



Evaluating a business idea: A guide for aspiring entrepreneurs

The economy is continuing to grow, according to the latest figures for the April to June quarter. Gross Domestic Product (GDP) is estimated to have increased by 0.6% for the quarter. This compares with an increase of 0.7% for the January to March quarter.

Two quarters of growth after last year's recession is encouraging news for businesses and the economy as a whole. Economic growth creates new market opportunities, making it an ideal time for entrepreneurs to develop and launch innovative business ideas.

Of course, every successful business begins with a compelling idea, but not all ideas translate into viable businesses. Whether you are thinking about setting up in business or looking at a new idea to expand your existing business, evaluating a business idea is a crucial first step that can save time, money, and effort.

In this article we look at five areas that can help you assess whether your concept has the potential to thrive in the marketplace.

1. Market research

Before diving into the details, it's essential to understand what your potential market looks like. This involves:

- **Identifying your target market:** Who are your potential customers? Can you define your ideal customer profile, perhaps considering their age, income profile, preferences, and buying behaviours?
- **Assessing market demand:** Is there a demand for your product or service? As well as any personal experience and observations you might have, you could look for industry reports, customer surveys, and trends that indicate a need or gap in the market.
- **Analysing competitors:** Who are your direct and indirect competitors? Do what you can to understand their strengths, weaknesses, pricing strategies, and market positioning. This will help you in identifying your unique selling proposition.

2. Value Proposition

Your value proposition is what sets your business apart from other businesses. It answers the question: *Why should customers choose your product or service over others?*

Some things you could consider are:

- **Uniqueness:** Is your product or service unique? If not, how can you differentiate it? This could be through pricing, features, quality, customer service, or brand positioning.
- **Customer Pain Points:** Does your business idea address a specific problem or need that customers have? Solutions that directly alleviate pain points are often the most successful.

3. Financial Viability

Even the most innovative ideas can falter if they are not financially sustainable. So, take some time to evaluate the business idea against the following areas:

- **Initial Investment and Costs:** Estimate the initial capital required to launch the business, including the cost of any product development and marketing, as well as costs related to establishing and operating the new business. Consider the amount of time you'll need to invest, is this a worthwhile use of your time?
- **Revenue Model:** How will your business make money? There may be a number of different ways to generate an income, for instance sales, subscriptions, licensing, or advertising.
- **Pricing Strategy:** Determine your pricing model based on cost, the competition, and the perceived value of your product or service. Make sure that the price will cover all your costs and allows for you to make a profit.
- **Break-Even Analysis:** Calculate the break-even point where your revenue will cover all expenses. This helps you understand how long it will take to become profitable.

4. Legal Considerations

There are several legal matters to consider when setting up a business, and understanding them is vital to avoiding future complications:

- **Business Structure:** Choosing the right business structure (e.g., sole trader, partnership, limited company) makes a difference to the tax and administrative requirements of the business.
- **Intellectual Property:** If you will rely on trademarks, patents or copyrights, then you will want to make sure these are secured.

- **Regulatory Compliance:** Depending on the industry you'll operate in there will be specific regulations and licensing requirements that will apply to your business. Identify them and work out what will be needed to comply.

5. Operational Feasibility

There are many practical aspects to running a business, so consider these too as part of your evaluation.

- **Resources and Skills:** Do you have the necessary skills, resources, and team to execute the idea? If not, can you acquire them?
- **Supply Chain and Logistics:** Evaluate how you will source materials, manage inventory if that's relevant to your business, and deliver products or services to customers.
- **Scalability:** Can your business idea be scaled over time? A scalable business model can grow without a corresponding increase in costs.

In addition to these five areas, you may also want to consider what the risks are to your business idea and how you could mitigate them. You could also look to get feedback from potential customers or experts.

Conclusion

Evaluating a business idea is a multi-faceted process that requires careful analysis and planning. By taking the time to thoroughly consider your idea, you can increase the likelihood of turning it into a successful business.

Remember, it's better to spend time refining or even pivoting your idea now, than to rush into a venture that may not be sustainable in the long run. A well-evaluated idea lays a strong foundation for business success.

As business experts, we have the tools and experience to help entrepreneurs evaluate business ideas and provide grounded and practical advice. Why not give us a call to see how we can help you?