

What is a Business Concept?

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A business concept is a short, simple document that provides a clear summary of a proposed business venture.

A business concept is more than an elevator speech - more analytical, a bit more descriptive - but less than a full business plan.

The components of a business concept may vary, but could include:

Components of a Business Concept
1) Vision Description
2) Generating Revenues
3) Differentiation
4) Basic <i>Pro Forma</i>
5) Funding Required
"More than an elevator speech, less than a business plan."

- 1) Vision Description - like an elevator speech, a concise, compelling description of the proposed venture.
- 2) Generating Revenue - a brief description of how the new venture will generate revenues, focusing on: a) products and/or services offered; b) target customers / customer segments; and c) pricing.
- 3) Differentiation - bullet points on how the venture will be different *and better* than the competition.
- 4) Basic *Pro Forma* - a short *pro forma* that indicates the projected income statement or cash flow performance of the enterprise.
- 5) Funding Required - the funding necessary to launch and then sustain the venture during the period after an investor would commit to supporting the venture.

This resource will provide a few more details on each component of a business concept. Resource 23-05 will offer a simple two-page format for creating business concept packages. Resource 23-06 will provide guidance to develop simple, effective *pro formas*.

Vision Description

Like an elevator speech, **the best vision descriptions are concise** ("giving lots of information clearly and in a few words") **and evocative** ("providing stirring images that provoke an emotional response").

Elements of an effective vision description are:

- 1) what the venture will do;
- 2) the vision driving the venture;
- 3) why targeted customers will prefer the venture to competition;
- 4) how / why the venture will succeed.

Example of a Vision Description: <i>Cajun Coastal Restoration (CCR)</i>
Cajun Coastal Restoration (CCR) will provide technologically-advanced environmental consulting and restoration services that protect Louisiana communities and businesses.
CCR recommendations will be scientifically-advanced, financially-sound and locally-popular.
CCR's homegrown team members will utilize proprietary social media tools as two-way communication networks with the communities they know and love. These tools will enable CCR to: 1) determine dynamic coastal ecosystem conditions; 2) document environmental damage; and 3) develop restoration solutions that local stakeholders will embrace.
Corporate and government clients will use CCR when they want low-cost, high-impact, and shovel-ready solutions to remediate damage to Louisiana's coastal treasures.

The entrepreneur, venture leader or small business owner should be able to express a vision description in 100 words or less, with great conviction ("a firmly-held belief") and enthusiasm ("intense and eager interest; zeal or gusto").

Generating Revenue

Every business concept package should include a description of how the venture will generate revenues.

On a basic level this means the business concept will need to describe what products and services the venture will offer, who the target customers will be, and basic pricing information.

On a more sophisticated level, this section should indicate how the venture will: a) dislodge current competitors to gain business; and/or b) develop revenue streams based on innovation and/or penetrating new market segments.

Differentiation

Remember: differentiation means "different *and better*" when it comes to a new venture. The business concept package must include why your targeted customers will buy from you and not from a competitor.

In fact, the new venture not only has to be better than the competition . . . the new venture must be better than "do nothing" or "do nothing different." The toughest competition of all is the tendency of people and organizations to stick with routine. The business concept must indicate how the venture will change current market dynamics and customer purchasing behavior.

Basic Pro Forma

A business concept package needs to provide the basic income statement / cash flow projections that demonstrate the venture is likely to be financially-sound.

The *pro forma* should start with revenue projections that break down units sold, typical revenues per sale, and sales activity by month / year. These projections must reflect reasonable growth assumptions that the entrepreneur / business leader can defend.

Cost projections must be similarly defensible, based on the level of activity required to operate the venture and "capture" (or attract) new customers.

Finally, the *pro forma* must show a monthly margin big enough to pay debt costs and taxes . . . and provide the entrepreneur enough compensation to attract top talent to lead the venture.

Typical Financial Project (*Pro Forma*) Format

Revenues by service or type of customer

- (number of customers) x (typical purchase)
- anticipated monthly revenues for first two years

Expenses by category

- cost of goods sold
- personnel costs (not including owner compensation)
- facility costs
- marketing / sales ("customer capture") costs
- overhead costs

Monthly Margin for debt interest, taxes, owner pay

See
Resource
23-06

Funding Required

Finally, the business concept package should provide an indication of the initial investment and working capital required to keep the venture growing and solvent during the first months and years.

A business package doesn't have to be exact or comprehensive, but it needs to be compelling. A business concept package must provide the vision of the venture, as well as sound initial justification that will prompt potential investors, team members and customers to want to learn more.