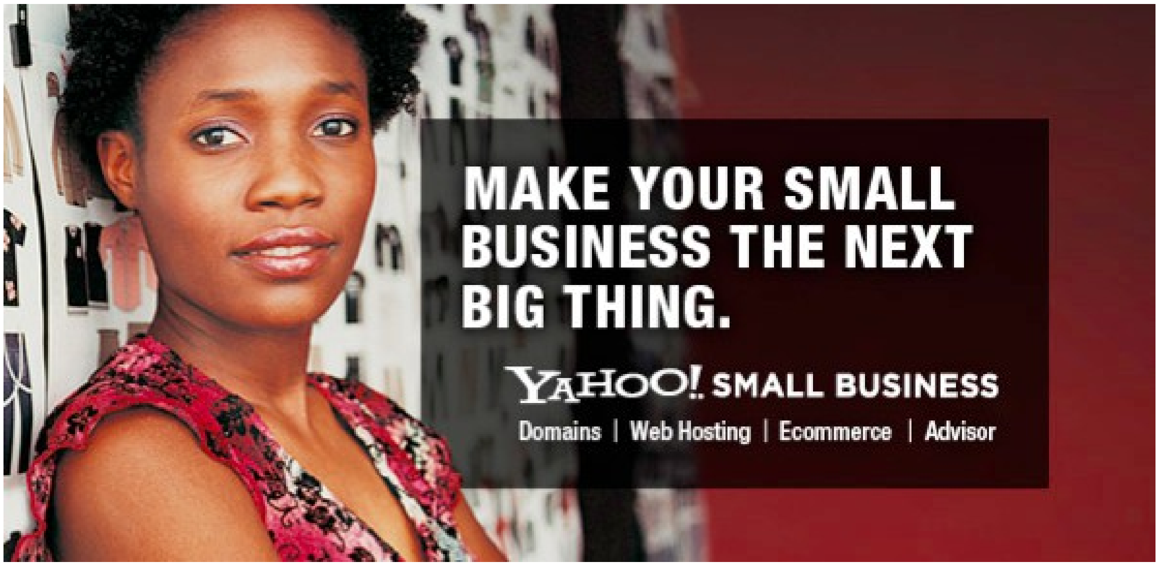
The Yahoo Smart and Simple Guide to Starting a Business: Defining your business concept.



[Part two of a series – The Yahoo Smart and Simple Guide to Starting a Business. Part one is here: Is it time to start up that startup business? and The Yahoo Smart and Simple Guide to Starting a Business: Part 1- Goals, Values and Ideas and Resources for the Yahoo Smart and Simple Guide to Starting a Business: Part 1- Goals, Values and Ideas]

The key to creating a solid foundation for your business is not your idea or even how innovative you are – it is your business concept. This is much more than your idea – it is your idea transformed into practicality – something that will work in the real-world business environment in which you will operate. You can get an introduction to the topic here and also a resource list for further reading here. You can also download a worksheet version of this article with some additional tables and guides for working on your business concept here.

Innovation or increment?

Look at your business idea. Is it an innovation or an increment? Keep that in mind as you go through building your business concept. It is very important in how you approach your market and what you are doing. If it is a true innovation and you have no similar competitors then you can only evaluate your business decisions against the older concepts you are replacing. How can you tell whether it is an innovation or an increment? Well – despite its phenomenal success, the iphone was an increment. There were already smartphones from Blackberry and Microsoft and others. There were even smartphones with touchscreens. But they were expensive and incomplete. Apple made incremental improvements in many places (lots of increments) but it still had a clear set of competitors in its space.

In contrast, Amazon's Kindle was an innovation. It was the first viable e-reader that had a connected ecosystem to supply it with books. No competitors. And despite that the iPhone was a faster and bigger success than the Kindle because it didn't have to build a market in a vacuum from nothing. There are far more startup failures as a percentage in the innovation space than in the increment space. Bear that in mind as you work on your idea and business concept.

The Kindle example highlights the reasons why it is important to understand the difference between innovation and increment in building your business. If you are truly building an innovation startup then you also have to build a market – and build it against a market that everyone 'knows' is the right and better way to do it (in the Kindle's case that would be physical books).

In both cases, however, the first step in creating your business concept is to understand your competitors. Even if your business is innovation, don't say you have none. When the electric light was invented in competed against candles and kerosene lamps. When radio was invented it competed against newspapers and people playing and singing music for themselves.

Defining your business concept around the market

Step 1. List your competitors: the industries, the individual companies, everyone you can think of. If you are a service business – say a local accountant – then your competitors are the other local accountants, online accounting services and software and even the big, global accounting firms. If you are a restaurant your competitors are the other local restaurants AND your potential customer deciding to eat at home.

Local Competitors

National/Global/'Big Brand' competitors

Online Competitors

Other Alternatives that are competitive

Step 2. Analyze your competitors. Research them and look at what they do well and what they do poorly. Find out their financial information if possible. Find out their pricing. Look at how they advertise and market themselves. Look at how successful the closest competitors to you are. If they are not doing all that well you should seriously consider if this is a good business idea or if their failure is an opportunity for you. Think about why you can expect to succeed if they are not. Build all this research into a grid of strong points and weaknesses. You will use this grid to flesh out your concept and help you differentiate yourself. That information in turn will help you position and market yourself and also get loans and funding if you need them.

Competitor	Does well	Does poorly	Financing	Marketing	Pricing	Strong Points	Weaknesses

Step 3. What are you going to do differently from these competitors that will mean you succeed? Look at your analysis and your business idea and find the alignment between your idea and the weaknesses or gaps left by your competitors. Adjust your business idea and plans to match these opportunities and gaps more closely – your goal here is to maximize your business' potential for success.

Define how your business idea addresses the opportunities and weaknesses left by your competitors and rewrite the idea as a business concept that fits with your research above.

Step 4. What are the risks to your business from your competitors. What is to stop them – with an established customer base – from doing what you are going to do and taking your customers? What do THEY do better than you can that will remain an advantage for them and a weakness for you? What about the risks of not challenging your competitors? Are they so dominant that you have to go after them? Remember that being established or bigger does not make them better. For example if you are confident you can provide better customer service no matter what then use that – just think about what it would mean if they in turn raise their game on customer service.

Rewrite your business concept in light of the challenges from your competitors and how you will defend against those or stand out in spite of them.

Defining your concept around your assets

Now that you have an idea of how your concept is going to work and work around external factors in the marketplace, particularly your competitors, it is time to look at the concept in light of your internal factors – your assets and your liabilities.

What do we mean by your assets? Your skills, achievements, property and the funding you can bring to the table. And liabilities? These are things like debts and situational issues that would hold you back and also whatever things you are not prepared to do as part of starting and running your business.

Refining your concept around your personal assets and liabilities

Step 1. Define your personal physical assets. Make a list that includes all the physical assets you can bring to the business – be thorough – it should obviously include property but it can also include property or goods that belong to others that you have access to and could rent or use in some way. It might include supplies that you have used for a hobby that you are transforming into a business or equipment or tools or vehicles that you know you can acquire at a much reduced rate.

Physical Assets

Step 2. Define your personal virtual assets – anything that isn't physical that is useful to the business – anything from college degrees to certifications to courses to abilities. Your network of contacts and connections is a great asset. Your ideas and any intellectual property (something that is patentable or computer code that have written) count in this area. And while we are on the topic – if your idea is clearly patentable then you need to include getting a patent in your planning. Even your 401(k) can be considered an asset – it turns out that in the right circumstances you can withdraw from your 401(k) without penalty for the specific purpose of funding a new business.

Virtual Assets

Step 3. Define your liabilities. These can be harder to quantify but you must try. These can provide valuable clues about how to refine your concept. Financial and physical liabilities are usually clear and can be deal killers. If your house is foreclosed or about to be foreclosed it isn't likely that you are going to have business success until you solve that problem. But virtual liabilities are much harder to define. Clear clues can be found it areas where you have a reluctance to engage and think about how the issue affects your business – this is a clear sign that there is an issue for you that you aren't yet able to define or aren't prepared to face – and often there is a good reason for it. But more importantly, if you can and do face it you may be able to solve it and remove an issue that has been preventing you from getting going.

Liabilities

Now that you have these issues addressed it is time to start assembling your final business concept. You have the information you need about your competitors, your market, the assets you bring to the table and the issues you face. All of these need to be considered against your business ideas to put a final concept for your business together.

