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## Which Businesses Make Sense? Systematic Venture Selection

This chapter commences with an overview of the venture development process, written from the broad, community perspective as might be relevant to a community development corporation. This outline is followed by a more detailed discussion of venture selection criteria, again from the perspective of a CBO or First Nation.

We do not overlook venture selection from the perspective of an individual, however. The chapter concludes with an examination of the assessment of personal goals and capability, which helps people choose the business that best suits their individual values and interests.



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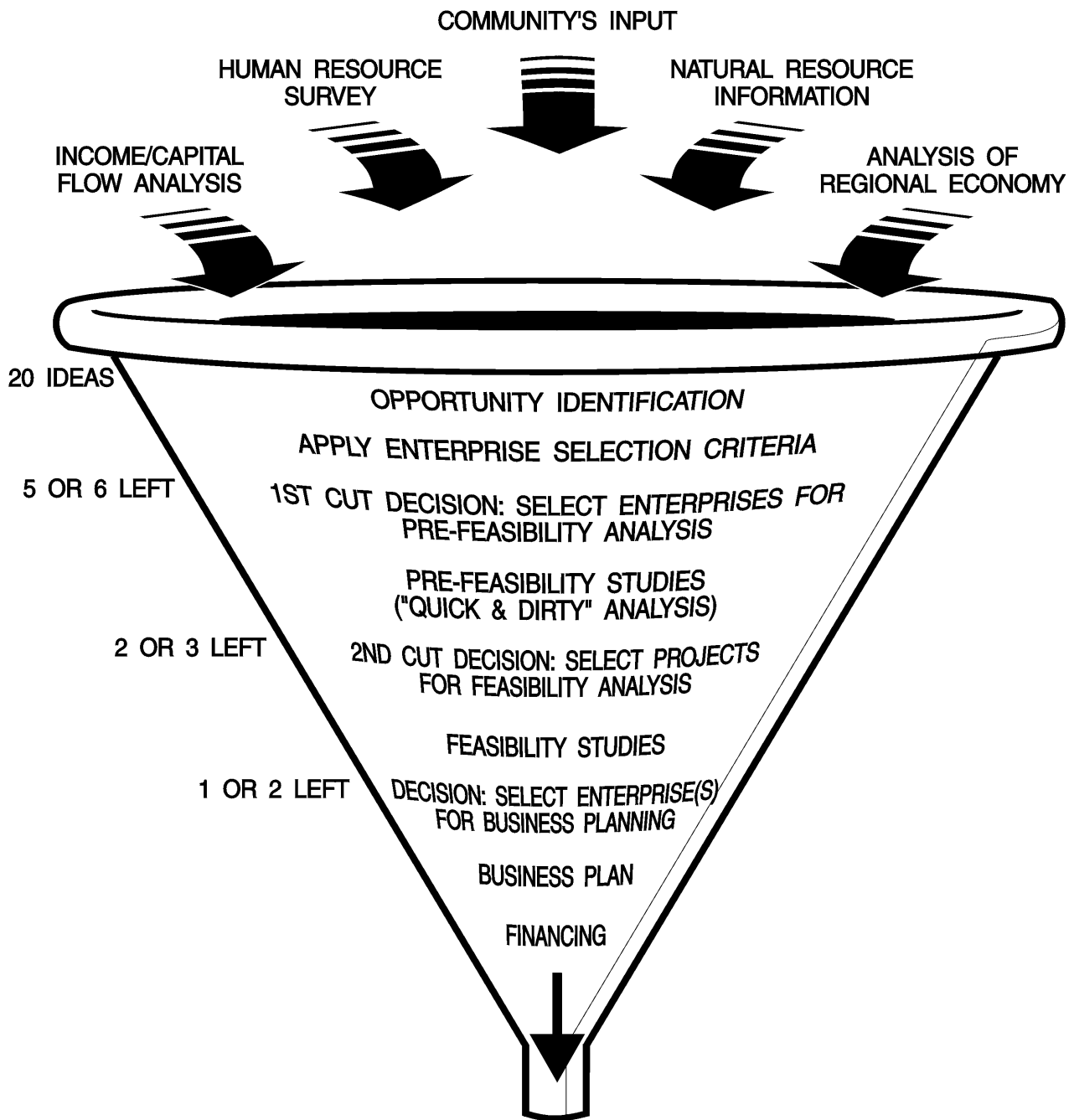
### An Overview of the Venture Development Process

Venture development is a screening process which systematically separates the best business opportunities from other, less promising ones. It enables planners progressively to sharpen their focus and concentrate resources on a locality's most viable business opportunities.

The diagram on the page opposite compares venture development to a funnel. In the funnel several screens are stacked on top of each other. The top screen is quite coarse. It holds back "the gravel." Thereafter, the screens get finer and finer, until only the finest grains will pass through the mesh at the bottom. Those "fine grains" are the community members' most viable business opportunities.

The "screens" of the venture development funnel are in fact the policies, research, and decision-making procedures of a venture development system.

### The Venture Development "Funnel"



## Opportunity Identification

Communities often become fixated with a single, flawed business idea. The darling of some influential person, this venture consumes all kinds of time, energy, and money, but offers few benefits. To avoid this sorry situation, conduct a systematic and broad review of opportunities before devoting any resources to detailed planning. A community cannot do everything. So it should choose to do things which fit with community priorities and can help build organizational capacity.

## Application of Venture Selection Criteria

Each venture opportunity or idea is evaluated according to the venture selection criteria. This does not need to be a detailed or precise evaluation. It should be based on data that is readily available. Often a little homework plus what is already known by community decision-makers is sufficient for the initial cut. Be sure to spell out in advance the procedure for the application of the criteria, who will be involved, and how decisions will be made.

One systematic method of evaluating venture possibilities is to assign points under each criterion (see the example on page 23). The rating scale could range from “zero” (when a venture does not meet the criterion) to “five” (this criterion is one of the venture’s strengths). The total of the points assigned to each venture will give a rough idea of which ones best meet local needs and intentions. The ventures with the lowest ratings can then be eliminated.

Working through the venture selection process in a systematic manner is also an important opportunity to develop the decision-making effectiveness of the board or Band Council.

## The 1st Cut

The application of the criteria in this manner leads to a selection of the best five or six venture opportunities. This is the first decision point. It represents a recognition that planning costs money and time. Conserving scarce resources and making good investments in planning requires a progressive selection of priorities based on increasingly detailed research.

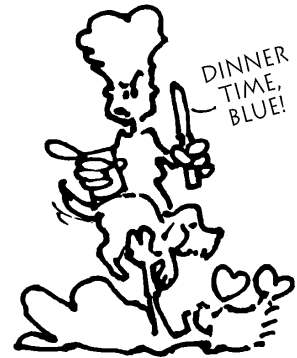
## Pre-Feasibility Analysis

The five or six “short-listed” venture opportunities now undergo the closer scrutiny of a pre-feasibility study. This level of analysis does not have to cover every aspect of the venture in great detail. Remember, we are gathering information and doing analysis *to the extent appropriate to what we are going to decide*. Pre-feasibility analysis roughly estimates each venture’s possibility for success, and thus indicates which ventures

SURVEY ALL YOUR  
VENTURE OPPORTUNITIES



SO SOMEBODY'S "PET  
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warrant full-fledged *feasibility* study. Pre-feasibility analysis asks why a venture *won't* work, rather than why it will. It helps eliminate some ventures from further consideration.

To do this, pre-feasibility studies look at five aspects of business feasibility: the product or service, market, competition, organization, and finance. It is a “quick and dirty” level of analysis which should take 2-10 days for all but the most complex kinds of business.

This level of analysis is a perfect opportunity for training Band personnel. If technical assistance is necessary, structure the contract to ensure that the skills related to pre-feasibility analysis are transferred.

### The 2nd Cut

This is the second decision point in the venture development process. The best two or three venture opportunities are selected and the rest are eliminated. The venture selection criteria can be used again to review the results of pre-feasibility analyses. The worthiness of the venture opportunities can be compared by listing the pros and cons of each on separate sheets of paper.

It is crucial to involve the key decision-makers in this process. The first experience with this decision-making process may be frustrating at times, but it is worth it. There is no substitute if organizational capacity is to be built; and without organizational capacity there is no such thing as self-reliance.

### Feasibility Analysis

Whereas pre-feasibility analysis helped decide which venture opportunities make sense, the feasibility study looks at the same five topics in detail: product or service, market, competition, organization, and finance. This level of analysis explores options for operating the venture and determines if the business makes financial sense. In short, feasibility analysis asks, “Will this venture make a profit?”

### Selection of Venture(s) for Business Plan

Take time to assess carefully the feasibility study completed for each venture opportunity. This, again, is an excellent opportunity to hone critical decision-making skills and to train leaders in general business matters. Don't miss it. Council or board members need to understand the purpose of feasibility studies and how to interpret the results. Hire outside assistants if necessary.

The decision made at this point is whether to invest in the final stage of business preparation: the development of a business plan. The feasibility study will provide most of the information needed to prepare a business plan. However, there are important differences in the two documents.

## Business Planning

The feasibility study discusses different ways that the business might operate and whether it is a worthy investment from a financial point of view. The business plan describes the way the business will actually operate.

A good business plan takes 240-300 hours minus some of time spent on the feasibility study. That's why a step-by-step venture development process makes sense. Who has the time, staff, and money to write a business plan for every venture opportunity, if one plan takes 6-8 weeks to complete?

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## A Closer Look at Venture Selection Criteria from a Community Perspective

The overview of the venture development process shows how important a policy decision venture selection criteria are. Well-set criteria can save time and money. How?

Venture selection criteria should flow from and reflect the mission, strategic goals, and assessment of key factors which will guide local economic development. Well-set criteria enable a CBO, First Nation, or development corporation to select ventures which integrate the factors crucial to the community's economic development strategy. Note how the Development Wheel framework makes venture selection a basic policy issue to be addressed right at the front end of the organizational development process (see Appendix #1).

Outlined below is a set of questions that you can use when formulating venture selection criteria.\* Note that there are three categories of questions. The first category will help your First Nation government, CBO, or development corporation judge the extent to which a particular venture will build organizational capacity. The second category ensures that the business perspective is not forgotten. The final category focuses on venture's ability to contribute to the community or to your organization's constituency.

### **VENTURE SELECTION CRITERIA FROM THE DEVELOPMENT ORGANIZATION'S PERSPECTIVE**

Does the proposed venture

- provide for development organization involvement in decision-making?
- develop the development organization's capacity to undertake increasing economic development responsibilities?

\* Linda M. Gardner, *Community Economic Development Strategies: Creating Successful Businesses*. 3 Vols. (Berkeley, Ca.: National Economic Development and Law Center, 1983).

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- fit into the community's overall economic development strategy?
- lead to significant training and experience for corporate staff?
- generate sufficient revenues and profits for the organization so that investment in other activities is possible?
- maximize the development organization's financial benefits from rents, royalties, interest, securities, shared profits, and assets?

#### **VENTURE SELECTION CRITERIA FROM A BUSINESS PERSPECTIVE**

Does the venture have a demonstrated market for its goods or service?

- Is the market growing?
- Can a sufficient share of the market be captured by the business?
- Does the venture require an initial capital investment that will require large debt financing?
- Is the organization willing to accept shared ownership of the venture if equity financing is necessary?
- In case of venture failure, will the organization be saddled with a large debt, unused and unusable buildings and equipment, and consequent unemployment?
- Does the venture have special labour or licensing requirements?
- Will the business break even within a reasonable period?
- Will the business generate a profit?
- Does the business require substantial re-investment to maintain or expand its stability and profitability?

#### **VENTURE SELECTION CRITERIA FROM A COMMUNITY PERSPECTIVE**

Does the proposed venture

- provide for community involvement in decision-making?
- address the unique needs and circumstances of community members?
- achieve community ownership of resources to ensure that there is increasing control over their use and resulting income?
- purchase local goods and services?
- capture social service program expenditures and income transfer payments?
- provide needed goods and services?

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- ❑ provide possible links that can provide existing community businesses with new opportunities?
- ❑ improve community member employment and work skills and add to the overall availability of quality jobs?
- ❑ create a favourable impression upon outside business interests and financial institutions so that outside participation in CED is encouraged?
- ❑ have significant opportunities for community members to assume the responsibilities of managers and directors?
- ❑ create environmental pollution, causing problems with noise, air, odour, and health quality?

There are many examples of venture selection criteria which development organizations have actually used. An example developed by the National Economic Development Law Centre in California is found on the page following. It evaluates ventures on the basis of not only profitability, but of potential long-range benefits for the organization and the community. This includes realization of long-term employment and long-term social, educational, training, and other local benefits.

The criteria used by one First Nation have been reprinted in Appendix 3 of this workbook. Another example can be found in the first chapter of *Take Charge! How to make economic development work for your Band* (Port Alberni, 1988).

THIS "FIRST CUT" WILL HELP  
ENSURE THAT YOUR  
TIME, EFFORT, AND \$ ...

... GET FUNNELED  
INTO YOUR MOST  
PROMISING BUSINESS  
OPPORTUNITY



**The NED&LC Model of Venture Selection Criteria**

VENTURE OPPORTUNITIES	SELECTION CRITERIA	Employs low-income community members	Requires low start-up costs	Located in the community	Will break even within one year	Does not compete with existing community businesses	Stops leakage of community money	Uses existing organization assets	Uses existing organizational expertise	Provides needed community services or products	Total
Day-care centre											
Bakery											
Employment Agency											
Re-cycling centre											
Construction re-hab company											
Grant writing venture											
Weatherization company											
Home health agency											
Storm window manufacturing											
Handicraft distribution company											
Key											
0 = venture does not satisfy the criterion											
5 = venture strongly satisfies the criterion											
Note: This model developed by the National Economic Development and Law Centre, 1950 Addison St., Berkeley, California, USA 94704											