

Bright Ideas Challenge: Market Validation Guide

Market validation is one of the most exciting and critical phases of business development. You get to find out what people really want – and that may be something so much more exciting than what you originally thought.

Below is a high-level guide to market validation that has been broken into three phases, the first is deciding what big issues you'd like answers to, the second is about identifying the real opportunity, and the third is about confirming and quantifying that opportunity.

This guide primarily written for businesses that are selling to large groups of customers, as opposed to where there are only a small number of large customers. In this instance you can still follow these steps, but you may need a more considered approach as you don't want to jeopardise future relationships. For example, you could interview the users of your product within your target organisation or ex-employees to validate and refine the idea, as opposed to going straight to the decision maker.

The level of research and types of questions that you ask will also depend on the extent to which you are an expert in your chosen industry. But this can be a trap too, as you don't want to assume you know everything and therefore not ask the seemingly obvious questions.

Phase one: What you think you know, and what you need to know?

Step one: hypothesise on value proposition, assumptions and target market

1. Write a hypothesis of the pain that you believe your market has and how you will solve it. This is basically your value proposition and list any assumptions that you have around it.
2. Write a hypothesis of who you think your end customer is and list any assumptions about them.

Do this part fairly quickly then put it to one side. You will need to refer to it later.

Step two: big questions about your business model

Think about your wider business model, that is, what should you sell and how should you sell it, and as a result, what other stakeholders should be involved in your business?

Consider the following:

1. Target customers: who will buy my products and services, and how will they use it?
2. Product or service: what attributes does it need to solve the pain?
3. Pricing: how will it be priced for optimal positioning in the market?
4. Promotion: what will be the most effective way of promoting it?
5. Distribution: how will it get to the customers?
6. Partnering: who else is reaching my customers and who could I partner with?
7. What barriers do I need to overcome in terms of acceptance in the market, acceptance in the channel, and acceptance 'in the factory'?

Don't even attempt to answer these issues at this stage. The whole point is that you want to go in with an open mind, and come to your own conclusions on what these should be, based on the market validation work.

Phase two: Get big answers to your big questions and uncover opportunities

Step one: create questions for end customers

The next step is to brainstorm questions for the end customers. It is strongly recommended that you later validate various intermediaries and other key stakeholders (you will do this in phase three), but it is best to start with the end customer. This way you'll get to the root of the pain, and be able to find an innovative solution, as opposed to potentially having the responses clouded by the often set ways of thinking of industry experts.

Note that if your product idea is a significant innovation, your end users may not be able to comprehend the idea, like an industry expert might. In this instance it may be best to start with the industry experts.

- Focus much more on the customer's current situation, that is, how they currently satisfy their pain, as opposed to their reactions to your proposed solution. You want to get to find out about current behaviour and explore both the good things and the challenges that they experience.
- Think really openly about the situation by taking as wide a view as possible. You want to uncover the customer's behaviours in their wider environment, e.g. what other kinds of activities does the target market engage in, what do they have in common? A big danger at this stage is getting too narrow and missing a big opportunity or, even worse, a big barrier. A whole new opportunity may emerge from exploring their broader behaviour, and you don't want to miss out on hearing about it!
- You want to try and draw out the real pain. Is it significant? How is it currently being solved, or is it not being solved at all and just being put up with? Whichever is true, it's going to be a barrier to change of some sort. Try and measure the intensity of the pain, you could use a 1-5 scale perhaps?
- You may want to go back to these people at a later stage and ask them if they would be willing to test a prototype. Best to ask them that now so you can put them on the list to go back to later. Market validation should be an ongoing process.

Next you will need to see if the questions you have will give you the answers you want and then you'll need to put your questions in a logical order.

1. Look back at your big questions about your business model. See if you will get answers to these questions from the questions you have brainstormed. I suggest coding each business model issue and writing that code next to each of your brainstormed question. Once you have done this, look for any gaps and add more questions as needed.
2. Add in questions specific to your product or service idea – you necessarily don't need to show or describe your idea in detail. Ask questions about if they would buy it, why and why not. Put the emphasis on why not, as you really want to drill down into what it would actually take for someone to change their current pain-solving behaviour (even if that behaviour is nothing) to change to using your product or service. Often the barrier could be something really basic, but the effect is huge. The trap is that you might find that people love everything about what you propose and think it is way better than what they use at the moment, but the actual process of making the change is just too hard. Identify ways to remove any barriers to purchase and use your product or service. For example your target market may not be early adopter types, or that loyalty to their existing supplier is too great. You need to explore these barriers well. This process could even uncover an amazing opportunity that you hadn't considered.

3. Put the questions into a logical order and then type them up. Start by setting out the scenario of where you see the pain to be, and then move on to the non-invasive questions first to build trust.
4. Once again, sit back, take a wide view and think if you have made any assumptions that need to be challenged. Don't be afraid to ask the big and obvious questions.
5. Test your questions with 2-3 people. You want to ensure that the questions have good flow, make sense and that the person's answers provide the right type of information.

Step two: Do the interviews

Now you need to get out there and do the interviews. Remember this is probably one of the hardest stages of the market validation, you're about to find out what people really want, and what you need to do to make your idea work. Interview as many people as possible, the idea is to keep going until you see a pattern emerging.

- Choose people who fit with your hypothetical target market. You may find that this target market needs to change, best to find that out now, rather than once you're trading.
- Choose people you don't know, or ones who don't really care about hurting your feelings. They are most likely to give you the most honest answers.
- Start with someone who you think is most likely to feel the pain, as this will help put you in the best frame of mind to continue on with gusto.
- It is best to do the interviews face to face, but sometimes you may have to make do with using the phone instead or even using an online survey (it is recommended however not to rely solely on online surveys however as they don't allow you to ask questions off the cuff based on the response).

Step three: Analysis your findings and identify critical success factors

When you've done the initial interviews you will end up with some good ideas on the direction you should take. Hopefully your big business questions are now a little smaller. You know roughly who your target market should be, what kind of product or service you should do, and about the 'must haves' for your product or service, your pricing, your distribution, your promotion and your partnering. These are your critical success factors.

You will also have an idea about why people may not buy it too, and how you could overcome those objections. Through the process 'side' opportunities may have arisen that could turn out to be bigger than the original opportunity – be open to this.

Phase three: Confirm what you've found out and get the details

Step one: Get some specific, qualitative data using a survey

This can be done either before, in conjunction or after the above phase. Using an online or paper survey it is a good idea to get some quantitative data from your end customers to help refine your business idea and to get confidence that it will succeed.

The survey results will also add significant weight to your findings – giving your interview results much more validity, and it will help you identify your target market more specifically.

- Try and quantify the intensity of the pain specific level of pain – how likely will people be to want to do something about it? You could use a scale to measure it.

- Test each element of your business model that you have identified in phase one, and of your critical success factors in more detail. For example, if you have identified what features you think your product should broadly have, get the respondents to rank the importance of each of these features.
- Include questions that will give you some useful statistics (e.g. 47% of mothers want ...) for when it comes to talking to industry experts and other influential people. These people may include industry bodies, distributors, retailers, investors and partners.
- Put all the questions into an online or paper survey. Distribute to your target market, and get people to actively forward it on. Include qualifying questions (e.g. demographics, behaviours) to ensure that the person responding fits in your target market.

Step two: Talk to industry experts and other influential people

You've now got some good quantitative data, and you are probably feeling really confident that you've got a great business. The next stage is to talk to those people who are critical to the success of the business. They could be industry bodies, distributors, retailers, investors, suppliers or partners.

- You want to explore why, if your idea is so great, is nobody else doing it? Who has tried similar things before, what were the results?
- What barriers could you come across in implementing your idea?
- What people and organisations could be of most help to you? Could they be your mentor or on your advisory board?
- Are there any opportunities that you haven't identified? Could these people be your champions in some way?
- What are the standard purchasing terms and conditions in the industry? E.g. Standard volumes, locations, margins, packaging and incentives?
- What's in it for them? What are their barriers to being part of it?
- Organise and carry out face to face interviews.

Step three: Revalidate where needed, put into plan

Take what you've learnt and see if it answers all your initial questions. If not, repeat steps above as needed, then put together a practical, time-based business plan. Start trading and continually refine plan as needed as you learn more. Remember, market validation is a process not a task, you need to continually iterate and develop based on your customer's feedback.

Source: Activate, Grow Wellington