

How to Make Smart Bets in Business



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Business is full of bets, especially where investing is concerned. If you're interested in rolling the dice by purchasing a business, making an angel investment in a startup or even allocating your hard-earned money for your first employee, it's important to know what makes a *smart* bet and how to protect yourself from a worst-case scenario. It's worth stating that even deciding to go into a business of your own is a form of a bet, and merits the same type of background due-diligence.

This may require testing or gaining new knowledge, but a thorough understanding is critical, especially with glaring

statistics regarding the failure rate for startups at a whopping 50 percent, according to Small Biz Genius. With statistics like these, there's no way to ensure success. However, there are definitely ways to think through potential pitfalls in business models and feel more secure regarding where you invest your money and your time.

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Verify demand through popularity

When it comes down to it, a sure bet in business is dependent upon how much customers want what it is that you're selling. If you can do some market research and verify demand, you're in good shape. Demand can come from the product's value – such as its ability to solve a problem – or even from the person who's selling the product, like a major celebrity who has established trust with millions of followers online.

This is one of the reasons why big influencers and celebrities can land lucrative book deals. Publishers know that whatever they release will fly off the shelves. The demand from their fanbase is verifiable. Take comedian Amy Schumer, who landed a rumored \$8-10 million book deal for 2016's *The Girl With the Lower Back Tattoo*.

Verify demand through testing

If a celebrity or big-time influencer isn't included in the equation and you're just trying to figure out how a product will sell, try a "market as if it were real" test approach. According to Ron Rule from the *Entrepreneur's Handbook*, this is because "the only way to *truly* know if someone is going to fork over their hard-earned cash to buy your product is to get it in front of them." Otherwise, market research is all mere guesswork. It gets you more clarity than

you would otherwise have, but it doesn't mean much until a target customer's wallet is involved.

Rather than going through the hassle and added investment of actually building out the product and then seeing if there's a demand, Rule recommends creating a prototype of the product in Photoshop, setting up an ecommerce website and then leaving your payment processing in test mode so that it doesn't actually charge a potential customer's credit card for a fictional item.

Then, begin to direct ads to the page to see if customers actually buy. "Personally I would spend around \$10,000 on a proper marketing test, but you can start with a lot less if you aren't comfortable going that high right away," Rule elaborates in his book. "I do recommend spending at least \$1,000 because you want to get enough clicks and conversions for the data to mean something – trust me, it's a heck of a lot cheaper to lose \$1,000 on a marketing test than it is to lose tens or hundreds of thousands of dollars producing a product nobody wants."

Sometimes, the best bets require a smaller upfront investment first for a big payout on the back end.

Engulf yourself into the industry

The more you know about what you're investing in, the more educated your bets can be, which usually pays off on the back end. This piece of advice comes from sports gambler Zach Hirsch. At 18 years old, Hirsch is regarded as one of the top-performing sports analysts in sports gambling, with a 90 percent accuracy rate in his predictions (which is over 20 percent higher than the industry average).

Hirsch's best advice on making sound bets is to "engulf yourself in the industry." For Hirsch, he takes this piece of advice within the type of sport he's betting on, but the

advice carries for business investments, as well. “Learn everything there is to know, engage with the experts, and do whatever it takes to further your understanding of the craft,” Hirsch recommends. This advice can be extended to getting to know the founder of the startup you’re investing in or just ensuring you know as much as you can about your new industry, so you can see clearly how a product or service will perform. Do your backup research, then research some more. Keep having important conversations.

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Even with verified demand and a thorough understanding of your industry, there’s no guarantee that your investment is 100 percent safe, but you’ll at least have the perspective to see potential bumps in the road or glaring stop signs in your betting decisions. These insights may make all the difference.

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