cost.
    - If you subtract the acquisition cost from the gross margin dollars, is there any profit left over? If not, how could you make the customer profitable (i.e., through changes to pricing, by reducing your cost of goods sold, or developing cheaper ways to acquire the customer).
    - Are the assumptions driving the model reasonable "guesstimates"? Do different customer segments have different "one customer model" assumptions and therefore outcomes? Could the customer economics change over time and why/how?
- **Investments required** to make operational, market, sell and support?
    - Return on investment analysis
    - Would you need to raise capital in order to pursue? How much and from where – financing strategy
    - Trade-off view: What is the opportunity cost of your resources, time and risk to your existing customer base (business)?

General risk assessment – brainstorm and then elaborate on the risks

- If it didn’t work out, would this be a ‘company killer’? What’s the worst-case scenario; are pivots viable

Does the opportunity engage you?

- How excited / passionate do you feel about the opportunity?

You can also use this framework to assess new business opportunities totally separate from your current one!