

LECTURE NO. 2

COMPARATIVE RATING OF PRODUCT IDEAS: PRESENT MARKET, MARKET GROWTH POTENTIAL, COSTS, RISKS

Comparative Rating of Product Ideas After elimination of unattractive venture ideas, it is desirable to choose the best of those remaining for further analysis. Various comparative schemes have been proposed for rating venture ideas. In this section factors that should be considered and some possible ranking methods are examined. For a product idea to lead to a successful venture, it must meet the following four requirements:

1. An adequate present market
2. Market growth potential
3. Competitive costs of production and distribution
4. Low risk in factors related to demand, price, and costs

1. Present Market The size of the presently available market must provide the prospect of immediate sales volume to support the operation. Sales estimates should not be based solely on an estimate of the number of potential customers and their expected individual capacity to consume. Some factors that affect sales are:

- Market size (number of potential customers)
- Product's relation to need
- Quality-price relationship compared to competitive products
- Availability of sales and distribution systems and sales efforts required
- Export possibilities

2. Market Growth Potential: There should be a prospect for rapid growth and high return on invested capital. Some indicators are:

- Projected increase in need and number of potential customers
- Increase in customer acceptance

- Product newness
- Social, political and economic trends (favorable for increasing consumption)

3. Costs (Competitive costs of production and distribution): The costs of production factors and distribution must permit an acceptable profit when the product is priced competitively. The comparative rating process should consider factor likely to result in costs higher than those of competitive producers should:

- Costs of raw material inputs
- Labor costs • Selling and distribution costs
- Efficiency of production processes
- Patents and licenses

4. Risks: Obviously it is impossible to look into the future with certainty, and the willingness to assume risk is the major characteristic that sets the entrepreneur apart. However, unnecessary risk is foolhardy and, while it may be difficult or impossible to predict the future, one can examine, with considerable confidence, the possible effect of unfavorable future events on each of venture ideas. The following factors should be considered.

- Market stability in economic cycles
- Technological risks
- Import competition
- Size and power of competitors
- Quality and reliability risks (unproven design)
- Initial investment cost
- Predictability of demand

- Vulnerability of inputs (supply and price)
- Legislation and controls • Time required to show profit
- Inventory requirements For purposes of preliminary screening, these factors can be subjectively evaluated.