

Validating/Testing Your Business Idea - Risk Analysis

Here's a selection of excellent links to Business Validations and tests you can try to validate your business idea. *This listing will be updated as I locate new resources, so check back :)*

Start by simply Googling it and read many or all of the pages that come up as results:

<https://www.google.com/search?safe=off&ei=82HIXJ7ALcz6-gT6h6SADQ&q=test+your+business+idea>

Some of the top ways to validate your business idea:

- **Take it to Reddit**, see what people have to say about your idea or your site or your MVP
- **Run targeted Facebook ads**, doing A/B testing, and driving potential customers to a landing page site that explains your idea and asks for their email in exchange for a discount coupon
- **Talk to friends, networks, professional and social**
- **Talk to mentors**, get their advice, especially if they have experience in the industry you're targeting
- **Look for competitors**, this helps validate your idea if others are making money with it
- **Put together a spreadsheet** guesstimating your costs and sales over the next year or so to see if there's enough profit to make the idea worth your time
- **Try to convince others to help you with it** this is a great test to see if others think it's good enough to actually devote their time and energy to helping you with the idea

Lengthy but very good and in-depth article on How To Validate your Business Idea and move forward with it:

<https://foundr.com/validate-your-business-idea/>

YouTube - many validation videos here!

https://www.youtube.com/results?search_query=how+to+validate+your+business+idea

7 Hacks to Test & Validate Your Startup Idea

<https://medium.com/swlh/7-ways-to-test-your-product-idea-gather-real-world-feedback-at-little-to-no-cost-72717dc252c8>

Lean Startup Market Validation Steps (the fast way to decide):

<https://www.productplan.com/lean-market-validation-10-ways-rapidly-test-startup-idea/>

9 Steps to Validate your Business Idea for \$500 within 30 days

<https://www.ryrob.com/validate-business-idea/>

Lengthy but very good and in-depth article on How To Validate your Business Idea and move forward with it:

<https://foundr.com/validate-your-business-idea/>

Business and Product Idea Validation

<https://www.smartpassiveincome.com/product-idea-validation/>

10 Ways To Test A Business Idea for \$50

<https://ninjaoutreach.com/10-ways-to-test-a-business-idea-for-less-than-50-usd/>

[Great URLs for How To Validate Your Business Idea](#)

<https://www.quora.com/How-do-you-validate-a-business-idea>

<https://www.shopify.com/blog/17844020-6-ways-to-validate-your-business-idea>

[Social media analytics similar to Google Trends](#)

Online Market Feedback Polls & Market Research Tools:

PickFu

<https://www.pickfu.com/>

Market Research Tools (Mostly Free!)

<https://blog.hubspot.com/marketing/market-research-tools-resources>

Before you start a business, the most important step is to do research to determine if you think there's a good chance your business will be successful or not.

There are many ways to begin to assess these things, and often, no single question or research point will give you a definitive answer. You need to take all your research together, as a whole,

to see what the picture looks like - to help you decide whether you want to spend a year or two of your life, and potentially many thousands of dollars, investing in trying to start your business.

The most common downfall of a new business or a new entrepreneur is to fall in love with the business idea, and begin planning to start that business, without any market research or risk analysis.

SWOT Analysis - A Good Place to Start

A SWOT analysis is an incredibly simple, yet powerful tool to help you develop your business strategy, whether you're building a startup or guiding an existing company.

SWOT stands for Strengths, Weaknesses, Opportunities, and Threats.

Strengths and weaknesses are internal to your company—things that you have some control over and can change. Examples include who is on your team, your patents and intellectual property, and your location.

Opportunities and threats are external—things that are going on outside your company, in the larger market. You can take advantage of opportunities and protect against threats, but you can't change them. Examples include competitors, prices of raw materials, and customer shopping trends.

A SWOT analysis organizes your top strengths, weaknesses, opportunities, and threats into an organized list and is usually presented in a simple two-by-two grid.

Here's an example:

Lithium Battery SWOT Analysis

Strengths <ul style="list-style-type: none">• 5x greater recharge life than a traditional lead-acid rechargeable battery.• 20-30% more efficient than a traditional battery.• Can capture and store energy from a variety of DC sources.	Weaknesses <ul style="list-style-type: none">• More expensive than its competitors.• Can't handle large appliances—larger model is only 50 amp/hr.• Poor SEO for the brand.• Online reviews are almost non-existent, making the brand invisible.
Opportunities <ul style="list-style-type: none">• Change the conversation. Many online buying guides don't even publicize the fact that there are other options.• Improve SEO and online reviews.• Greater focus on the brand's differentiation from regular gas-guzzling generators or lead acid batteries.	Threats <ul style="list-style-type: none">• In the last five years, manufacturers have increasingly shifted their product mix toward modern batteries.• Competition from alternative energy sources.• A combination of apathy, fatalism, and denial towards disaster amongst the American public.

More info on how to create your own SWOT Analysis chart:

<https://www.liveplan.com/blog/what-is-a-swot-analysis-and-how-to-do-it-right-with-examples/>

Three major steps to assessing whether your business is a good idea:

- STEP ONE: Assess whether YOU are a good candidate for building a business (some people are not, some people are!)
- STEP TWO: Assess the MARKET to determine if people really need or will pay for your product/service, and is the market big enough to allow you to meet your financial goals

- STEP THREE: Assess whether you can execute - create a solid business plan, gather the capital needed, build the business, market it, handle the finances and manage it.

Important questions to ask *about yourself* for STEP ONE - Assessing YOURSELF:

- Are you the kind of person who can stay motivated and focused and get things done, even if you're doing it while you have a "day job" that takes your time and energy?
- Are you a "doer" who gets things done, as opposed to a "dreamer" who has great dreams but doesn't follow through with all the necessary steps or gets discouraged as soon as things get difficult?
- Have you ever run or started a business before, do you know anything about this area?
- Do you have a team working on this business or will it mainly be just yourself at the start?
- Do you have personal experience in the industry your business is in? For example, if you're creating a mobile app, do you have experience creating software or apps? Or if you are selling designer clothing, do you have experience creating designer clothing?
- Are you good at multi-tasking, doing many jobs at once, or are you best with just one job to do at a time?
- How strong is your ability to sell something to someone if you believe in it?
- How resourceful are you?
- Are you good at creative problem solving?
- Do you think you can manage to "wear the many hats" of an entrepreneur (marketing, finance, sales, product development, strategy, hiring, managing, business development, partnering, etc.)?
- How good of a verbal and written communicator do you think you are?
- Are you an introvert or an extrovert? Depending on how introverted you are, it could be hard to manage and run a business if you have trouble exerting enough force to get things done, sell product, and direct people to do as you wish.
- How long have you been passionate about this particular business idea?

- Have you created a spreadsheet or any kind of financial projection to guesstimate how much money you could be making during your first year in business?
- Have you done any market research to determine if your idea might be successful once you build the business?
- Do you have any money available to finance your business?
- Are you good at staying on task or do you get easily side-tracked or distracted?
- Are you good at managing money, do you have a good credit score?
- Are you good at working with groups of people, or are you a person who really prefers to work alone?

None of these things alone will tell you if you're a good candidate to be an entrepreneur, but together, the questions can help you assess whether you have a track record and personality traits that will increase your chances of success.

Important questions to ask *about the market* for STEP TWO - Assessing YOUR BUSINESS IDEA:

- **Defensibility** - how hard would it be for some other company or person to copy your business?
Example: If you spend a couple years building a business, could a company like Google just come along and blow you out of the water, or if you have the best italian restaurant downtown, could another italian restaurant open up next door and ruin your business?
- **Do you have a 'Secret Sauce'?**
This is part of the defensibility issue from above... ultimately you want your business to be hard to copy. Example: A company with a patent or a secret recipe, or technology, or process, or some special recipes, or a way to source your supplies much cheaper than everyone else, etc. that allows them to create a product that's better than most of the competition is better than a company that has a product which could easily be copied.
- **Could you become irrelevant quickly?**
Example: If you go into business selling fidget spinners, which are a novelty that was very popular for about 2 months, you could find yourself without a viable business quickly. Be sure to ask yourself how much staying power does your idea have.

- Initial investment?
Will it take hundreds of thousands of dollars to create your business and earn your first dollar? This can be a significant hurdle and risk.
- Time to first dollar? I like businesses that allow you to start making money quickly, within a few months or so, as opposed to businesses that take a very long time to build.
Optimally, you don't have to take a huge time risk to see if the market will really be willing to buy whatever you're selling.
- Immediacy? Does your client/customer consider this a need or a want?
Example: When I was designing websites, I often needed a stock photo of something, perhaps a coffee mug, or a person typing, or an alarm clock, or whatever. My work would nearly come to a halt without the photo... I needed the photo in order to move forward, so I was highly motivated to get the photo and I was willing to pay any reasonable amount to get it, so I could move on with my work. This is a great example of a need, vs. a want. Favor needs more than wants.
- How strong is your Value Proposition? Every business seeks to provide something of value. In a perfect world, you can quantify the value. Example: Buying a Roku box allows you to cut your cable bill, which for most people is maybe \$100-200/month. If the Roku box is \$50, you're saving \$1000-\$2400 annually. It's a no brainer, if it meets your needs. This is a great example of showing your client how much they can save with your solution.
- Will this business be able to meet your financial needs?
In other words - if you need say \$50K a year to get by, will this business allow you to make \$50K in profit, after expenses, within the first year? You will need a simple spreadsheet or financial projection to make sure that you can sell enough products or services, at whatever is your retail price point, to make that profit.

Interestingly, a lot of people launch their new business without having done the math to see if the business can make them enough money to satisfy their needs...

- How many other businesses do you think are already doing a business similar to yours?
- What will differentiate your business from the other competitors within the market?
- Are there more than 4 or 5 established businesses already doing what you plan to do?
(there is often room for a handful of businesses within an industry, but sometimes not much more)
- Do you think you have a good chance of doing battle against the other competitors who are already established in your space?

- How much money do you think you'll need to put into building your business before you can sell your first \$1,000 of product/services - and will you have trouble raising that capital?
- Use Reddit, Quora, Facebook Ads Manager, Facebook "My friends who like X" in search bar, Craigslist ads, Landing pages with Waiting List sign up, etc.



SEE the excellent links **at TOP OF THIS PAGE**, relating to Step Two, on Business Validation

Important questions to ask *about your ability to execute* for STEP THREE - Assessing WHETHER YOU CAN EXECUTE:

- Do you have the money to start the business and are you willing to risk it?
- If you need to go raise the capital, are you a person who is willing to go ask investors for the money, answer to the investors and work with them in order to make sure your business succeed?
- Do you have a backup source of income to sustain you for some time while your business ramps up, assuming it will not make a lot of money during the first several months or years?
- How good at managing a group of people are you?
- Do you think you can inspire people that might work for you to work hard and be responsible employees?
- Are you resourceful enough to find people to help you fill in the blanks where you need help? For example you may be great at product development, but you don't know much about sales - can you find a sales person or sale mentor, and study hard to become a reasonably informed sales expert?
- Do you know anything about marketing or sales? You will need to know a lot about advertisements, social media, search engines, copywriting, websites, and how to get your business in front of the right people. You can learn these things online, but there's a lot to learn and it will take time.

- Are you good at networking? Often the success of a business depends on the owners ability to talk to others about the business, looking for partnerships and new ways to distribute the product/service. If you're an introvert, that can be hard.

Market research: What is it and how can I do it?

Market research is the act of looking at a market and learning all that you can about it, in order to determine if you think there's a good chance that your business will survive within the marketplace.

For example, say you want to sell custom t-shirts. You look around and you learn that there are 3 local custom t-shirt producers in or near your town, and you also notice that there are over 40 companies online that also make custom t-shirts. Right away you should be thinking "That is a LOT of competition, and most of these companies are well-established. How will MY custom t-shirt company survive? Will we have something to offer that is truly special or so unique that people will find our business and use us instead of the established t-shirt companies?"

Another example: Let's say you are making designer doggy biscuits. You bake them at home from grains, molasses, nuts and other nutrients. Dogs LOVE THEM!! You invest in renting out a professional kitchen space, you incorporate your company, have a logo and website and packaging designed, you have aprons, hats, business cards, doggy bowls and tshirts made, and you sign up for a year stall rental at your local farmers market. Then you find out that people think your logo is great, you are great, and their dog loves the sample you just gave him - BUT....you also figure out that very few dog owners are willing to:

1. Buy their dog special treats
2. Pay the high prices you have to charge to make a profit
3. Buy your dog treats on a regular basis (as opposed to just once)

This is what you're doing the market research for. You need to find out if people REALLY TRULY will need or want your product enough to part with their cold hard cash. Hopefully, more than once.

Before you start any business, it's critical to assess the business idea, perform market research and risk analysis to make sure you are comfortable taking on the risk of building a new business.

1. **Market research to figure out if anyone will buy your product/service:**
The most important thing you can do is to talk to people who might be your target

audience or clients to find out if they like your business idea. Ask them what they think, and tell them to be **TOTALLY HONEST** with you even if it hurts your feelings. If you don't say that part, they will probably not be honest, and you'll get an inflated sense for how well your business will be received.

Create a sell sheet (a single page that clearly describes your product/service) and walk around to some stores who might purchase your product/service or talk to some potential users for your mobile app or whatever it is you're doing. Ask them what they would be willing to pay for your product/service.

Are there proven successes already out there doing a business similar to yours? If so, this suggests that the market is there and you might be able to tap into it.

Talk to your friends and family to see if they think your idea makes sense. *But you HAVE TO BE SURE to tell them to beat you up and be 100% honest if they don't really like your idea, otherwise they are doing you a huge disservice.*

Stop people in the street and ask them if they'd be willing to answer a few questions for \$2. It's money well spent if you can get 50 or 100 random people to give you honest feedback.

Go to trade shows or and talk to potential clients about your product and ask them if they'd be willing to place an order. Get feedback on why or why not. You will learn an extraordinary amount about the marketplace and the problems your potential customer really need solved.

Run ads on Facebook or Google and Craigslist to see how many people click on your ad and drive them to a website even if it's a single page that explains your product and asks the user to enter their email if they'd like to be notified when your product comes to market.

Set up meetings with your potential clients and explain to them that you are building a product or service that is geared toward them (your potential clients) and that you want to explain it to them in order to get feedback before you complete the final plans and execute them. See what you can learn as far as how excited the client is about what you are envisioning.

This is really important because it's extremely common to fall in love with your business idea, and then spend a long time and lot of money creating it - and then you learn that the market is just not there and nobody cares. ***You want to do your best to make sure the market will be interested in your business. Work hard on validating your idea. It can save you years of hard work and lost investment if you figure out it's a poor business idea BEFORE you actually build the business.***

2. **Financial Projections/Guesstimates and Risk Assessment:**

In addition to the above item, it's important to assess the financial risk that you are exposing yourself to while you build and launch your business. Create a spreadsheet that allows you to enter your best guesses for sales and expenses after 3 months, 6 months, 12 months and 24 months.

Hopefully you find that after your expenses, there are profits left over. But make sure that you ask yourself "if this business doesn't work and I lose the time, effort and money I've put into it, will I be OK?" Since a lot of small businesses don't last, and business owners who have never started a business have a lower rate of success, this is an important risk factor that you have to be honest with yourself about.

Here's a good simple financial projection worksheet for you (NOTE that you will need to Make a Copy of the file in order to enter your own figures into it, this linked copy is read-only)

<https://docs.google.com/spreadsheets/d/16Ror5kgGBLI0ph6h8A26A1hsksvsxJysMUDh2jwIIzs/edit?usp=sharing>

3. **How will you monetize your business?**

Make sure you have a solid strategy for how you will make money from your business. The sales need to be enough to more than meet your expenses. Hopefully you may have more than one way to make money with your new business, so be sure to think of all the possible avenues. Often you have a product or service to sell, but perhaps you can sell advertising too, or you can sell data about your customers, or you can upsell products, or whatever.

4. **Can you describe your business in one sentence?** Often, a new entrepreneur will have a hard time describing their business in less than a few minutes. It's because they haven't been able to narrow their focus or the value that the business achieves, down to a short description. Make sure you can explain your business clearly to anyone with a sentence or two. Short, and clear. Once you can do that, develop a 30 second description and perhaps a longer more detailed version for those who want to learn all the details.

5. **Who needs it?**

Make sure you have clearly defined the target group that needs and WILL PAY for your business. There are a million great ideas that nobody will pay for. Common pitfall of new entrepreneurs: They fall in love with an idea, their friends say "sure sounds great", but then once built, they realize the world doesn't care or want to pay for your business. The fix is to do lots of market research first.

What percentage of the population might need your business product? I like businesses

that have a large target market for obvious reasons. If you're selling coffee, there are a lot of people who might like your coffee. If you're starting a taxidermy business, there are very few customers who might need that service.

6. **Assess the competition in your market**

Assess the number of competitors in your space. Google it to see who else is already doing business in your space. It's very common to think you are the first one with your business idea, or innovation. Make sure to Google it extensively if this is important, just to see if you are in fact the only one, or the first mover.

There is always room for more than one player in a given market. One the flip side, I wouldn't want to compete with a lot of larger well-funded competitors, unless I had a significant difference in my service that would cause clients to use my business instead.

You don't need to be the only business doing what you do. But you also wouldn't want to enter a market that is already saturated with competitors. Sometimes if you are the only business who does what you do, that could be a sign that there is no market for what you do - so being the only one is not always a plus.

7. **If this is a bricks and mortar physical store, have you assessed the foot traffic?**

If you are thinking of renting or buying a physical store and you need foot traffic customers, it's important to sit outside the business location for several hours on different days and times, and count the number of potential customers who pass by. You might think a space has good foot traffic, but you could learn otherwise if you take the time to sit outside and watch from a distance, keeping notes on how many people of the correct age and sex to be your customers walk or ride by.

8. **Why do you believe there is a need for it?**

You should have a simple and clear answer for this, that you can explain to anyone, easily.

9. **Must haves vs. want-to-haves**

Know the difference between products and services that people **MUST** have vs. those that people **WANT** to have. Is it a **NEED** or a **WANT**?

Regarding **NEEDS** - if there is a urgent time component involved, that's even better. For example, lots of people need plumbers. And when your toilet or pipes break, they need the service *right away* and they need it *badly*. When people are looking for a nice bottle of wine, or want to go on a vacation, they don't really need it (it's a want) and they don't need it right away.

10. **What are your financial needs or income needs for this business?** By putting together conservative financial projections, where you estimate sales and costs to run

the business, you can begin to estimate whether the business will meet your financial needs on a month to month basis. This is of course critical if you plan to do this work full time.

Use a simple spreadsheet (Google Doc spreadsheets are free and work great) to estimate your sales, costs and hopefully, profits.

11. Are there legal reasons why this business could be problematic?

Some businesses are fraught with legality issues, and if they are considerable, it could be a reason to abandon your business idea, unless you are willing to deal with the legal issues. Example: If you are dealing with streaming music, you could have legality issues if you don't know who to pay royalties to, or how to calculate what royalties you owe. Or if you run storage servers online, and your users begin pirating software on your servers, you could be in trouble. Or if you start a video sharing business, like YouTube, you will have users uploading videos that they don't have the rights to, again, could be trouble. So think this through regarding your own business idea.

12. How much time will you need to devote to the business?

There's no specific answer, but building a business needs a lot of your time, energy and focus. I would have a hard time believing anyone could build a solid business with less than 20-30 hours per week. Most entrepreneurs work well over 40 hours per week on their new business. It will be close to all-consuming if you're doing it right.

13. Software vs. products vs. services, and digital goods and services vs. non-digital physical goods:

All of these have pros and cons -

Software: Doesn't need a bricks and mortar storefront or store normally. Software can almost run itself, 24 hrs a day, whereas a store requires employees etc.

Physical products: Often you have to pay up front for them, and often you have to warehouse them. This can cost a lot of \$\$ in rent and product production. You don't get paid back until you sell the products. With digital products, like e-books or services or digital photos or music, you just copy it and send it to the buyer. It's basically free to do that and you don't need a physical store or rent.

Services: Services are great because lots of people need them but they require people to perform the service. This costs \$\$\$. In a sense, you are 're-creating the wheel' with each customer. Also with service businesses, or any business that involves a lot of customer interaction, you will find that customers often take up a LOT of your time. Always budget for customers taking up a lot of time, much more than you imagine.

Digital goods and services vs. non-digital physical goods: Digital products don't

need to be warehoused or pre-ordered and they are unlimited normally, i.e. you can make copies of them to sell. Physical products usually take up space, need warehousing, need to be physically shipped to the buyer, etc.

Software and digital download products are basically unlimited and nobody has to pay to create more of them normally, aside from copying them digitally. Physical products often have a shelf-life in stores, and often