

4.11 Evaluating Your Business Model

In this unit you are taking one or more ideas through a funnel to see if you have a true business opportunity. You have evaluated various needs, your own experience, available resources, and potential customers. Now it's time to see if you have a sound business model that can make money and survive in the long run. To do this you need to seriously evaluate your sources of revenue, pricing, costs of goods sold, gross margin, operating costs, and profit margin – essentially the elements of an income statement, which we will discuss in more detail in a later unit. For now, answer the following questions about one or more of the product or service ideas you are exploring.

Evaluating Your Business Model

Due Date: Aug 30 at 10:12

Points: 6

▼ Your Submission:

Started on Aug 23 at 10:15

1 **Revenue Sources:** Who are the various customer groups that will buy this product or service from you?

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2 **Pricing:** How much will you charge customers for this product or service?

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3 **Cost of Goods:** What will it cost you to make this product or service?

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4 **Gross Margin:** This is the sales price minus the cost of the product, divided by the sales price. For example, if you sell a product for \$100 and your cost for the product is \$50, then you make \$50, which is a 50 percent gross margin. The higher this percentage, the more you retain of each dollar of sales to cover other costs you incur. What do you estimate your gross margin will be?

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5 **Operating Costs:** What are all of your other expenses for selling this product or service? (Labor, materials, packaging, delivery, commission, etc.)

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6 **Profit Margin:** This is the sales price minus the cost of the product, minus all other operating costs, divided by the sales price. For example, if you sell a product for \$100 that cost you \$50 with additional operating costs of \$30, then you make \$20, which is a 20 percent profit margin. What do you estimate your profit margin will be?

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Submit Assessment

The best businesses have multiple sources of revenue, competitive pricing, a 50 percent gross margin or better, and a 10 to 20 percent profit margin. If your numbers aren't attractive, it will be difficult to survive. Keep working ideas through this unit until you have a true business opportunity with a high probability for success. This is the concept you should take through the rest of this course and write your plan about.

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