



## Evaluate Your Business Idea

Make sure you have a good business idea before you start a company around it.

### 1. Set your financial and personal goals for the business.

You can only test your idea by comparing it to your goals. What is a good enough outcome to make the business worth your time and effort?

- What financial return do you need or expect?
- How much money do you want to make?
- What will your life look like if this is a success? Is this how you want to spend your time? Bryan Armstrong<sup>1</sup> suggests thinking about whether you would be excited to tell people at a party what you do.

### 2. Find out if the idea meets a market need.

The business idea has to meet a need, solve a problem or take away someone's pain. Put yourself in the customer's mind.

Can customers tell the difference between your product and the alternatives, including doing without the product all together?

James Garvin<sup>2</sup> says reduce risk with low-cost ways to find out what customers think. Ask potential customers about their problem before introducing your solution. If they aren't interested find out why. Visualize the idea as much as possible before going into business. Make scale models of products. Map out service processes. Diagram the layout of your shop or facilities. Mock up screenshots for the website. Then share these with your mentors, potential customers and peers to find problems before you start.

### 3. Measure the size of the market.

John Mullins<sup>3</sup> says to know the difference between your market and your industry. The market is who you sell to and the industry is who you compete with.

- How many customers need your product or service?
- How much will they pay?
- How often will they buy it?
- How fast has the market grown in the last five years?

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### 3. Measure the size of the market (continued)

- What is the forecast growth for the next five years?
- If you succeed in this market will that let you branch into related markets?

Isabel Isidro<sup>4</sup> has two more tips for home based business ideas. Make sure your product is easy for customers to understand since you can't afford a big ad campaign. Also, don't let your love of a hobby lead you to be unrealistic about demand.

### 4. Check on the industry's attractiveness.

Many entrepreneurs use a version of Michael Porter's<sup>5</sup> checklist for testing an industry.

- Will it be easy for competitors to follow you into this market?
- Do your customers have a lot of alternative products and services to switch to if you raise prices?
- Do you have a lot of suppliers to choose from if one raises their prices?
- Are your processes better, more efficient or much less expensive than the competition?

### 5. Find out if you can make money with this business model.

You need to produce, distribute and sell enough of your product at a price that lets you cover startup and operating costs and still make a profit.

- How much will it cost to startup?
- Do you have that much money?
- If not, how can you cover the difference?
- When will you break even and can you get up and running and sell enough before you run out of money?
- Is this business too complicated to start and run with your resources and skills?

Angela Ly<sup>6</sup> says high-growth companies need big cash reserves to cover day to day expenses since you will want to reinvest a lot of revenue to drive expansion.

#### References:

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5. Porter, M.E. (2008) *The Five Competitive Forces That Shape Strategy*, *Harvard business Review*, January 2008
6. <http://www.gaebler.com/Is-My-Business-Idea-A-Good-One.htm>