# RESEARCH ON THE RUN

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## TESTING YOUR SMALL BUSINESS IDEA BEFORE OR WHILE YOU LAUNCH IT

by Sandra Kahale

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# What's Inside...

# Starting a Business

There are lots of different ways to start a business, and lots of different types of people who start them.

Some people, for example, are planners. They like to start with a carefully considered business plan. They'll spend weeks or months "perfecting" their idea on paper before launching it.

Doers, on the other hand, tend to skip or skim over the planning phase and move straight into action. They may make money sooner, but eventually run into trouble because their actions aren't linked to an overall sense of direction.

What planners and doers both eventually realize is that to start a successful business, you have to both plan and do, in turn, probably more than once. Plans you develop in isolation, without real market feedback, are very unlikely to unfold as you expect. Similarly, actions taken without a sense of purpose don't tend to get you very far.

The best approach is one that recognizes that planning, research, and taking action are all key components of building a successful, sustainable business. And that the process of starting a business isn't necessarily a linear one. You may plan a little, do some research, take action, and then return to planning and research before making your next move.

This process reflects the reality that a business idea is essentially a hypothesis and that starting a business is, in a very real sense, an experiment.

If your business is built on a relatively radical idea, then the whole concept is a hypothesis. That was the case for Zappos, the online shoe retailer. When Zappos started in 1999, it wasn't at all clear that people would buy shoes online without trying them on. So Zappos started their business in "test mode" and validated their concept before investing millions.

Even if your idea isn't radical, you'll have to hypothesize about how to package and promote your products or services, what to charge, and how to keep customers satisfied. As you go to market, you'll see how customers react, make adjustments, and retest.

Understanding your new business and its various elements as experiments should help you get over any anxiety you may have about getting things "right" as you go to market. A failed experiment is not the end; it's an information point.

More importantly, experimentation provides a manageable way of starting your business, allowing you to focus in on some of its key elements. It's the kind of deep research we should all be doing as part of our business planning, but rarely do.

You can test and validate your idea before, during, or after you write a business plan. Doing it at all matters much more than when.

# From Idea to Action: Testing Your Business Idea

Every business begins with an idea.

Ideas excite us. They motivate, compel and sustain us, giving us the energy to propel ourselves forward.

But our ideas can also blind us. We get attached to them and, in our excitement, we can fail to see their flaws and weaknesses, or ignore opportunities to make them stronger.

When it comes to business, that matters. A lot.

If you're starting a business, you want to give yourself the best possible chance to succeed. Business is risky, after all. About 1/3 of new businesses fail in the first 2 years.*

An idea that looks good on paper can easily flop in the real world. Similarly, an idea that seems ridiculous — like pet rocks — can be a runaway success.

Testing your idea and getting real, relevant feedback from the market is a great way to take your blinders off. It's also a smart, relatively gentle way to actually start your business and build the knowledge and confidence you'll need to go all in.

* Small Business Administration (SBA), 2014

Every idea is based on certain assumptions — things that have to be true for the idea to work as you imagine or intend.

**Idea validation is the process of testing your assumptions and getting feedback on your business idea before fully launching it.**

There are lots of ways to go about testing your idea, including prototyping, holding interviews and focus groups, soft launching, pre-selling and testing real or ghost pages online. We'll go through these and other approaches in this guide.

Whatever approach you choose, the goal of the testing and validation process is to expose your idea to your target market so you can get **real, relevant, reliable feedback** from potential buyers. Depending on how you design your test, you can also start to **generate revenue while you test**, effectively pre-launching your business.

This "research on the run" approach also helps you get experience and develop confidence as a new business owner.

# Ideas are easy. Implementation is hard.

Guy Kawasaki

**Ideas are meant to be attacked, torn apart, and put back together again.**

David H. Hansson

# 5 Reasons to Test Your Business Idea

**① SAVE TIME & MONEY**

Starting a business can be expensive and time-consuming, especially if you make lots of mistakes along the way. Testing protects your investment by confirming there is a market for your product or service before you launch.

**② CONFIRM YOU'RE ON THE RIGHT TRACK**

The most common mistake new businesses make is putting time and energy into building something nobody wants. Testing helps you confirm that your target customers actually value your proposed product or service enough to pay for it before you build.

**③ REFINE YOUR APPROACH**

Making decisions about what and how to test takes your business idea a step closer to becoming a reality, with minimal investment. As you test your idea, you'll sort out some details about how your business could and should actually work.

**④ BUILD INTEREST**

Testing your idea means exposing it to your target market in one way or another. As you do, you can build interest and create a pool of eager potential buyers that you can tap into when you're ready to launch.

**⑤ GET STARTED FASTER**

You can start your business simply with a small, first offering and use the feedback and revenue you get to guide your next steps.

# A Word of Caution

Ever heard of "confirmation bias?" It's the tendency most of us have to seek information that confirms what we already believe while shutting out information that contradicts it.

As you prepare to start a business, confirmation bias can be dangerous. At this stage, it's in your best interest to actively seek out the flaws and weak points in your idea. Your aim should not be to prove that you are right, but rather to find opportunities to improve your business idea and get your business started off on solid ground.

As you start to test and validate your idea, don't let your own strengths and weaknesses dictate what you focus on. It's normal but ill-advised to gloss over the areas you aren't naturally good at.

If math makes you uncomfortable, you'll tend to skim over the financials or analytics. If selling makes you nervous, you'll tend to over-focus on everything else. Recognize your own tendencies here and aim to be balanced as you move forward. Outsource or get help if you need to.

Keep an eye on where and how you are spending your time. If you find yourself spinning your wheels on logo design or other non-revenue generating activities, reel yourself in.

# Everyone is in love with his own ideas.

Carl Jung

# The Testing Framework

Every business is different, and there are lots of models for creating and delivering value in the market, including:

- **Services:** helping people do or accomplish something, sometimes using special knowledge or expertise.

- **Physical Products:** tangible, physical goods that might be durable (like furniture or books), or consumable (like flowers or lemonade).

- **Digital Products:** virtual products like software, online courses, ebooks, and downloads.

- **Subscriptions & Memberships:** ongoing goods or services delivered for a recurring fee, such as magazine subscriptions or car-sharing memberships.

- **Reselling:** acting as the middleman between one entity (like a manufacturer) and another (like a retailer), or engaging in things like up-cycling and vintage goods.

You'll tailor your approach to testing your idea based on many factors, including your business model. But the overall framework is relevant to any new business and to any new product or service in an existing one.

# The 5-Step Process

## STEP 1 - DEFINE

To get clear results from testing, you'll need a clear question or set of questions to take to market. So the first step is to define what those questions are and articulate them clearly.

## STEP 2 - RESEARCH

Even just a little research is useful. A quick survey of the landscape gives you a head start on some of your questions by tapping into what others in your industry or sector are already doing, what's working, and what's not.

## STEP 3 - TEST

Get in front of real potential customers and see how they respond to your particular offer. You can do this in many ways; some allow you to actually sell while you test.

## STEP 4 - ASSESS

Reflect on what market feedback has taught you and determine how to respond. Consider not only input from real or potential clients, but also what your tests can teach you about how to operate your business effectively overall.

## STEP 5 - ADJUST & MOVE ON

Figure out what the next, best move is for your business and take it. Consider more research, refined testing, or business planning — all essential aspects of getting your business off the ground successfully.

# STEP 1 - DEFINE

Testing is basically running an experiment. To run a good experiment you have to be clear on what you're testing. So the first step is to figure out your hypothesis.

In some ways, your entire business concept is a hypothesis – it's a theory you have about something you believe other people would value enough to pay for.

Within your business concept, however, you'll have either questions or assumptions about things like:

- What features people want, need, and value

- How to package your offerings

- How and where to promote

- Where you should sell

- Whether people will buy & how much they'll pay

- The most effective way to sell your product

- How you fit into the existing market

You can spend a lot of time and energy developing your idea based on your assumptions and hoping people will buy. In a way, that's like art: working from your own creativity and hoping it finds a home.

A marketing-based approach, however, is to design and develop your product or service with your end buyer in mind from the outset.

Defining your business concept and getting market feedback on key questions brings together the best of both of these approaches.

# You have to have an idea of what you are going to do, but it should be a vague idea.

Pablo Picasso

# Work It: Clarify Your Concept

What will you sell? Be as specific as you can.
*Example: single serving nutrition bars in 3 flavours, 6 month fitness training packages, online group guitar classes.*

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Who will buy it? Who is your ideal customer?

*Example: busy, active women aged 30 to 45 who eat organic and regularly shop at health food stores.*

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How will they hear about it? *Example: in-store sampling, ads in health magazines.*

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Why will they want it? *Example: nutritious, all-natural bars that taste great and have more protein than other bars.*

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Where and how will they pay for and receive it? *Example: health food stores, yoga and fitness studios; online shopping cart + home delivery.*

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How much will they pay? *Example: Less than $4/serving.*

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# Work It: Define Your Questions

What aspects of your concept do you feel least confident about?

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What key assumptions have you made? Which could make or break your business?

(e.g. access to distribution channels or ability to get your product into retail stores)

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What choices are you facing in how you set up your business? Consider especially those aspects of your business concept that are particularly complex or resource-intensive.

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What would you want to understand or have more certainty about to move your business forward?

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As you move into testing, which questions seem most important to you?

Note that you can test more than one question at a time, but you'll get clearer feedback if you limit the number of factors that might impact your results.

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# STEP 2 - RESEARCH

Doing a little research before you go out and start getting feedback from potential clients and customers gives you a substantial leg up.

Even just a few hours of online research will make a difference. It can help you determine whether there's an existing market for your idea, how big that market is, what features people really care about, and what gaps that you could fill.

Many people get discouraged as they start to research their competition. They start to feel their idea has already been done. But competition means there's a market, and gives you the chance to learn from what somebody else is doing well or badly to develop your own unique approach.

As you look at competition, make sure to consider both **direct** competitors who compete on the same products or services (like Starbucks and Tim Horton's), and **indirect** competitors who fill the same or similar needs with different products or services (like Starbucks and Teavana).

Want to get out from behind your desk? Field research is also very powerful, and can be as simple as going out and visiting competitors or browsing in stores that carry products similar to the ones you are thinking about selling.

Don't get bogged down in research. The idea is just to get enough context to move forward. But don't skip this step, either.  Any amount of research is better than none.

# Work It: Some Places to Start

## Market Research

Google Keyword Tool: uncover search terms and check their popularity. Use these to help search out your competitors online.

Also check industry associations, conference proceedings, and Slideshare.

Check sites your competitors are on, especially those that include reviews. Sites like these not only help you see what similar products and services are out there and give you a sense of market size, but also give you pricing and packaging ideas. Try:

    For Physical Products: Amazon, eBay, Etsy, etc.

    For Digital Products: Udemy, Gumroad, Skillshare, E-Junkie, and ClickBank.

    For Services: Craigslist, Kijiji, oDesk, Fiverr, Zjobs, Elance, etc.

## Industry Research

Canadian Industry Statistics:

https://www.ic.gc.ca/eic/site/cis-sic.nsf/eng/home

Government of Canada Research, Demographic Data & Statistics:

http://www.canadabusiness.ca

You can learn a lot about industry trends, products and services, and profitability from industry associations, publications, and conferences. Industry events are also a great place to talk to people about your idea and meet potential clients.

Make connections with people who have expertise or experience you lack, especially if its industry-specific. They'll help you see where the needs are and how you can address them.

## Trends

Google Trends, Trendwatching.com, WordTracker.com, Keyworddiscovery.com

# Work It: Diving In

You probably know something about your market or industry already. Now's a good time to formalize and deepen some of that knowledge.

What do you know about trends, challenges, and opportunities in your market or industry?

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Where could you go to find out more? Consider industry publications, websites, or blogs, conferences, etc.

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Who do you know who works in or with your proposed industry or market who might be a good source of insight into how things work? A realtor, for example, could help you understand the home staging and renovation market.

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What do you know about your competitors?

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How could you find out more?

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# Research is to see what everybody else has seen, and to think what nobody else has thought.

Albert Szent-Gyorgyi

# STEP 3 - TEST

Now you have a high-level sense of what's out there in terms of products, services, packages, prices, and competitors. The next step is to determine whether and how buyers will respond to **your specific offer**.

As you move into the testing phase, take a moment to consider whether and how to incorporate anything you've learned in the research phase. Maybe you found an interesting way to package services you hadn't considered and want to incorporate it. Maybe you discovered that competitor prices are much lower than you expected, and want to consider premium positioning or rethink your pricing model.

You don't have to build out your whole business to test your idea. Instead, think in terms of a **Minimum Viable Product** (MVP). Eric Ries, author of *The Lean Start-Up*, defines a MVP as "a version of a new product that allows for the most learning possible for the least amount of effort."

Your MVP can be an early version or prototype of your product or service. It can be a mock-up or even just a presentation. It can also be a small first offering that will help you get real customer feedback while getting your feet wet and, if all goes well, earning some revenue. Nothing builds clarity and confidence like making your first few dollars.

# Work It: What Will You Test?

At this stage, your goal is to determine how you'll test your most important questions with the least effort. There are lots of ways to approach this:

## No Product: Smoke Testing

One version of a Minimum Viable Product is no product at all. That's the basis of the smoke testing approach.

In the software world, smoke testing is the initial testing process used to determine if an application is stable enough to be tested further. The process looks something like this:

- Create a mock mini-website for your product or service. Keep it simple — you really just need a marketing or landing page with a Buy Now or Learn More link. Use services like LaunchRock to set up landing pages fast.

- Use pay-per-click online advertising, like Google or Facebook ads, to attract traffic.

- When people click on Buy Now or Learn More, provide an apology, mock-up, or sign-up page. Count clicks to gauge demand.

If demand is healthy, move ahead. If you've collected email sign-ups for a VIP mailing list or future discount, you'll even be ready with a list of interested potential buyers.

The smoke testing approach is useful for all kinds of businesses — not just online ones. For example, you can run an ad for your product or service on Craigslist or a similar site and see if anybody responds. What can you learn from those who do?

Find more information and an interesting case study on using Google Trends, Google Insights, and Facebook ads for smoke testing at http://tinyurl.com/kwc3nox.

## Small Product

Another way to think about your Minimum Viable Product is as a small initial product or service. This could be a stripped down version of the product or service you ultimately intend to market. Include enough features to give you real insight into your market and customers.

This approach will often cause you to consider the quickest path to revenue, which can be useful if you'll need more start-up capital than you currently have. Follow the same basic pattern as smoke testing, but use a real sales page to take actual orders and deliver the goods.

You can apply this approach in lots of ways. For example, one woman who wanted to open a bakery started out by renting a commercial oven in a local restaurant and baking bread on Saturday mornings. She advertised on social media and took orders for baked goods, assuring her that there was a market and helping her raise the thousands she needed to invest in her own commercial oven.

## Pre-Sales or Advance Sales

Another way to think about your MVP is as a sales presentation. That's the basis of pre- or advance sales, where you sell your product or service before it really exists.

This approach has many uses, from funding product development to gathering real-life user requirements that will help make your product or service stronger in the long run.

You can pre-sell on the basis of all kinds of things, depending on your business. You might use a presentation, a sales page, a sample, a prototype or mock-up, a storyboard, or some other tool to present your product or service.

If you're thinking of developing an online course or live workshop, you might start marketing it with a web page that shows the course outline and learning outcomes, and links to an online payment system. If you get any students, you can develop the course, using student input and feedback to tailor it so it really meets their needs. If nobody signs up, you haven't wasted time and energy guessing what people want.

Nick Swinmurn, co-founder of online shoe retailer Zappos, used this technique to validate the Zappos concept. The company started with Swinmurn taking pictures of shoes at a local shoe store and posting the photos online. When somebody placed an order, he'd go back to the store, buy the shoes and ship them out. By the time Zappos started, he had real confirmation that people would, in fact, buy shoes online without trying them on.


## Prototypes and Mock-Ups

Another way to approach your Minimum Viable Product is as a prototype or mock-up.

Many products, including physical products and software, will need to be prototyped as part of the development process. It's an essential part of designing certain kinds of offerings, and an important aspect of working with manufacturers and other vendors.

This MVP approach is really about showing your work to people sooner in the development process rather than later. It's a good way to check that customers really value the features you think they will, get feedback, and gauge interest.

# Ask for money and you'll get advice.

# Ask for advice and you'll get money.

Unknown

# Work It: Your Minimum Viable Product (MVP)

How can you apply the Minimum Viable Product approach to your own business?

Consider a few possibilities for what your MVP could be. What features would it have to include to generate worthwhile feedback from your experiments?

Need some inspiration? Find some great stories at http://tinyurl.com/ztqjuvc.

Brainstorm at least 5 options here.

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How could you use Smoke Testing to validate your business idea?

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What's the smallest product you could sell?

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How could you pre-sell your product or service and verify there's really a market?

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How could you use a prototype or mock-up of your offering to test your idea?

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Which approach is the best fit for you and your business? Which could give you the insight you need to proceed with confidence?

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What do you have to do next to move forward?

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# STEP 4 - ASSESS

As you test and validate your business idea with real-world feedback from potential buyers, you're looking not just to learn, but also to apply what you learn to make your idea stronger and more marketable.

Remember: testing is an experiment.

Track your results, refine your hypothesis based on what you learn, and keep testing. Be on the lookout for your next, best move. Keep going until you've understood how your idea will succeed.

Let's say you're running a smoke test by offering your online course for sale before it exists, and very few people respond to your offer. Maybe your idea isn't viable.

But maybe it is. Maybe your ads aren't well-targeted (try changing settings), your price point is too high or too low (experiment), or your sales page isn't compelling (rewrite it).

Market feedback may lead you in directions you would never have anticipated. Paying attention will open up new opportunities for you and your business and make you more successful in the long run.

# What to Look For

As you run your experiments and keep track of your results, you'll want to focus on how the feedback you're getting applies to each of your core business processes:

- Creating Value: Offering something that people want, need, and value enough to pay for.

- Marketing: Attracting the attention of people who are ready, willing, and able to buy.

- Sales: Turning potential customers into paying ones.

- Operations: Delivering your goods or services efficiently and effectively.

- Finance: Being profitable.

Keep track of how the feedback you receive applies to each of these areas, and use that information to determine what you should stop, start, or keep doing as you move toward fully launching your business.

# Supposing is good, but finding out is better.

Mark Twain

# Work It: Summarize the Data

| | What are you learning? | How can you apply it? |
|---|---|---|
| **Creating Value**<br>What do people really value in your product or service? | | |
| **Marketing**<br>Where can you find people who are ready, willing, and able to buy?<br><br>Why do they really want your product or service? | | |
| **Sales**<br>Will people actually buy?<br><br>Where? | | |
| **Operations**<br>What processes do you need to get your product or service to customers? | | |
| **Finance**<br>How much will people pay for your products or services?<br><br>Is your business financially viable? | | |

# Work It: Assessment at a Glance

What should you stop, start, and continue doing as you move forward?

**STOP**

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4. _____
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**START**

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**CONTINUE**
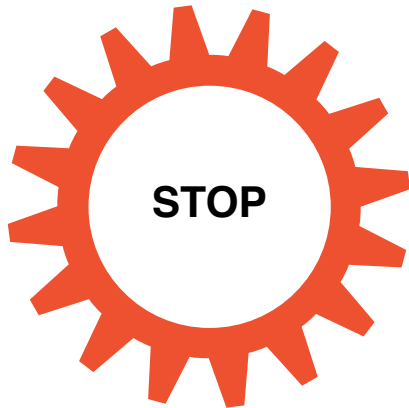
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# STEP 5 - ADJUST & MOVE ON

As you've moved through testing and validating your business idea you've defined your core business concept, done some research on the competition, scoped your Minimum Viable Product, and gotten feedback from actual potential clients.

Hopefully, in doing so, you've not only strengthened and refined your business idea, but also gotten a taste of what it's like to act like a business owner, talk about your idea, and move your business forward. Ideally, you'll have a much clearer sense now of what it will take to be successful.

From here, the next step is really up to you. Throughout the testing process, your focus has been on taking action. With the information you now have, this might be a good time to do a little planning to clarify your overall vision for the business and detail how you're going to get there.

If you already have a fairly clear plan, you might just update it based on what you've learned and continue in action mode. In that case, your focus might be on fully developing your product or service, finding customers for an offer that's already developed, or ramping up for a full launch.

Remember, planning, research, and taking action are all key components of building a successful, sustainable business. Make sure you're giving each component the attention it needs.

# Work It: What's Next?

Moving ahead might mean planning, research, taking action, or a combination of all three. Check in here to see what needs your attention now.

**PLANNING**: Do you have an overall vision of the business and your goals?

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**RESEARCH**: Do you have questions right now that are stopping you from moving forward on your plan?

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**TAKING ACTION**: Do you know what you should do next and why?

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What's your next, best move? Planning? Research? Action? Or a combination?

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# Work It: Planning

## One Page Plan

**Personal Vision**

What are your personal goals?
What do you want?

**Landscape**

What is the environment you'll be doing business in?
What trends are relevant to your business/industry?
Who are your competitors?

**Finances**

How much money do you need to start?
What are your expected income and expenses?

**Business Description**

What is this business? What does it do? For who? What does it look like?

**Marketing**

How will you attract attention and generate demand?

**Value**

Who are your customers?
What do they want and need?
How will you create value for them (list all offerings)?

**Key Indicators**

How will you know you are succeeding?  What will it look like?

**Business Mission**

Why does this business exist?
What's your purpose?

**Sale**

How will you turn prospects into customers?

**Operations**

What processes will you need to put in place to deliver what you've promised to your customers?

How will you satisfy them?

# Work It: Research

| What questions do I have? | Where could I look for answers? | When do I need this? |
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# Work It: Taking Action

What are the next 10 things you need to do to move your business forward?

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What can you do right now?

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# We think good ideas to death, when we should be acting them to life.

Brian G. Jett

# A Few Resources

**The $100 Startup by Chris Guillebeau**
A guide to turning your talents or hobbies into a business. Includes many case studies of entrepreneurs earning over $50,000 who started with $100 or less.

**Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers by Alexander Osterwalder & Yves Pigneur**
A great guide to understanding, designing, re-working, and implementing business models.

**The Art of the Start: The Time-Tested, Battle-Hardened Guide for Anyone Starting Anything, by Guy Kawasaki**
An essential guide to start-up.

**The Personal MBA by Josh Kaufman**
A readable, practical encyclopedia of key business concepts. Excellent resource.

**The 4-Hour Work Week by Tim Ferriss**
A blueprint for lifestyle design. Packed full of ideas and inspiration.

Also check out Forbes' "The 100 Best Web Sites for Entrepreneurs" available online at:
http://www.forbes.com/sites/natalierobehmed/2013/11/12/100-best-websites-for-entrepreneurs/

Writer, communications coach,
trainer and facilitator, Sandra
Kahale, works with entrepreneurs to
plan, start, and communicate their
businesses.

Her inspiring, informative workshops
cover topics including business
planning, online communications,
networking, and small business
success.

Learn more about Sandra, book
a live event, and find other Small
Business Guides in this series at
www.onwordconsulting.com.

# RESEARCH ON THE RUN

Thinking about starting your own business but not sure if your idea is solid?

Overwhelmed at the prospect of launching a full-blown business from scratch?

*Research on the Run* shows you how to get real, relevant market feedback from potential and actual customers before or while you launch your business.

A simple, 5-part framework helps you tailor your approach to your own unique circumstances and balance planning, research, and taking action.

Move your dreams forward with confidence with a step-by-step approach to getting solid market feedback you can take to the bank.

*"Confirmed I am on the right track and brought up some new questions."*

*"Good information & process pointers for moving through areas I wasn't sure how to navigate."*

*"Validation options and approaches – great for doing more with less."*

*"Well organized, useful information that is directly applicable to potential business start-up."*

Find more Small Business Guides to support your success at www.onwordconsulting.com