

**AFTER5PRENEUR**

**BUSINESS IDEA  
VALIDATION**

# INTRODUCTION

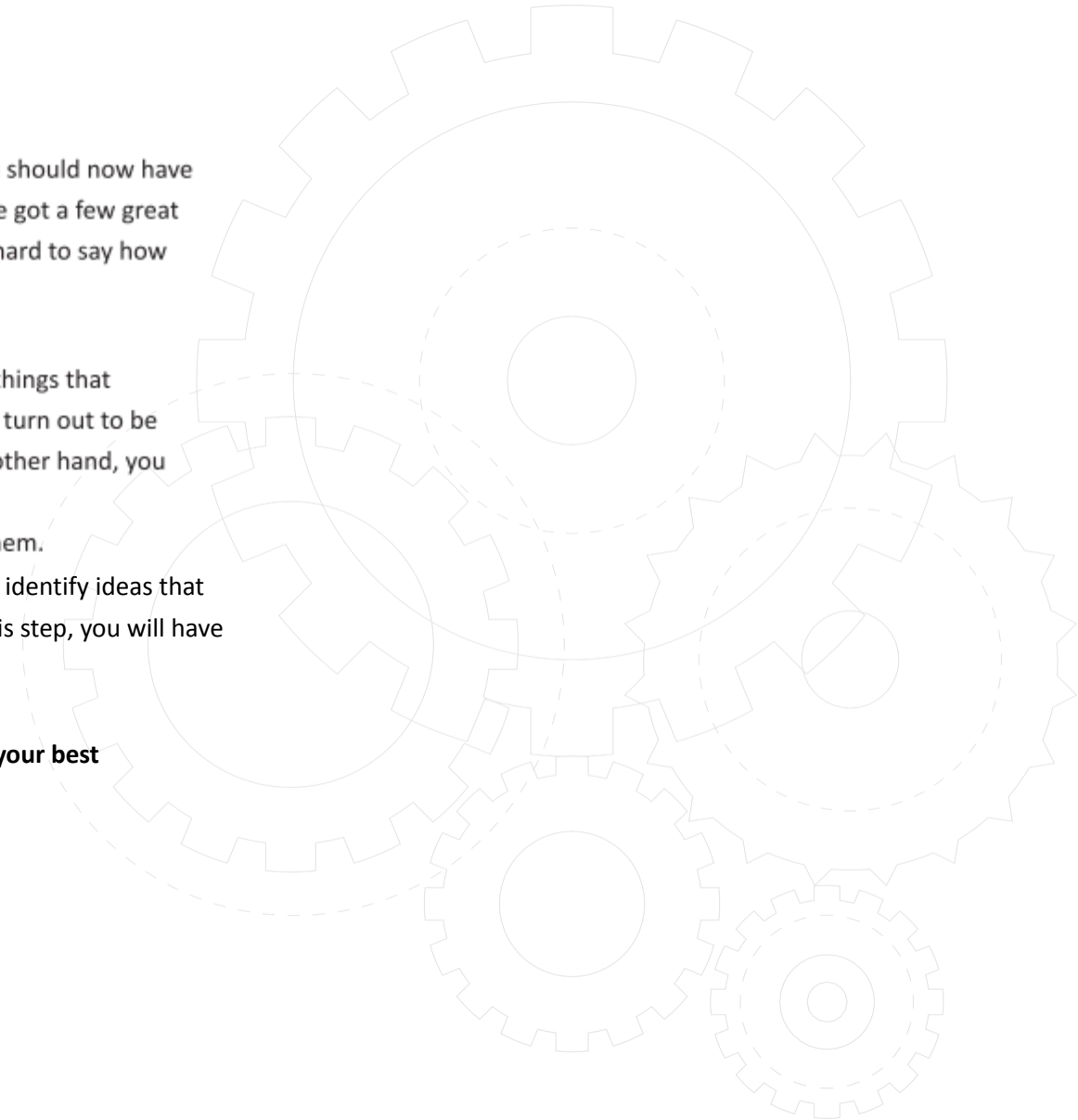
If you completed the work in the Step 1, you should now have a list of 4 business ideas. Do you think you've got a few great ideas in that list? Right now you may find it hard to say how good any of them really are.

We can tell you from experience that many things that initially look good on paper don't eventually turn out to be working or getting any momentum. On the other hand, you can sometimes find winning ideas where you least expect them.

In this chapter, we will show you how you can identify ideas that carry true business potential. At the end of this step, you will have identified your #1 business opportunity

**Here are the steps we will follow to identify your best business opportunity:**

- 1. RATE YOUR BUSINESS IDEAS**
- 2. VALIDATE YOUR BUSINESS IDEAS**
- 3. MAKE A DECISION**



# 1. RATE YOUR BUSINESS IDEAS

We are going to rate your ideas using a 25 points checklist. You can also add some of your own criteria to the checklist if you wish. The elements on the checklist are basically what angel investors, venture capitalists and business plan competition judges would use in evaluating the potential of a business idea.

For each question, simply answer with YES or NO. Ideas with the highest number of YES answers possibly have the best chances of success. Ideas with a lot of NO answers may have less attractive opportunities from the information you have at that point.

Remember, this is the stage where you are supposed to pick the winning idea. Look at them objectively without getting overly attached to any single idea. Judge each idea on its own merits.

## **How to interpret the results:**

Look at your completed Business Idea Rating Sheet. Do you have at least one business idea with a lot more YESs than others? This would be an idea worth investigating further.

It's possible that you are not satisfied with any of the ideas you evaluated using the rating sheet. In this case, you will need to start from scratch to generate another list of ideas and then evaluate their potential using the same process.

For every idea that you are still considering after using this checklist, we suggest that you spend more time investigating to know everything about the business and industry before investing too much of your time and money to find out about critical risks and limitations you never knew about once you are deeply invested later. Consider this research time investment as risk insurance.

## 2. VALIDATING YOUR BUSINESS IDEA

There are many ways to continue to validate a business idea. Here are some of the most common approaches:

- **TALKING TO PEOPLE**
- **DOING YOUR OWN RESEARCH**
- **DOING YOUR OWN MATH**

Using all three methods together will likely help you gain a 360-degree view of what it means to start this business idea.

### TALKING TO PEOPLE

To validate your business ideas, you need to ask questions and listen to what others have to say. The people you need to talk to include friends and family but most importantly potential customers and people who are experts in the field.

Talking to people, asking questions, and listening to what they say with an open mind will tell you much about the potential, challenges, and pitfalls of a particular idea. In these discussions, leave your ego at the door so that you can listen better, absorb facts, and learn. Don't get defensive about the idea. You don't owe it loyalty and should be willing to drop it should it fail to show good prospects. Remember that, remain cool and listen to what they have to say.

#### Friends and family

Family and loved ones can tell you whether the idea may be suitable for you, but the danger is that your loved ones may support you even if the idea is terrible, just because you seem to have set your heart on it. You can get a lot of insights by talking to friends and perhaps your mentor (if you have one). You should encourage them to be honest with you.

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## 2. VALIDATING YOUR BUSINESS IDEA (Cont'd)

### Potential customers

Pick a few people whom you feel would benefit from the type of product or service your business idea proposes and bounce your idea around to see their reactions and collect their feedback. This is always a good opportunity to learn about features desired by the users and the reasons why they decide to buy one product over another.

### Experts in the industry or technology

If your business idea revolves around your area of expertise, you would probably know much about the industry and technology already. But still, it couldn't hurt to talk to industry experts about what they think of your idea. They may be able to see it from a perspective different from your own.

On the other hand, if you are considering a business idea in a field, sector, or industry in which you are not familiar, you will really need to talk to someone who knows the business sector inside out. Among other things, this will help you learn:

- How things work in that specific sector;
- What prospects and challenges you are likely to find;
- The easiest ways to break in with your product or service;
- The things you need to master before you launch;
- People who matter and the key players in that sector;

Some of the information would be available in the public domain, but some things can only be gleaned from an insider. Often, this type of information is not even available for purchase even if you were willing to pay for it.

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## 2. VALIDATING YOUR BUSINESS IDEA (Cont'd)

### DOING YOUR OWN RESEARCH

First you need to understand what forces shape this industry and which of those are likely to affect you and how. In 1980, in his book, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, Michael E. Porter discussed a model called the Five Competitive Forces. These five forces—often referred to as Porter's Five Forces—impact your business idea.

#### They are:

- Bargaining power of customers
- Bargaining power of suppliers
- Threat of substitutes
- Threat of new entrants
- Competitive rivalry within the industry

What you need to do is to look at how these forces work together to make any industry what it is. If you can get a clear idea about them, you can anticipate the challenges you are likely to face if you tried to enter this industry. The way these forces combine can determine how easy or difficult your task would be in any sector or industry. Other ways to learn about the forces include reading market reports, articles or researching the web. Industry information is not going to be sufficient on its own. You need to find out whether there is a reasonable market for your product or service and whether you will be able to capture a decent share of it.

#### Here are some of the questions you need to ask yourself:

- How many people want my product or service?
- Do they need it and are willing to pay for it?
- Who are my competitors? What are they like?
- How are my products or services going to be different from those offered by others?
- What market share can I

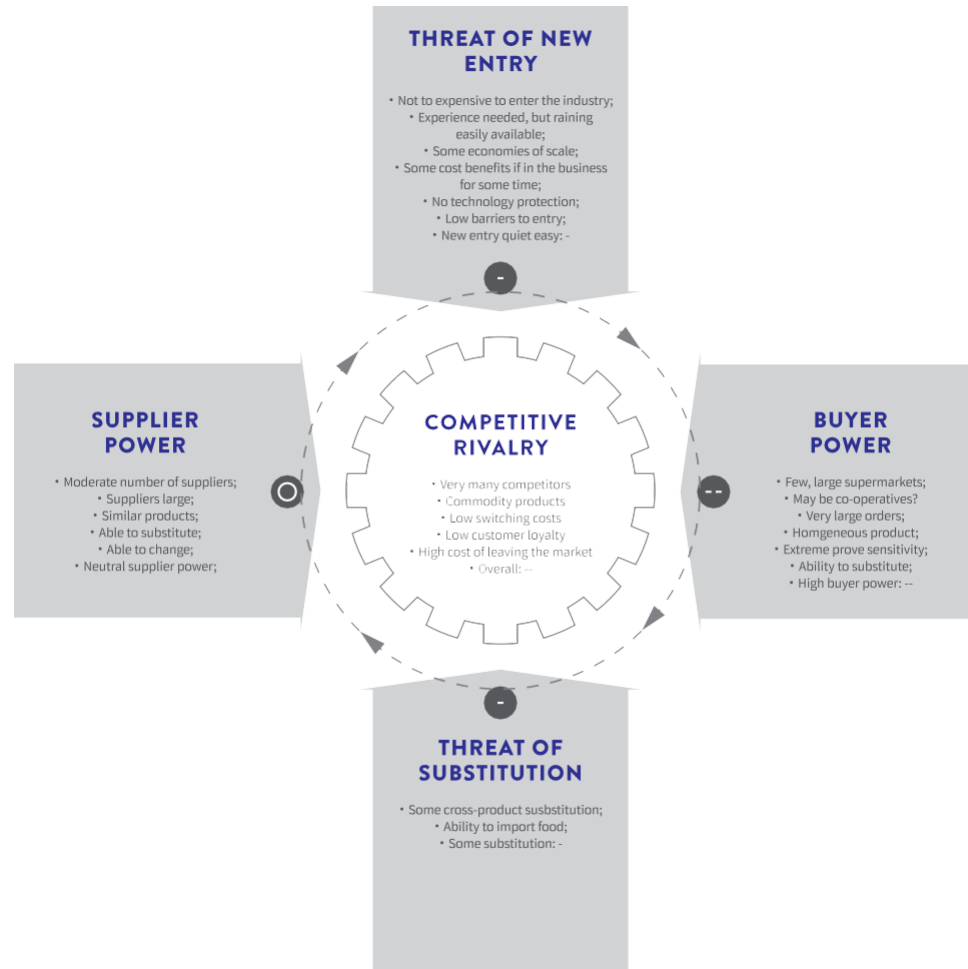
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## 2. VALIDATING YOUR BUSINESS IDEA (Cont'd)

### PORTER'S FIVE FORCES

(That impact your business idea)

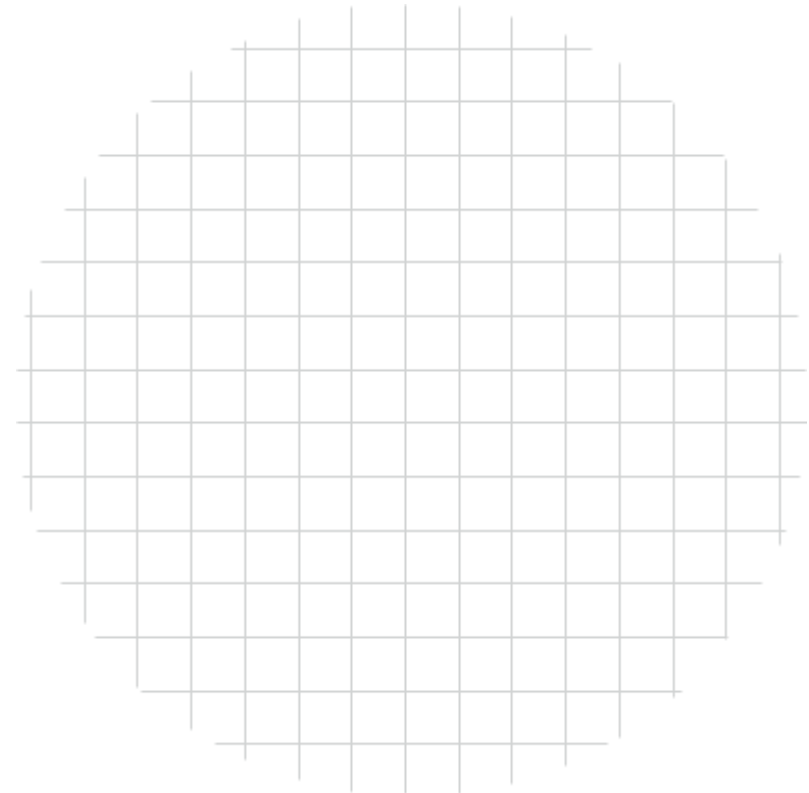


## 2. VALIDATING YOUR BUSINESS IDEA (Cont'd)

### DOING YOUR OWN MATH

Calculating revenues, costs, breakeven points, profit margins, market sizes and market share (among other things), will help you see how likely or unlikely you are to succeed in executing each idea you are still considering at this point. It will also give you a first idea of what you will need by way of initial and follow-on investment to start and operate the business until it turns a profit.

You do not need to run an advanced financial forecasting at this point. The goal is more to understand the dynamic of the business model by playing with the numbers. The next chapter will help you to do this simple business model simulation.





## 3. TIME TO MAKE A DECISION

Are you ready to pick one great business idea to move forward with? Do you still have 2 or 3 business ideas you could possibly start? If you still can't decide which idea to commit yourself to, the next chapter may help you decide.

If, after all of this, none of your selected business ideas seem attractive anymore, you could always repeat the process for another set of ideas. This is what the whole rating process is about weeding out the not so bright ideas to find winners from among them.



# CONCLUSION

Now you must take on this idea and develop it to a stage where you can create a business out of it. And although we looked at a lot of aspects that make a great business idea, one of the most important things is your business model.

## WORKSHEET

**BUSINESS IDEA VALIDATION**

This exercise will help you rate and screen your best business opportunities. You should treat this step like you are an investor analyzing various business investment options.

**BUSINESS IDEA RATING SHEET**

	IDEA 1	IDEA 2	IDEA 3	IDEA 4
<b>Just answer YES or NO.</b>				
1. Clear purpose & vision				
2. Solve a real need, problem or burning desire				
3. Customers have buying power				
4. Customers are willing to pay for the product or service				
5. Huge market (constant & large demand)				
6. No or few substitute products or services				
7. Low or weak competition				
8. Better, faster or cheaper product or service				
9. Innovative and disruptive product or service				
10. Scalable and proven business model				
11. Recurring business model				
12. Strong management team				
13. Experience in the area or industry				
14. Trends & timing				
15. Ability to execute				
16. You are really passionate about the business				
17. Time to market is less than 12 months				
18. Clear path to cash				
19. Low breakeven point & risks				
20. High profit margin				
21. Clear marketing strategy				
22. Proper financing				
23. Sustainable competitive advantage				
24. Significant barriers to market entry				
25. Viable exit strategy				
<b>TOTAL OF YES</b>				
<b>TOTAL OF NO</b>				
<b>TOTAL OF NOT SURE</b>				

## WORKSHEET

# BUSINESS IDEA VALIDATION

This exercise will help you rate and screen your best business opportunities. You should treat this step like you are an investor analyzing various business investment options.

<p><b>YOUR WINNING IDEA:</b></p>	<p><b>WHY IS THIS SUCH A GREAT IDEA?</b></p>  <p><b>WHAT MAKES IT A WINNING IDEA?</b></p>
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