Guide to validation

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

Strong validation evidence means your business is more likely to succeed and gives you more confidence in your business model. It 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. While an entrepreneur funded by their own cash may feel this risk is worth taking, the attitude of a lender who needs to be repaid is different. A start-up loan application lacking validation may therefore be declined.

IN THIS GUIDE

LEVEL 01 Low-level validation: desk research

Market research carried out at your desktop or computer. Compare the evidence of customer demand you have already obtained with the three levels in this guide: the most preferred research is a broad combination of low, medium and high factors.

- ✓ Undertaken national and regional population and demographic analysis
- ✓ Undertaken historic and current trend analysis of the chosen marketplace
- ✓ Calculated the current worth (£) of the economy, segment or 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, inferring the results onto your own business assumes that the wider conclusions apply locally, and that your business can readily enter and penetrate the market. Neither is guaranteed.

LEVEL 02 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 were obtained.
- ✓ Where the business is online, you have conducted online surveys with potential customers where a number of positive results were obtained.
- ✓ You have undertaken promotional events, focus groups or 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.

LEVEL 03 High-level validation: proof of trading

- ✓ You have successfully test-traded your business concept or model at a lower level and can evidence the results
- ✓ 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 can evidence advance orders or 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 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 too.

HOW MUCH? How much validation evidence do I need?

Because the combination of each applicant's personal circumstances and the intricacies of each business model make every application unique, it is impossible to say, though more is probably better than less. Consider the following questions in coming to your own conclusion.

Value of your evidence	What is the (£) value of the validation evidence you have already obtained? How does it relate to the amount required to cover your business overheads, or your own salary, for a week or a month?
Size of the loan	How large is the loan you are applying for? A larger loan is a higher risk factor than a smaller loan.
Your dependence	How financially dependent on the business are you? How robust is your back-up plan? (See the bizbritain Guide to Your Back-Up Plan.)
Terms of trade	Does your business have restrictive terms of trade? Will you wait 30, 60 or 90 days to be paid while paying your own bills daily or weekly? Is your trading period highly seasonal or weather-dependent?

■ 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 convince you that the risk is worth it?

NEED HELP?

Talk to an advisor today.

If you are in any doubt at any stage, we will walk you through every step, from enquiry to cleared funds.

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