

Guide to Validation



What is Validation and Why is it necessary?

Validation is the term for the level of proof that you have obtained, that sufficient demand exists in the market for your business to exploit and become successful

If you are able to provide strong validation evidence this means that your business is more likely to succeed and you can have more confidence in your business-model as a result. Strong validation evidence also reduces risk and adds weight to your start-up loan application overall.

Starting a business without validation is to speculate that the business-model will succeed and adds significant risk to your loan application. Whilst the entrepreneur funded by his/her own cash may feel this risk is worth taking, the attitude of the

lender who needs to be repaid, is different. A start-up loan application lacking in validation may therefore be declined.

How to Validate your Business-Model

Compare the evidence of customer demand that you have already obtained with the 3 tables below. Whilst the 'High-Level' table provides the single most meaningful validation, the most preferred research is probably a broad combination of Low, Medium and High factors.

Low-Level Validation

Market Research carried out at your Desktop or Computer

- > Undertaken National and Regional Population and Demographic Analysis**
- > Calculated Current worth (£) of the Economy/ Segment/Marketplace**
- > Undertaken Historic and Current Trend Analysis of the chosen Marketplace**
- > Undertaken footfall analysis at or near your chosen business location**

This kind of research is a good starting-point, as it can identify that general demand exists for a product or service. However, to infer the results of this research onto your own business assumes that- i) The wider conclusions of the analysis apply locally and ii) that your business can both readily enter and penetrate the market. Neither is guaranteed.





Medium-Level Validation

Direct Customer Feedback

- > You can evidence a number of genuine Expressions of Interest in your product or service from potential customers and can calculate the (£) value of these. They may be clients from a previous business or employment.
- > You have conducted Face to Face surveys with potential customers where a number of positive results have been obtained.
- > Where the business is online, you have conducted online surveys with potential customers where a number of positive results have been obtained.
- > Undertaken Promotional Events, Focus Groups or provided Free 'give-aways' of your product or service where positive feedback was obtained from the target customer group.
- > You have engineered a significant following on one or more social media platforms

You have engaged directly with your target-customers and obtained favourable results. The key via simple assumptions is to calculate what the level of interest or feedback may be worth in actual sales?



High-Level Validation

Proof of Trading

- > Your business is already trading profitably and you can provide evidence of this
- > You have signed contracts in place, that guarantee sales revenue from the outset
- > You've successfully test-traded your business concept/ model at a lower level and can evidence the results
- > You can evidence advanced orders, Intents to Purchase or have taken deposits from customers and can calculate the value (£) of these.

The most obvious way to validate a business idea or model is to profitably trade it, though where the trading period is short or the number of customers serviced is small, it may be wise to gather additional evidence also.

How much Validation Evidence do I need?

- > Because the combination of the personal circumstances of each applicant and the intricacies of each business-model make every application unique- it's impossible to say- though more is probably better than less. You may however, consider the following questions in coming to your own conclusion?
- > What is the value (£) of the validation evidence that you have already obtained? How does it relate perhaps, to the amount required to cover your business overheads, or your own salary for a week or a month?
- > How large is the loan you are applying for? A larger loan is a higher risk-factor than a smaller loan.
- > How financially dependent upon the business are you- how robust is your Back-Up plan?

- > Does your business have restrictive terms of trade- e.g. will you have to wait 30, 60 or 90 days to be paid, whilst having to pay your own bills on a daily or weekly basis? Is your business trading period highly seasonal or weather-dependent?

Validation

The Final Word

- > If your application is successful and you draw down a loan, you will then be in personal debt. At the same time, the success of your business is not guaranteed.
- > Ultimately, you have to ask yourself-
- > Does the Validation evidence you have obtained convince you that the risk is worth it?



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