

# BusinessWeek

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## Beyond Eureka

Looking for a great business idea? These five steps will take you from blank slate to booming

By [Amy Barrett](#)

The accepted mythology of entrepreneurship goes something like this: An average guy or gal has a flash of inspiration, funds a startup with credit cards, and eventually achieves runaway financial success. Sound familiar?

We're not going to deny the importance of the "Eureka!" moment. But it's not the only—or even the most successful—way to start a new business. According to Paul Reynolds, a visiting professor at George Mason University, about one-third of entrepreneurs have the desire to strike out on their own before they have a particular business in mind. Reynolds comes to that estimate from his experience as one of the principal investigators of the Panel Study of Entrepreneurial Dynamics, which has observed about 1,700 entrepreneurs over the past decade.

The process of coming up with a great idea for a new business need not be shrouded in mystery. Serial entrepreneurs, in particular, tend to follow a well-thought-out, disciplined process. "You increase your chances of success when you use a well-defined methodology rather than pulling an idea out of the air and running with it," says Danny Warshay, a Brown University adjunct professor and managing director at Providence-based DEW Ventures, a firm that invests in and coaches startups. A 2008 paper by James Fiet, a professor of entrepreneurship at the University of Louisville, found that training MBA students to use a systematic approach dramatically improved the wealth-creating potential of the business ideas they generated.

On the pages that follow, we outline the methodology followed by successful entrepreneurs to find, vet, and develop their ideas. We'll show you how to outline your goals for the business, brainstorm possible concepts, screen opportunities, and test your ideas' viability. Sure, you could wait for a bolt from the blue—but isn't it better to create your own?

### **Step 1: Set The Stage**

**THEORY:** Your first task is to set some parameters for the new business. "You have to be clear about what sandbox you are playing in," says Brown University's Warshay. That means you need to know who will be on your team, what your goals are, and how much money you'll have to reach them.

Start by asking yourself—and your business partner, if you have one—a series of questions. First, will this be a lifestyle business? Or do you want to create a fast-growing enterprise that could eventually go public? Next, if someone on the team has particular skills you want to exploit—maybe you've got a design guru or a tech whiz—you'll want to make sure any business capitalizes on those talents. Then crunch the numbers: How much money can you spend developing the idea, and how long can you go before the business starts to generate income?

**PRACTICE:** In July of 2008, Joanna Robinson was working as a fundraising consultant in Washington when she

decided to start her own business. "I loved the idea of building something from scratch," the 29-year-old Robinson says. "But I didn't have a widget or some product I wanted to produce."

So she got a notebook and started laying the groundwork. First, she wanted to start a business that made use of her marketing expertise and her in-depth knowledge of the young-urban-professional crowd. She also wanted to improve on an existing product rather than attempt to break fresh ground. "It's too hard to create a completely new space in the consumer's mind," Robinson says. She couldn't spend more than \$15,000 to get the business launched or go more than a year without income.

After rejecting ideas for a yoga studio (too many of them in the area) and a gym (too capital-intensive), Robinson settled on Lunar Massage. Lunar offers quick massages—as short as 20 minutes, for \$26—to clients who remain fully clothed. Robinson is the sole employee, and four massage therapists work for her as contractors.

Robinson likes this approach because it requires just 600 square feet, compared to at least twice that for a spa with changing booths and private rooms. And she's targeting consumers she understands. "I know this culture of twentysomethings who come to D.C. after college," Robinson says. "They work hard and don't make much money. But they often come from money, so they've been exposed [to massage services] before." Six months after opening, Robinson can see that she's made some smart choices: She says she has a lot of repeat customers, and Lunar broke even in its first month.

### **Step 2: Let the Ideas Fly**

**THEORY:** Some call it idea generation, others brainstorming, still others ideation. Regardless of the name, it's the long-term process of coming up with lots of ideas—one of which will eventually become your business.

First, figure out where you have real knowledge and expertise. This is what leads to useful insight on unmet needs or opportunities, says University of Louisville's Fiet. That might mean industries you've worked in, technologies you know very well, or hobbies that you're serious about. Of course there will be great ideas beyond those realms, but, warns Fiet, "You aren't qualified to find them."

Then become an anthropologist within those areas. Look at your own life, the lives of customers in fields where you've worked, friends, colleagues, and fellow hobbyists. Observe how they operate, what problems they face, and what trade-offs they make. Look for unmet needs or problems you can solve.

Karl Ulrich, entrepreneurship professor at the University of Pennsylvania's Wharton School, suggests you ask yourself a series of questions to help jump-start your thinking. They include: What irritates you? Is there a technology in your industry that could be applied in another? Is there a commodity product that could be enhanced and sold for a premium?

If you are working with a team, have everyone go through this process on his or her own—skip the big brainstorming meetings for now. Ulrich says you'll get a better variety of ideas if people think independently first. Add information or details about the ideas as you discover them. If you're running a company or have a full-time job, this process could take a year. If you're coming up with ideas full-time, it will still take months. Don't rush it.

**PRACTICE:** It wasn't long after Mark Gehring sold the Madison (Wis.) medical imaging company he built in 2003 that he got the entrepreneurial bug again. So in 2006 Gehring and three colleagues decided to create another startup. "Working with a small team and building something from scratch is a much more motivating environment for me than a mature company with a mature product," Gehring says.

But the foursome had no idea what that "something" would be. Gehring knew he didn't want to build another company in the medical field; he wanted something less heavily regulated. So Gehring and his partners—Greg Tracy, Dale Beerman, and Jeff Hoffman (who has since left the company)—got busy brainstorming. Starting in September 2006, they spent hours every day in a room together with their laptops and a whiteboard, throwing out ideas.

They started by looking at their own lives, from challenges facing their kids in school to their own hobbies. Gehring had two daughters who were learning algebra, and he became convinced there was a better way to teach it. That led to discussions of a software system for teaching algebra concepts visually. The group's love of online games led to an idea for a community gaming site where crowds could vote, for example, on the next move in a chess game. The group created a Wiki that tracked the progress of each idea. Ultimately there were seven competing ideas in the Wiki, where information like market size, leading competitors, and any news clips related to the topic were collected.

As discussions wore on, Gehring's group saw that some markets, like that for a new algebra teaching system, for example, might be too small or have high barriers to entry. But the four partners began to think that the technology they wanted to use in that effort—best described as plug-and-play software code for non-techies—might be valuable. By the end of 2006 they had seized on the idea for Sharendipity, a startup that is creating a platform for building interactive applications in markets such as online gaming and education. "We had no idea where this process was going to lead," says Gehring, who expects his company to generate revenue by yearend. "But we were looking for a big consumer idea, and that's what we got."

### **Step 3: Picking a Winner**

**THEORY:** It's time to decide which ideas are worth your sweat and money. Get together with your team, if you have one, and start critiquing the list. The first cut is the easiest: Anything that doesn't fall within the parameters established in Step 1 gets thrown out.

For the remaining concepts, you'll need to do some market research. An Internet search will identify competing products, their prices, and how large the market may be. If your ideas involve proprietary technology, start a patent search at the U.S. Patent & Trademark Office ([uspto.gov](http://uspto.gov)). Even if you think you're in the clear, hire a patent attorney to do a thorough search before you invest too much in any one concept.

When you've got your list of ideas narrowed down to a handful, put them in front of advisers who will give you unfiltered criticism. These can be experts in your field, mentors, colleagues from previous jobs, or fellow entrepreneurs. Set up a series of one-on-one meetings or, better, a group session where you buy dinner and present your ideas. Ask for questions, insights, and criticism. Then ask everyone to rank their three favorites. Even bad news isn't all bad. "If they start making suggestions or improvements on the idea, that's a good sign," says Tom Kelley, general manager at Palo Alto (Calif.) product innovation firm IDEO. "They can actually envision it."

Those meetings should help you zero in on one or two concepts. The ultimate winner should meet all the rational checklists you've created, but it also needs to be something that excites you. After all, you'll be selling the idea to investors and customers. And don't stop generating more ideas—you may need them if your first choice fails.

**PRACTICE:** Lem Hunter, president of Albuquerque engineering firm Mechtronic Solutions, was tired of being a hired gun. So in 2003 he decided to start a second business, one that would let him sell a proprietary product or

service. By mid-2004, Hunter and his team had come up with about a dozen ideas for new products. Hunter's urge was to pounce on his favorite immediately, but he held off.

Over eight months, Hunter debated ideas with three of his key managers and an investor. The group would list the pros and cons of each on a whiteboard. A proposal to use unmanned aerial vehicles to fight fires got axed because the team thought a high-end solution would be a tough sell. An idea for a new contact lens cleaning system was dumped because of the regulatory hurdles.

Four ideas survived: an automated customer satisfaction survey system for restaurants; safer ski bindings for kids; a high-speed system for loading bulk materials into shipping containers; and a method to test for defects or wear and tear on airplane parts based on the components' response to vibration in a testing facility.

For each opportunity, Hunter researched the size of the potential market, who held patents in those areas, and what competing products were available. Then he met with about 20 different advisers.

The meetings helped knock out the customer satisfaction and ski-binding projects, as the advisers said the concepts dealt with niche markets unsuitable for building a large business. "They were merciless," Hunter says of his advisers. With two ideas surviving, Hunter chose the speed-loading system, since it had lower barriers to entry. But difficulty acquiring the intellectual property behind that system encouraged Hunter to move on to the aerospace business. Today, Hunter runs Vibrant, which was spun off from Mechtronic in 2006. It's a seven-person, \$238,000 company that markets testing services. Looking back, Hunter, who has a private pilot's license, says one insight, from his cousin, turned out to be the most perceptive: "You love airplanes and have the passion for that business."

#### **Step 4: Feasibility**

**THEORY:** Congratulations. You've got a great idea. To turn it into a business, you'll need to answer three questions simultaneously: Can we make this product, or provide this service, and at what price? Do customers really want it? And how much will they pay? As always, if you run into a deal-breaker, be ready to dump the idea and move on to something else.

This isn't the time to build a full prototype, but you do need to resolve any unproven elements of your technology or at least show that they can be overcome. Online research will give you an idea of what manufacturing will cost, both in the U.S. and overseas. Make sure to factor in payments to middlemen or distributors.

At the same time, you need to find out if customers really want what you're about to sell. If consumers are your target audience, survey them or conduct focus groups, remembering to ask what they'd be willing to pay. Then get in touch with buyers for retail stores and ask them what the product would typically sell for. (Try searching online job postings for unemployed buyers who may have time to answer a few questions.)

If your targets are businesses, you need to interview dozens of them. In the best-case scenario, you already have the contacts to do this. Otherwise, you might consider hitting trade shows or using consultants.

**PRACTICE:** Serial entrepreneur and inventor David Hoch had sold his latest startup in 2007. By the summer of 2008 he was ready for his next venture. One of his first steps was to meet with Gerhard Pawelka, co-founder of Burlington (Mass.) product design firm Cooper Perkins, and a former colleague of Hoch's at IDEO. After months of research and discussion, Hoch decided on a device that gave gardeners real-time information about factors such as how much water and nutrients their plants need. Eventually, they named the company Sensible Garden,

and Cooper Perkins' co-founders became investors.

In the fall of 2008, Hoch, an avid gardener, contacted Gardener's Supply Co., a retailer of gardening tools, to ask whether a high-tech system for monitoring plants would sell. He also hired a gardening industry consultant. Both gave Hoch a thumbs-up.

In the spring of 2009, Hoch conducted three focus groups of about 10 gardeners each, recruited through his own network as well as local gardening clubs. He paid everyone \$100, gave them foam mockups of what the product might look like, and asked whether they'd want it. Their excitement was clear. But the group didn't want something that screamed high tech; they preferred a more natural look. So Hoch made the sensors resemble lily pads. And after asking the focus groups what they'd pay for the system, he settled on a price of \$59 for a home-base monitoring station and two sensors, plus \$14.95 for each additional sensor.

Hoch knew the technology for his system existed. The real question was whether he could make it cheap enough to hit those price points. His next step, then, was to hunker down in Cooper Perkins' labs. Most retail gardening products need to sell at four to five times their manufacturing cost to turn a profit, which means Hoch has to make the sensors for a maximum of \$3.50 each. He has managed to do that—barely—and is counting on volume increases to bring the price down further. Says Hoch: "It's all about being sneaky in the design and finding the right suppliers."

### **Step 5: The Prototype**

**THEORY:** It's time to make your product or service real, with a fully functional prototype. Once it's built, you'll need potential customers, possibly drawn from earlier focus groups, to test it. Their feedback will help you make adjustments—potentially major ones.

The key is to stay flexible. "I see 2,000 business plans a year, and the only thing they have in common is they are all wrong," says Josh Kopelman, founder of online auction bookseller Half.com and managing partner at West Conshohocken (Pa.) investment firm First Round Capital. "The biggest mistake I see in entrepreneurs is they come up with a plan and lock in on it," says Kopelman. "You have to be willing to morph it or dump it."

**PRACTICE:** Shortly after Puneet Maheshwari moved to Philadelphia from Silicon Valley in 2007, his year-old son developed an ear infection. But the family hadn't yet found a doctor in Philadelphia, and they ended up in the emergency room. Soon after, Maheshwari started working on a business that would match patients who need to see a doctor on short notice with physicians who have openings.

By January 2008, Maheshwari had created a rough PowerPoint presentation that illustrated how patients would use the system. He began showing it around to physicians he met through friends and family, and they helped him tweak it. Maheshwari wasn't sure, for example, how to charge physicians for the service, although he was pretty sure that charging patients was a bad idea. He was considering both a fee-per-appointment model and a flat subscription. But conversations with doctors made it clear that a per-appointment fee would encourage doctors to ask patients simply to call them directly next time. Maheshwari opted for a monthly charge.

He also showed different versions of the nascent Web site to more than 100 former colleagues and friends. That helped him make the system more user-friendly. One version omitted pictures of doctors; a friend's mother insisted that people would want to know what a doctor looked like before booking an appointment. Maheshwari even took a poll to figure out what to name the system. The winner was DocAsap.com, beating out MyCityDoc.com and WalkIn.MD. "This is an iterative process, and the wisdom of crowds really plays a role,"

says Maheshwari. "People may not react in the way you think they will. Doing this prototyping, validating the concept, the look and feel of the site, even the name, was really beneficial."

By March, Maheshwari was writing code, hewing closely to what consumers and physicians told him they liked. The four-person company's site went live in July. In the first month, Maheshwari signed up nearly 30 doctors and dentists and made dozens of appointments. He's optimistic that he can bring in \$100,000 in revenues in his first year.

For more entrepreneurs and their successful ideas, go to [businessweek.com/go/sb/ideas](http://businessweek.com/go/sb/ideas)

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