Business Idea Validation

A Practical Framework for Startup Founders

Prepared and delivered by:

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"The first principle is that you must not fool yourself – and you are the easiest person to fool."

-Aristotle

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Why Business Validation Is Critical

Statistic: <u>90% of Startups fail</u>-most due to lack of market validation.

Common Mistakes: Relying on assumptions, skipping validation, building the wrong product or service.

Key Takeaway: Avoid costly mistakes by validation ideas early.

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Agenda

01 **First Principles (2 hours)**

Introduction, overview, & method (30 mins)
Hands-on application (1 hour 30 mins)

02 **Validation Tools (1 hour)**

Business Model Canvas, Lean Startup,
Market Research (45 mins)
Hands-on application (15 mins)

03 **Take-Home Resources**
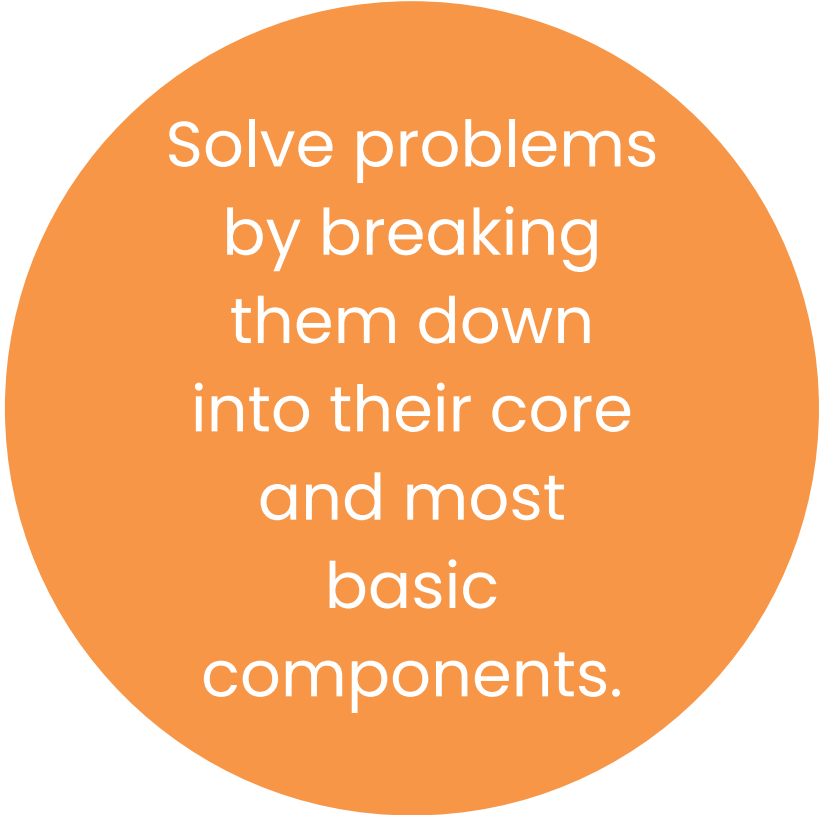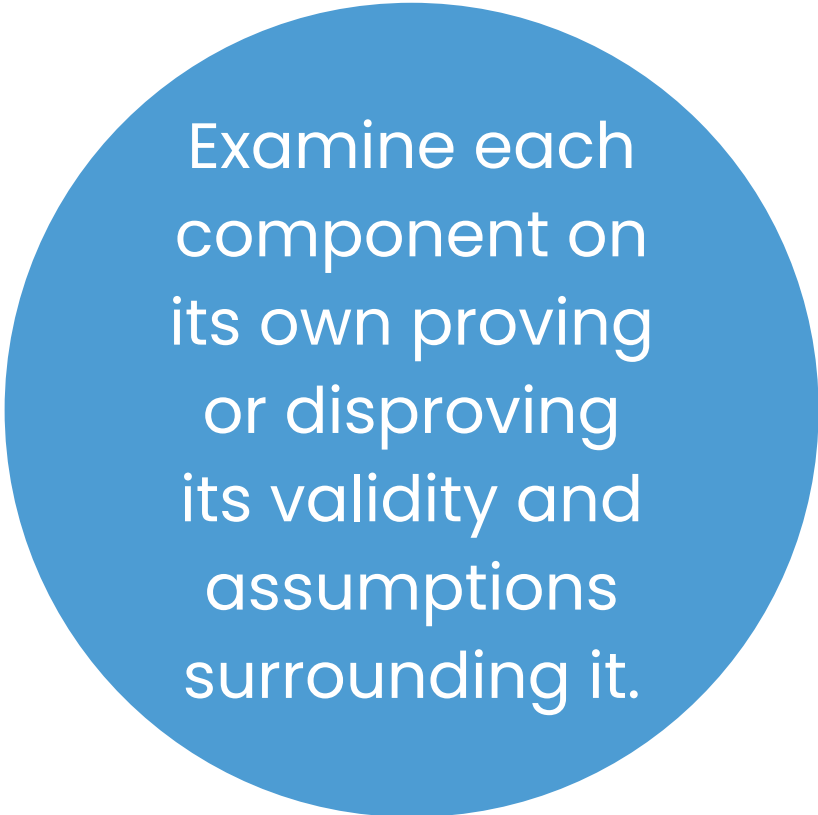
Worksheets, Templates, and
Recommended Reading

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First Principles

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Reasoning from First Principles

Validate your solution against real business problems.
Immensely valuable to ensure wise time and money investments.
Catalyzes clarity, innovation, thoroughness and product resilience.

Approach

Solve problems by breaking them down into their core and most basic components.

Examine each component on its own proving or disproving its validity and assumptions surrounding it.

Benefit

Relying on analogies, own observations, and others' actions

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Understanding Essential Truths

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Why Is It Important?

Money

Save money by avoiding to build unwanted solutions

Time

Save time by changing direction early.

MVP to market is approx. 6 – 12 months

Pivot: Change your product or service towards something desirable and impactful

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The Framework

The 4 step process

Deconstruct

Break down the problem to its fundamental components. Strip away assumptions, opinions, and beliefs until you have Objective facts (Axioms) or Pillars

Step 1

Analyze

Understand each component independently. What's a core fact or unchangeable elements?

Step 2

Reassemble

Reassemble the Components from the Ground up: Start with Axioms and build your reasoning with your components

Step 3

Validate

Validate the conclusion converges to your solution

Step 4

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Case Study Algofy.ai

An InsureTech startup wants to solve the no savings/no pension problem for customers through a monthly savings scheme. With an added benefit of rewarding customers for completing daily exercise (closing rings) with contributions made automatically at the end of the month.

Conclusion

To disrupt the market you need an insurer or broker license and own the customer acquisition and service.

Reasoning

Digital disruptors with their own license and end to end control for customer acquisition and service can disrupt entrenched models.

Regulatory rules for servicing customers. Regulatory rules for issuing policies.

Introducing disruptive initiatives inside established insurance companies fail due to politics and competing priorities.

Validated by case studies at XYZ insurance. Validated by white paper XYZ.

Disruption is coming from outside the insurance company.

Lemonade, Trov, Metromile are all outsiders.

Most insurers New initiatives gets bogged down inside of the insurer because of politics and operations not in tune with new Tech.

70% of transformation projects fail due to Enterprise complexities – McKinsey study

Axioms

Most insurers are old fashioned and not in tune with new Tech.

Market research across the globe shows insurance lagging and in need of disruption.

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Full Case Study

A comprehensive exercise should include several Axioms with reasoning branches. Find and flag incorrect assumptions to discover blind spots.
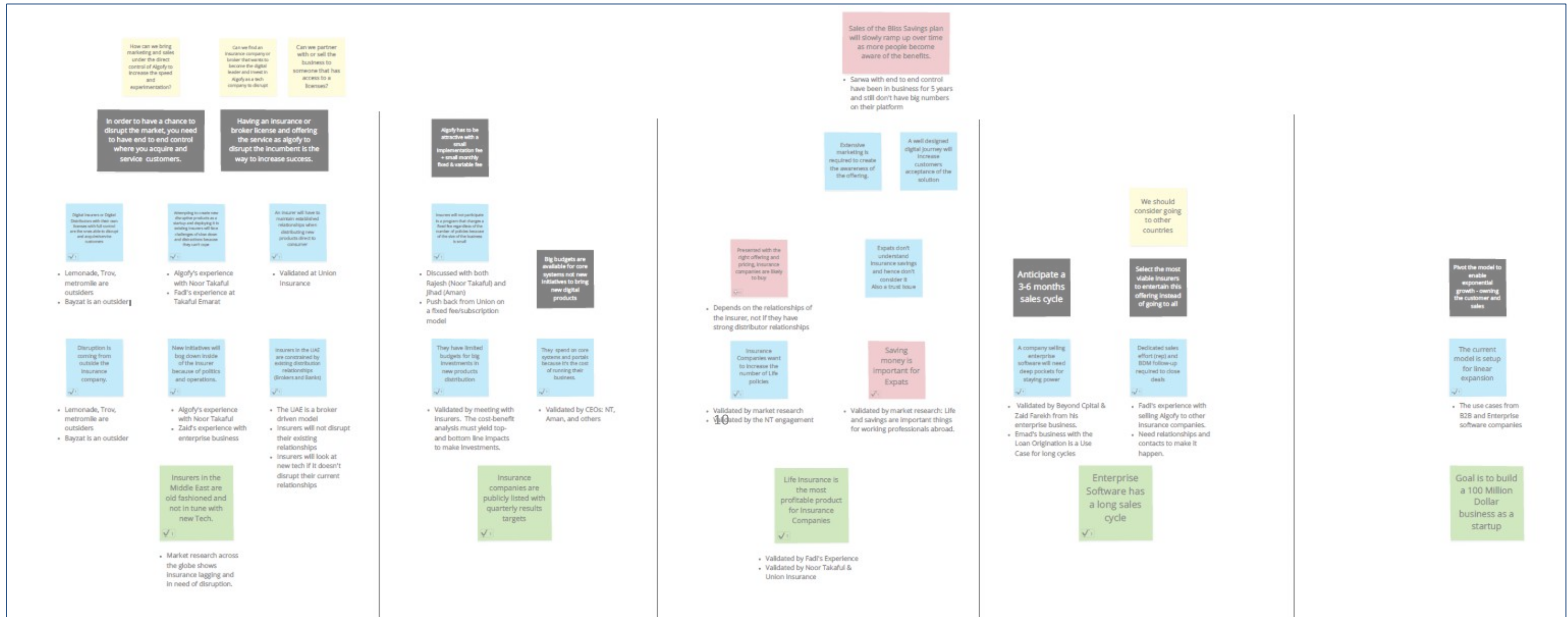
Hands-on Exercise - Applying First Principles to Your Idea

1h 30m total

- Step 1: Deconstruct (20 Mins)
- Step 2: Analyze (15 mins)
- Step 3: Reassemble (20 Mins)
- Step 4: Validate (15 Mins)
- Group Discussion (20 Mins)

Deconstruct

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Essential business readiness checklist

Use this checklist to cross-check the completeness of your Pitch to investors and stakeholders.

Problem An articulated problem that deserves to be solved with validation.

Solution Clear solution that address the identified problem & scope

Market Opportunity The size of the market and potential revenues.

Unique Selling Proposition What differentiates you from the competition.

Ideal Customer Profile Primary customers demographics & info

Revenue Model Detailing of your Rev, Expenses & profit targets

02
Validation Tools

- Business Model Canvas

- Lean Startup Method

- Other Tools

Business Model Canvas

A one-page strategic tool that helps entrepreneurs and startups visually map their business model. It consists of nine building blocks that describe how a company creates, delivers, and captures value.

Business Model Canvas

Customer Segments
(Who do you serve?)

- Identify your target customers (Who benefits from your product/service?).
- Group them based on demographics, behavior, or needs.

e.g.: Tech-savvy millennials who want automated savings tools.

Value Proposition
(What problem do you solve?)

- Define your core value—why do customers choose you?
- What pain points do you solve?
- What benefits do you offer?

e.g.: Algofy.ai helps users save money effortlessly by linking savings to fitness goals.

Channels
(How do you reach customers?)

- List the marketing and distribution channels to deliver your value proposition.
- Can be physical (stores) or digital (website, social media, app).

e.g.: Mobile app, online ads, partnerships with fitness brands.

Customer Relationships
(How do you interact with customers?)

- Define your core value—why do customers choose you?
- What pain points do you solve?
- What benefits do you offer?

e.g.: AI-powered chatbot for onboarding, community engagement through fitness challenges.

Business Model Canvas

Revenue Streams
(How do you make money?)

- Identify how and where you generate revenue.
- Can be subscriptions, freemium, licensing, advertising, commissions, etc.

e.g.: Monthly subscription fee + premium fitness integration upsells

Key Resources
(What do you need to operate?)

- List the assets (physical, intellectual, human, financial) that are essential.

e.g.: AI-powered savings engine, mobile development team, partnerships with financial institutions.

Key Activities
(What must you do to deliver value?)

- Define the most important activities your business must perform.

e.g.: Product development, AI training, customer acquisition, compliance with financial regulations

Key Partnerships
(Who helps you succeed?)

- Identify strategic partners, suppliers, or affiliates that support your business model.

e.g.: Banks for savings accounts, fitness tracker companies, digital marketing firms.

Business Model Canvas

Cost Structure
(What are your major costs?)

- Identify fixed and variable costs in your business.

- Ensure it aligns with your revenue model.

e.g.: App development, cloud hosting, AI maintenance, customer support.

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Mini-Exercise: Draft a rough Business Model Canvas (15 Mins)

Draft a BMC for your business

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Lean Startup Methodology

An iterative approach emphasizing rapid experimentation, validation of learnings, and continuous feedback.

Minimizes waste and increases the chances of success.

Follows the Build-Measure-Learn cycle, where you create a Minimum Viable Product (MVP), test it with real customers, gather data, and iterate based on insights—ensuring they develop solutions that meet real market needs before investing heavily in full-scale development.

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Lean Startup Methodology

Key Principles

1. Validated Learning: Every iteration should teach you something about your customers.

2. Pivot vs. Persevere: Adapt based on results—don't be afraid to change course.

3. Experimentation Over Perfection: Release quickly, test often, improve continuously.

4. Customer Feedback Focus: Build what customers actually need, not what you assume they need.

Build
(Create an MVP - Minimum Viable Product)

- Develop a simple version of your product with just enough features to test key assumptions.

- Focus on solving the core problem without unnecessary complexity.

e.g.: A basic landing page, prototype, or manual service before automation.

Measure
(Test & Gather Data)

- Release the MVP to early adopters and track customer behavior & feedback.

- Use metrics like conversion rates, engagement, and retention.

- Conduct A/B testing or small-scale trials to validate assumptions.

Learn
(Analyze & Iterate)

- Determine if your assumptions were correct based on real customer feedback.

- Decide: Should you pivot (change direction) or persevere (improve and scale)?

- Iterate and refine the product before investing heavily in development.

Other Validation Techniques

Other techniques you can use to augment your First Principles exercise and triangulate on validation for assumptions and conclusions.

Customer Interviews

Talk directly to potential users to uncover real needs, pain points, and validate if your solution truly solves their problem.

Competitor Analysis

Study existing players in your market to identify gaps, differentiators, and opportunities to position your business uniquely.

Market Research

Use data, industry reports, and trends to assess demand, customer behavior, and the potential size of your market.

When to Pivot vs. Persevere

Pivot if core assumptions are invalidated by data, but persevere if adjustments can refine your value proposition and improve traction.

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Your Homework over the coming weeks

Complete the following exercise for a hand-in assignment:

1. Iterate, validate, and refine your First Principles exercise

2. Complete a Business Model Canvas mapping of your business

3. Use the Lean Startup Method to further validate and triangulate on your assumptions & conclusions

4. Use other tools as you feel appropriate to help you complete your validation

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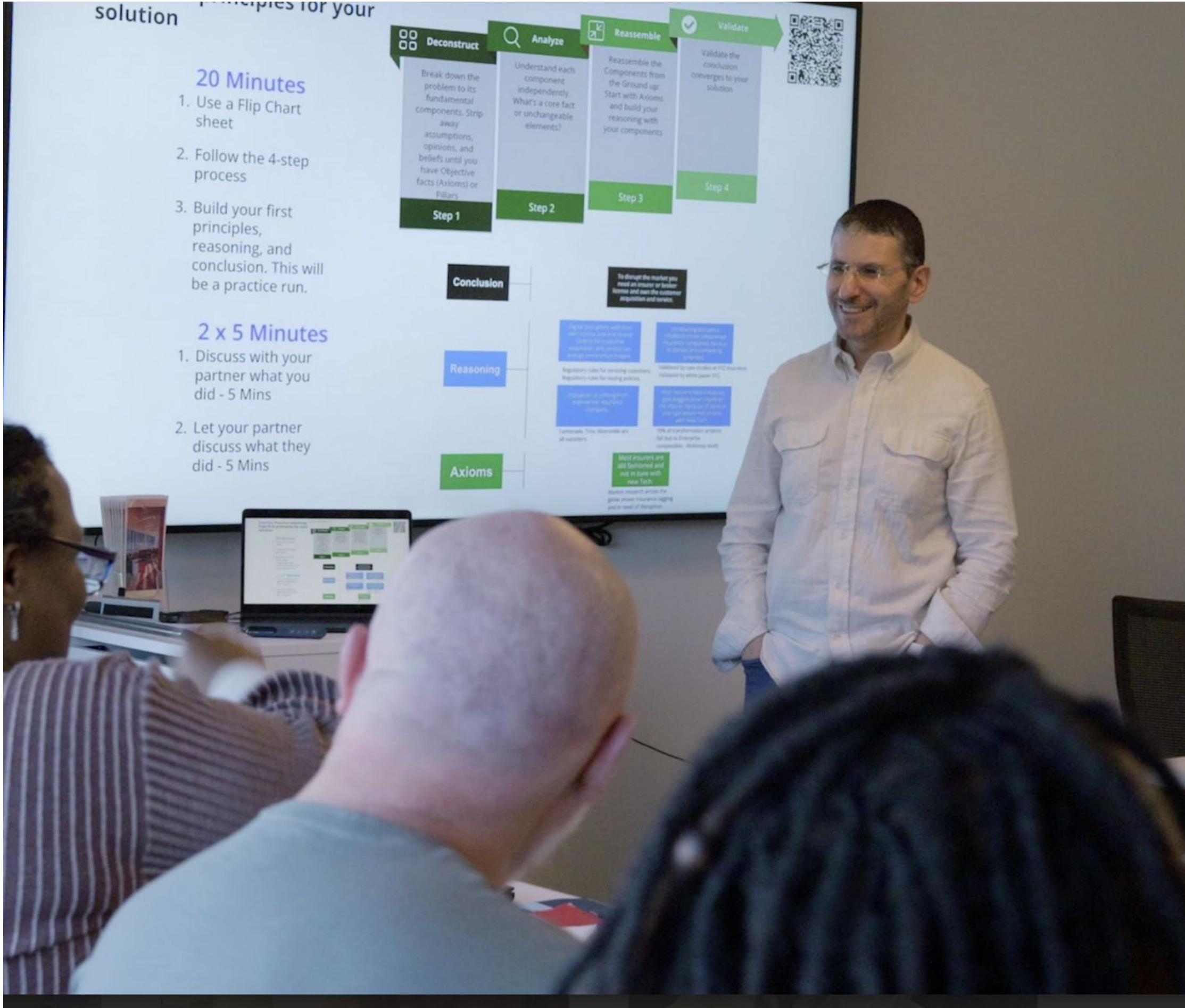
Thank you for having me today!

Grateful to spend this evening with all of you.

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Thanks!

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