

URL: <https://stvp.stanford.edu/clips/four-ways-to-validate-an-idea>

Adam Pisoni, founder and CEO of Abl Schools, shares four categories for validating an idea: value, monetization, distribution and friction to value. Pisoni explains that a viable product idea must perform in all four categories. Isolate and test hypotheses to evaluate each category before building a product.



Transcript

- How do you evaluate whether this is a good idea or not and how do you approach even validating that idea? And years ago, even while I was at Yammer, back when Robbie would send me people to talk to and say, is this a good idea, I had this particular framework that I would use to evaluate ideas.. The framework is basically that a startup is nothing but a set of hypotheses.. It is not one hypothesis, which is, is this a good product or not? Is this a problem? That's one hypothesis.. It is many hypotheses that I break into four categories.. The importance of these four categories and the importance of this list is that when you're evaluating an idea, you have to look across these things.. It can't just be a good idea.. It can't just be able to make money.. It has to do a lot of things.. And when you're starting a company, your job is to validate these hypotheses as fast as you can.. I'll get to sort of what the common mistakes are but, so let me explain what some of these are..

Value.. Who is this valuable to? What types of companies or people? What roles within those companies? What types of problems do they have with or without your product? What are the current solutions they find valuable? How valuable is it relative to other things? Now, the point of distinguishing these questions is that you can often validate these without even building a product.. I talked to a gentleman once who had a not very good business idea that was gonna help people negotiate when they were buying a car.. I just didn't think it was that great of an idea.. So he was gonna build this whole product to validate it.. And I said, why would you do that? To validate whether it's valuable, go outside car lots and just start talking to people.. And post paper, they can call you and you'll do it.. See if anyone cares.. Don't go build a product.. There's so many ways in which you can isolate hypothesis and test them, and that's absolutely what you need to do to start a company..

So, this is value.. Modernization.. Who is the buyer? Is it different from the user? What is the buyer interested in if it's not the user? How much are they willing to pay? How is this priced and packaged? Pricing and packaging, one of the most underrated areas of business success, 100%.. We hired a new head of sales at Yammer.. Our revenue tripled in a quarter without changing the product.. Just through pricing and packaging.. I mean, so many entrepreneurs start companies, like, I got a product, I've just priced it.. There's so much creativity to be had there and there's so many ways to test it without building a company or product.. While you're building your company, the point here is that you should be deciding which of these you're looking at and only working on it long enough that you understand the answer to that question and moving on to the next one.. I'll get to it in a sec, but, distribution, which, easy, you know..

Where are the buyers? Where are the users? How do I find them? How do they find me? What's the cost to get them? What rate can I hire them? Can they invite other people? At what rate? All these questions, you can answer independently.. And then the one that I sort of made up that is a little different 'cause those seem obvious is what I call friction to value.. So, every product or service or whatever is some form of behavior change.. You're usually asking for your customer.. You're saying, you're doing something, do something else.. And there's friction in behavior change.. There's friction in having them trust you or sign up or give you data or whatever it is.. And oftentimes, you have something of tremendous value but the perceived value is too low compared to the friction to get that value, if that makes sense.. So, there's so much testing that can be done here.. There's so many, so much innovation...