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Proven ways to determine if your business idea is profitable

Having a great idea doesn't guarantee success. Entrepreneurial expert Alan Manly reveals the tools you'll need to make your idea perform for profit rather than endless despair.



The excitement has passed, the business plan looking as good as it's likely to be, and the reality is dawning that even with the wished-for amount of investment, there will still be a nagging feeling that the plan could do with a little more work. Specifically, the part about profitability.

Addressing this hidden reality is something that all businesses must sooner or later face: When will the idea outlined in the business plan be profitable?

This five-step checklist is a tried-and-tested tool for helping to determine when – and if – a business idea is profitable:

Understand the purpose of a business

Understanding this reality is crucial for any prospective business owner or investor.

Investopedia defines a business as "an organization or enterprising entity engaged in commercial, industrial, or professional activities ... the term 'business' also refers to the organized efforts and activities of individuals to produce and sell goods and services for profit".

Conversely, a business is not a hobby or an activity to pass the time. Keep this definition in mind, and let it guide your decision-making.

Understand what counts in the business plan

Many people suggest that having formulated their great new idea, a would-be entrepreneur should start drafting a business plan. Doing so, they say, will assist with defining the idea and exploring market potential.

But what exactly is a business plan, and what should it cover?

Again, understanding the definition offers useful insights into how to proceed.

A business plan, as defined by Your Dictionary, is "a comprehensive plan written by a potential or current small-business owner who is attempting to obtain venture capital financing, a bank loan, or other financing. The business plan is a blueprint for how the company intends to perform".

It continues: "It must spell out the company's product or service, give a synopsis of its history; explain how the company is superior to its competition, and outline how it intends to be successful in its target market. Sales projections must be included in the business plan, along with financial performance statistics and future projections".

So, if your plan doesn't include all of these aspects, it may technically not be a business plan at all.

No more Captain Charming

Investors are ruthless when it comes to reviewing business plans. And you should be too with your own.

Think like an investor, along the lines of the famed Jerry Maguire quote, "Show me the money!" (which, it's worth noting, was based on the real person – successful sports agent Leigh Steinberg – who uttered that well-known line well before the movie made it legendary).

Don't leave any doubt about where the money is coming from, or when.

Know your cash flow

When it comes to "show me the money", the real answer for a startup comes down to cash flow. Cash will only ever flow one of two directions: in or out. In is good, out is necessary.



By Alan Manly
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The goal is to ensure the cash coming in is greater than the cash going out. Sounds simple enough but, in practice, the reasons/excuses for more cash going out always seem to far outnumber the methods of getting cash in.

This is where an entrepreneur's real skills are honed. Guarding cash is not just good business practice, it's vital. The most ruthless or most likely to succeed entrepreneurs understand this.

Get lucky

Business always involves an element of luck. But successful entrepreneurs know, or learn how, to make their own luck. Famed Hollywood producer Samuel Goldwyn is quoted as saying, "The harder I work, the luckier I get."

Creating luck isn't about having blind faith though. It's about being realistic.

As Sir Richard Branson noted, "Business opportunities are like buses - there's always another one coming." If your numbers simply don't add up, they could be telling you something: that you may need to hop off this bus and wait for the next one.

Alan Manly is the Founder of Group Colleges Australia and author of The Unlikely Entrepreneur.



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