

# YOUNG ENTREPRENEURSHIP

## Module C. 03.: Evaluation of the entrepreneurial idea

By



### C3. Evaluation of the entrepreneurial idea

The entrepreneurial idea is the starting point for the creation of a business, upon which the design and form of the new business and its sustainability will be based. The possible viability or failure of the idea can be predicted through its evaluation. Therefore, for a careful entrepreneur, evaluating the idea for a new business is the first necessary step before commencing to invest in it.

Below are the two steps that the entrepreneur can follow in order to evaluate his/her business idea: a) documenting assumptions and b) testing the assumptions.

#### a) Documentation of Assumptions

Assumptions are the entrepreneur's thoughts about his/her inspired entrepreneurial idea, which in the process will need to be checked for validity ([Examples of Assumptions](#)).

These thoughts may cover part or the whole scope of an entrepreneurial idea. For example, the entrepreneur may have thought about the product to be sold and its price, but may not have thought about the needs of the customers or how the product will be communicated to them or the partnerships that are necessary for the operation of the business, etc.

It is suggested that the entrepreneur writes down the thoughts concerning his/her entrepreneurial idea.

The questions listed below can guide the content of this documentation.

- 1) Who are the customers who will benefit from the product/service the business is selling? What are their characteristics? Who are the most important customers of the business?
- 2) What is the product/service the business sells? What is the benefit to customers? Which customer problem does it solve?
- 3) How will the product/service be made known to the customer? How will the business reach its customers?
- 4) What is the relationship the business will develop with its customers in order to retain them? How will it increase the number of its customers?
- 5) What is the price customers are willing to pay? What will the business's pricing policy be? What will be the business's revenue?
- 6) What resources are required for the operation of the business?

- 7) What actions are required for the operation of the business?
- 8) What partnerships are necessary for the operation of the business?
- 9) What is the cost of running the business?

An easy way for the entrepreneur to write down the answers that he/she gives ("Assumptions") to the aforementioned questions is to use the Business Model CANVAS. This Model is a practical tool to develop a strategy for the management of a business. It consists of nine building blocks, where you can assign the answers to the above questions (see also "[Business Model CANVAS: indicative questions per field](#)").

The completion of the exercise "[Business Model Canvas Matching](#)" is an example of a completed Business Model Canvas table.

The listing of the Assumptions for an entrepreneurial idea can be done in the form found in [Exercise 3](#).

#### b) Testing of Assumptions

The Assumptions listed in the above table must then be reviewed to determine whether they are true or false. The reason for doing the check is to minimize the Danger/Risk. This process provides timely information before any decision is made. Often, during the testing of the Assumptions, there are often changes in the product configuration, in the way the business is designed, in the way the products are promoted, and even changes in the financial forecasts.

The way in which the Assumptions are tested is by collecting information.

##### *Ways to test Assumptions.*

##### ➤ **Information from ready-made sources**

- Articles from the Internet or printed publications
- Investigations by chambers
- Research in competent services of the Municipality etc.
- .....

##### ➤ **Contacting experts**

- Someone who knows about financial management
- Other entrepreneurs

- Communication with potential suppliers
- .....

➤ **Note**

Example: observing an existing business offering products similar to those that the future business will offer.

- How many customers are visiting daily? what products do they choose? How much money do they have approximately?
- What times does the business have the highest traffic?
- Why don't they buy from another business?
- Why do they choose this business to buy from?
- In the area where the business was chosen to operate, are there any consumers interested in it?
- .....

➤ **Interview with consumers, suppliers, etc. (see relevant text “[Interview: Instructions & Indicative Questions](#)”)**

➤ **Group Discussion**

➤ **Survey via phone or social media or email**

➤ **Test product / service**

*Example: creating a sample of the product to be distributed free of charge to consumers and documenting the impressions of those who have tried it.*

➤ **Economic calculations**

- Listing the costs required to start operation.
- Listing the cost of the product / service and calculating the
- selling price of the product / service.
- Listing revenues and expenses during the operation of the business.
- Verification of financial data

The entrepreneur's ability to choose the right way to control and find valid information will help create a viable business opportunity. The result of the test will either confirm the assumptions made or lead to new planning and further testing.

A procedure for organizing how to check each Assumption and the results of that check is [here](#).

Upon completion of the Business Model Canvas, the future entrepreneur can proceed, if he/she wishes, to the drafting of a Business Plan. A Business Plan is a structured form of text. It contains the profile of the entrepreneur and the final operational design of the business which results from the elaboration of the business model.