

WHEN IS MY GOOD IDEA A SERVICE BUSINESS?

DISCLAIMER

The Mission of the Business Enterprise Centre is to foster, develop and support small business by providing relevant, accurate and professional information and assistance to those intending to start a small business or those existing small businesses that need support. This information and assistance is offered free of charge on the explicit understanding that::

- ◆ The information supplied is intended to provide general guidance and direction on all aspects of small business.
- ◆ The Centre is not engaged in rendering legal, accounting, financial or other professional advice.
- ◆ The information is not intended to replace professional advice and at all times the Centre, its officers and employees recommend that if legal, accounting or other expert advice is required, clients seek professional advice before committing funds to any business venture.
- ◆ The Centre its officers or employees are not responsible for the results of any action or action taken on the basis of information supplied or omitted.

When is My Good Idea a Service Business?

You only have a business when it is proven that there are enough people in the **place** where you want to do business that will buy your **product** at a **price** that will cover all your overheads, supply you with a realistic return for your efforts and provide enough profit to allow the business to grow.

With effective **promotion**, if your good idea is not capable of doing this, then quite frankly you have a hobby or you still have a good idea.

How Do I Find Out If I Have A Service Business?

Market Research

1. Define very clearly what business you are in (see back cover).
2. Find out how many people have a need for your product (market size).
3. Find out how much they will buy from you (market share).
4. Find out when and where they will buy it.
5. Find out how much they will pay and average unit sale (unit sales).

Marketing Research

1. Find out the best way to tell them about your product (remember when & where).

Costing

1. How much do you need to live? (Drawings - remember tax!)
2. How much will the business cost to run? (Fixed costs)
3. How much will your cost of sales be? (Variable costs)
4. How much will it cost to tell your customers about you?
5. How much do you need to set up & cover the times you won't sell anything? (cash flow - working capital)

Viability

1. How much do you need to sell to cover all your fixed and variable costs and make a profit? (breakeven)
2. Is that the same or less as your market share multiplied by projected unit sales?

What Business Are You In?

Theodore J Levitt is probably the greatest marketing mind of this century.

For many years he was Professor of Marketing at Harvard University. But Levitt was much more a pragmatist than an ivory tower academic. He was a pioneer in examining how the market actually works and what makes people buy.

One of his most challenging ideas is that managers should not think like business people. They should think like customers. To paraphrase his words:

'An organisation has to have a vision which will produce followers in vast numbers. In business, these followers are called customers. The organisation must think of itself not as selling goods or services, but as buying customers. Management must think of itself not as producing products, but as providing customer-creating satisfaction's.

His simple truth is this - customers aren't buying a 1/4 inch drill, they're buying a 1/4 inch hole. Or, as Helena Rubenstein so memorably put it, 'In the factories, we make cosmetics, but in the shops we sell hope'.

Levitt's ideas can teach us a lot, not just about marketing brand name products, but about how any business can optimise its success in the marketplace.

To achieve this, you need to ask yourself the first and most valuable question of business: What business are you in?

The question is so deceptively simple that you can answer it without thinking. That's exactly what most people do - and that's why most of them get it wrong.

Here's an example: What business would you say Nashua is in? Most would say photocopiers. A few might say the marketing of office equipment.

The correct answer is that Nashua is in the office productivity business. Their commodity

is photocopiers, but the benefit people are buying is increased productivity.

Most offices already have a photocopier and probably don't think they need another one. But it would be a rare business which wouldn't be interested in increasing its productivity or its profit.

***THINK OF YOUR BUSINESS
NOT AS A PROCESS,
BUT AS A PROMISE***

Let's try another example: What business is Rupert Murdoch in?

Again the obvious answer would be newspapers, or publishing, or perhaps information services, but Rupert Murdoch knows he's actually in the entertainment business. It's what allows him to run newspaper bingo, page three girls and stories which have turned the Royal Family into the world's most enduring soap opera. Is it news? I doubt it. Is it entertaining? To the British tabloid reader, apparently it is.

Now let's address the most important question of all: What business are you in? In other words, what is the basic human need your product or service fulfils?

Most business people don't know how to define their business from the customer's point of view. They're accustomed to defining it by the work it does rather than the benefit it delivers. The solution is to start thinking of your business not as a process, but as a promise. Put simply, the benefit you deliver defines the business you're in.

I'll use my business as an example. As a process, I'm in the organisational development and training business. But defined as a promise, I'm in the human performance business. I train people to work together to increase the results they achieve.

One way I've found of achieving these results is to have people define their company's

promise and then define their own job as a promise.

One of the best definitions I've ever heard came from a receptionist. Her job description may have been to handle enquires and answer the telephone, but the way she saw it, her job was 'to make everyone's day'. No matter how someone felt when they called, they'd feel better after the experience. By being in the business of 'making everyone's day', she set a standard for the entire office.

When Theodore Levitt asked 'What business are you in?', he may have only been applying it to marketing. But it becomes an even better question when you apply it to your vision for your company and your job. And like all great questions, it deserves a great answer!

Article by John Morgan. John is a trainer and conference speaker. Phone (09) 388 2075

Reproduced, with permission, from Issue 46 of "Business Directions"

MARKET

Who are my customers?

1. _____
2. _____
3. _____
4. _____
5. _____

How many of them are there?

How many will buy from me?

%

=

How much will they buy?

Average Sale

\$

How am I going to tell them what I do?

1.		\$
2.		\$
3.		\$
4.		\$
5.		\$

CALCULATIONS

- (1) Say 45 hours/week x 46 weeks (52 - 4 leave - 2 sick = 46)

EQUALS

**2070 hours
per year**

- (2) Management say 1/2 day/week (4.5 x 46)

EQUALS

200 hours

- (3) Marketing say 1 day/week

EQUALS

370 hours

- (4) Car - How many Kms a week?

*MULTIPLY
BY*

\$0.50c

- (5) How many hours is average sale?

\$

MONEY

How much money do I need to have each week to live?

\$	<i>x 52 weeks per year</i>	\$
----	--------------------------------	----

PLUS:

Allowance for Tax	\$
Rent (Business)	\$
Insurance	\$
Telephone	\$
Power	\$
Car (4)	\$
Loans	\$
Advertising	\$
Equipment etc	\$
	\$
	\$
TOTAL (6)	\$

PRODUCT

How many hours per year? (1) **2070 hours**

LESS..

Management (Office work, planning, getting materials, etc.)
(2) **200 hours**
Marketing (Quotes, talking to clients) (3) **370 hours**

EQUALS..

Productive time (7) **1500 hours**

Money (6)		Time (7)
	<i>DIVIDED BY</i>	

EQUALS HOURLY RATE

\$

Money (6)		Hourly rate
	<i>DIVIDED BY</i>	

EQUALS UNIT SALE (5)

--

	<i>DIVIDED BY</i>	Weeks (1)

	<i>EQUALS</i>	Sales per Week