How to validate your business idea

Description

Itâ??s important to validate your business idea before you invest any time or money in it. While an idea might sound amazing, it may not translate too well to commerce. Simply put, a business idea must satisfy 2 criteria: it must be something you are passionate about doing, and it must also be viable and feasible.

A viable idea is one that you can undertake profitably. It brings in more money than it takes to keep it going. A feasible idea is one that can be pursued considering the financial, technological, and other limitations you are facing. Simply put, you have the resources to bring the idea to life.

Answering these 2 questions is why you need to validate your business idea. As for the passion, that can pretty much only be validated by you. For feasibility and viability, we have a formula that can help. Itâ??s not always an easy undertaking, particularly if you love your idea.

Itâ??s very difficult to resist the bias toward positive outcomes that let you forge on. However, with a little honesty and a lot of structured research, youâ??ll get the answers you need. So letâ??s take a look at one structured approach to validate your business idea.

Understand your product/ service

While this may sound rather obvious and straightforward, many entrepreneurs tend to overlook this. Before an idea can become a potential business, you need to get a full understanding of its business potential.

In short, does your business idea make a business product or service? A product or service that you can actually get a market for and sell for a profit. Industry experts advise you to think of your product or service in terms of problems you want to solve.

Think of your product or service by first identifying some pain points it solves. You can validate your business idea if you can think of a genuine need your market faces that would compel them to buy from you.

Throughout this process, think of this product or service less in terms of what it is, but what itâ??s meant to do in your userâ??s life. That way, you have a greater understanding of your competition, your market potential and everything in between.

Additionally, if you can pivot this value, then you can find a way to still bring your product to market even if your initial value proposition didnâ??t work out. Take for example Coca-Cola, in its simple form, itâ??s a fizzy beverage.

In market terms, however, it has gone through a few iterations. At one point, it was even marketed for medicinal purposes. Today itâ??s best known as a refreshment and a very good meal accompaniment.

Still, the very same fizzy beverage that was once a medicine now has a whole different use. So, as you validate your business idea, what is your product meant to achieve?

At Mut-Con, you can define us as business consultants, or business advisers. At our core though, we are a source of business insights, products and services designed to help entrepreneurs like you start and grow successful businesses no matter which industry they are in or what competition they face. Thatâ??s why we go about business advisory a little differently from most business consultants.

Define your value proposition

Your value proposition is the most important step when you validate your business idea. Without a good value proposition, there is simply no need to go into business. Your value proposition not only establishes a need for your business but acts as its guiding principle.

Whenever you reach a fork in the road, take the path that closely follows your value proposition. A value proposition is the element of your product or service that will attract your clients to you. Itâ??s what will get you chosen over your alternative and substitutions.

Without a value proposition, youâ??ll simply drown in the noise of the market and fade into obscurity. A good value proposition on the other hand will build you your own tribe. When you can demonstrate value, loyalty soon follows.

At Mut- Con, our value proposition is to afford every dreamer the ability to be an entrepreneur. If you can dream it, weâ??ll provide the skills, products, services and insights to turn that dream into a business.

We just want to be the partner **any** entrepreneur can turn to to be a success. Accessibility and excellence are key to us. This value proposition has defined our products, services, pricing, structure and everything else that makes Mut-Con Mut-Con.

Needless to say, there are a lot of elements that go into building a value proposition. You build your value proposition from an understanding of your product/ service as well as the needs you wish to meet. From there, find additional elements of value that will make your product more unique.

Conduct a viability study

This is perhaps the most important question when you validate your business idea. Itâ??s as equally important for for-profit businesses as it is for non-profit organisations. Viability determines how sustainable your idea is going to be as a business.

You need to ask yourself, can you make more in revenue than you incur in costs while you run this business? Can you make a profit? At this stage, itâ??s not yet necessary to roll out full balance sheets and profit statements, but an idea of the underlying numbers is important.

You should be confident that your business will run in the black. If you cannot confidently predict a profitable future, then your idea is simply not valid. Unfortunately, unlike a value proposition which can be tuned with a little creativity, viability is a lot more unforgiving.

If your product or service canâ??t bring in more than is spent on it, no amount of passion can turn it into a successful business. Be sure to fully consider your monetization strategies before considering your businessâ??s viability. Only once you are considering all possible income streams can you write off a business idea.

Equally, consider all the costs associated with your business. The easiest is always the direct costs like production, but some are not always obvious. If, for example, youâ??d need to leave paid employment to run the business, thatâ??s a cost your new business will have to inherit.

After all, while we all sacrifice for our businesses to succeed, you donâ??t exactly want to become destitute. So, tally all the income, tally **all** the expenses, and hopefully, you have a profitable idea on your hands.

Conduct a feasibility study

While a feasibility and viability study are both usually grouped together, we have found them to be distinct enough to warrant separation. Grouping them together runs the risk of overlooking one. So, when you validate your business idea, take the time to do a proper feasibility study.

In a feasibility study, you simply want to ask, is it possible to turn your idea into a viable business? Itâ??s not enough for your business to be feasible under any circumstances, it needs to be feasible in a manner that leaves it profitable. In other words, donâ??t move heaven and earth to bring to life an idea you wonâ??t be able to make a profit from.

You wonâ??t be able to sustain it and itâ??ll all be for nought. Take for example space tourism. With the current technology, it sure is feasible to take tourists to the moon. We have the rocket ships and the fuel and man has been to space before. But is it viable? Not so much.

Before considering all safety concerns, the cost alone would be astronomical. The price of a ride would be beyond even the worldâ??s millionaires. So while you validate your idea, explore your feasibility limitations.

Of course, your idea is a lot more pragmatic, but very small factors can trip you up. Hence you need to consider everything. The availability of skilled labour, materials, technology, the legal environment, the political environment, and all of this with an eye on your bottom line.

Always use up-to-date information as well. The business macroeconomic landscape is always changing. Things that were illegal a few years ago could be mainstream now. Technologies like 3D printing have made manufacturing a lot cheaper. So while your business idea may not have been feasible a year ago, it could be very much so today.

Explore monetization strategies

There are more opportunities to monetise a business, product, or service for the modern business than at any point in history. When you validate your business idea, consider all of them.

Historically, business boiled down to creating or buying something and then selling it at a higher price for profit. Those were truly the dark ages. Thanks to advances in technology and the greater flexibility of economies and commerce, thatâ??s no longer the case.

Nowadays companies can even offer products for â??freeâ?• and still manage to make a profit off of them. Business success truly belongs to imaginative thinkers. Think of Google, one of the largest companies in the world. It was built on a free product.

The product we most associate with Google, the product mostly referred to as Google, Google Search, is a free product. And thatâ??s not the only free product Google produces. They have a whole suite of free products from media products to marketing tools, office suites and so much more.

One could argue Google gives away more for free than they sell, yet, Google makes a lot of revenue. So, armed with that knowledge, how can you monetize your product/ service? Itâ??s important to explore every revenue stream for your business while you validate your business idea.

You want to build the optimal structure that draws in all your possible revenue streams from the onset. Look at your business holistically, there could be revenue opportunities that are not immediately clear.

A good example is partnerships. As Mut-Con, we have a few partners we utilise to deliver insights for clients. With most, we earn various commissions for doing what we love to do, growing businesses. Our business partners like Mailchimp and HubSpot pay us to deliver exceptional service to you. Bonus income.

Develop a customer analysis & acquisition strategy

Ultimately, all businesses exist to serve a customer/ market, and yours wonâ??t be different. We often talk of the 3 Ps in our marketing strategy, your product, its positioning, and its promotion and all have to do with your market.

While we touched extensively on products and services, how you position and promote your product matters. Your productâ??s position in the market can alter it entirely. Take for example, Gucci clothing.

While at its core itâ??s clothing that serves the same functions as all other pieces of clothing, its positioning makes it more of a luxury item than a piece of clothing. You can pretty much get a belt, hat or pair of loafers that does the same for a tenth of the price.

So why Gucci? Because those who buy it buy the status it comes along with. Similarly, how you position your product can alter it significantly. And how you position your brand is determined by your target market.

Position your product/ service in a manner that will resonate with those you want to buy it. Similarly, your product promotion will be a product of your product positioning. This is another area where strategy cannot be allowed to deviate from desired outcomes, even a little bit.

You cannot, for example, mass-market a luxury item. You would most likely reach the wrong audience. As a result, your product would lose its appeal to the target market, or reach an audience that canâ??t afford it.

In the worst-case scenario, youâ??d get both. Not to mention the wasted promotional expenditure. So, as you validate your idea, define your ideal market by looking at how youâ??ll position your product, and howâ??ll promote it to them. This is a good time to build your buyer personas.

Conduct a competition analysis & strategy

In an ideal world, youâ??d be the only one selling your product. A product thatâ??s the only one of its kind with no substitutes, just complementary products to grow your revenue. Unfortunately, the business world is never ideal.

Competition is something youâ??ll always have to navigate. Even as a pioneer, competition creeps up soon enough. Even with an innovative product that canâ??t be replicated, a viable substitution will come to market soon enough.

Where there is a market opportunity for a profitable business, competition will always be a factor. As you validate your business, you need strategies to navigate this competition. Start with your value proposition and your 3 Ps. Without a clear identity for your own business, you canâ??t protect it from competition.

In fact, with a well-defined value proposition, and a well-built product that is positioned to the right market and promoted the right way, you almost donâ??t have to worry about competition. This is where the brand loyalty we mentioned comes in.

However, a little due diligence never hurt in any case. Take your time to analyse your closest competition. Donâ??t go overboard by looking at every possible competitor. Itâ??s pretty futile in the modern business landscape.

Instead, make a list of your strongest five competitors. Ideally, they should be similar to you in terms of product, positioning and promotion. Revise your value proposition to make sure it sufficiently sets you apart in these three factors.

Once you craft a strategy that protects your business from your three closest competitors, it should be robust enough to protect you from broader market competition.

Formulate a brand strategy

Clients always remember brands over products or services. Not to overlook the merits of a product or service itself, branding plays a huge, perhaps the biggest part in the purchase decision.

Think of how many products perform basically the same function in your life, yet you mostly go for one over another. You still have a preference even when they are matched in terms of quality, functionality and price.

Thatâ??s the power of branding. You need to think about how you are going to build your own brand as early as when you validate your business idea. Firstly, because building a brand takes a lot of time.

Secondly, building your brand piecemeal adds the risk of adding brand elements that donâ??t match your vision. Your brand is closely tied to your value proposition, and a lot of the elements that influence the value proposition influence your brand.

As soon as you establish your product or service, and define your value proposition, take the time to define how you will build rapport and carry favour with your target market. The aim of the exercise should be to become valued in the eyes of your target audience so you are always the first choice.

Your brand, i.e. how your business is viewed should always tie back to all your goals for your business. As such, your branding strategy should always be in pursuit of that single brand image.

Final thoughts on how to validate your business idea

Validate your business idea to make sure you donâ??t invest your time and money in the wrong ventures. As fun as entrepreneurship is, itâ??s not exactly easy, or cheap. Validate your business idea to make sure you donâ??t burn out before you get to the business idea that would have truly pushed you forward.

By following the structure we laid out, you can get a pretty good idea of how well your idea works. You can never eliminate all the risks, business is an exercise in risk-taking after all. However, you can mitigate it. Just because risk canâ??t be eliminated, it doesnâ??t mean flying in blind.

If you need any help to validate your business idea, remember that Mut-Con was built for just that. We can help you craft important documents like business plans and business profiles that you can use. We also offer consulting and advisory services to help you go through all the above steps.

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