

Is Your Great Idea A Real Business?

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No matter how often you scrub him, Sam, your 90-pound Golden Retriever, still stinks. Then it hits you: dog cologne! You fire up a Web search and learn that, every year, 50 million U.S. dog owners collectively spend \$43 billion on their pooches. Sam can't be the only smelly one of the bunch; your idea can't miss. You even have a name for it: Furry Fragrances. Or maybe Eau de Puppe.

We've all been there: drinking our morning coffee, reading the business section, washing our dogs, when--Bam!--an idea for a new gizmo or service that's going to change the world comes crashing home. But before you liquidate your 401(k) for startup capital, step back and figure out whether your "great idea" truly translates into a money-making venture.

In Pictures: Six Questions To Determine If Your New Idea Is A Real Business

The first question you should ask: Do you have a compelling value proposition? This point is forever worth repeating: Great ideas are only great business ideas if you can convince people to pay for your product or service at a price above what it costs you to deliver it. Just because you think the world needs new canine cologne doesn't mean anyone else agrees--or if they do, that they would be willing to pay enough to cover your electric bill.

You don't need a 90-page business plan to convey a value proposition. In fact, you should be able to communicate it in a few sentences. If you can't figure out why your product is great, your customers probably can't, either.

Another common mistake that budding entrepreneurs make is "overestimating their originality," says Toby Stuart, a professor of entrepreneurial management at the Harvard Business School. In other words: If you've thought of it, chances are someone else has, too.

Next question: Is there a viable market for your new product or service? Professional investors (like venture capitalists) don't want to write checks to launch companies with limited growth potential, even if they'll likely be profitable. And never count on creating a new market from scratch--chances are there's a reason it doesn't exist.

On the flip side, beware the temptation to grab for a small slice of a massive pie. That \$43 billion in pet supplies may sound juicy, but that doesn't mean the dollars devoted to doggie perfume are large enough to nourish a standalone business. Rather than trying to capture 1% to 2% of a giant global market, startups should aim to capture 25% to 40% of a niche market, advises John De Puy, chief executive of Oaktree Ventures, a San Diego-based venture capital firm. "Define and dominate," he says. "That's the secret sauce."

Before you can dominate, you have to cover your development costs. "Most companies that fail do so because they are lacking capital," says De Puy. The key here is honesty: However much you think you need to bring your product to market, figure in a healthy cushion. Add more for tech-heavy products that may--read: will--need extra months of tweaking. If you can't scare up enough scratch to get out of the garage--no mean feat in the current economic climate--the market may be trying to tell you something.

"You won't really know whether you have a business opportunity until you try to get funding," says Charles Holloway, director of the Center for Entrepreneurial Studies at the Stanford Graduate School of Business.

But don't stop the analysis at the prototype stage. Lasting businesses need a sustainable competitive advantage. What's yours? If it's technology, can you patent it? If it's a commodity item, can you brand it? Sure, you could sell or license your nascent technology and let someone else worry about how to wring profits from it, but is that a bet you want to make?

If you're still convinced you're onto a real business opportunity, ask yourself one last question: How hard are you willing to work? According to the latest data from the Bureau of Labor Statistics, just two-thirds of new businesses make it past the two-year mark, while only 44% last four years--and that's just survival, not success.

Bottom line: If you're not ready to give everything (and then some) to your great idea, it probably won't matter how great Sam smells.