

Innovation Toolbox

Evaluate Idea – 18 Questions to Determine Commercial Feasibility

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1.0 IS IT COMMERCIALY FEASIBLE?

In the case of new product or service innovations there are generally three broad areas you need to examine to help you decide whether your proposed innovation has the prospects for commercial success. To help you understand the scope of its potential, there are some straight-forward questions you need to ask. Generally speaking, if you answer 'no' to any of the following questions you should explore in more detail the implications to the overall feasibility of the innovation. Simply put, the answers to these questions will determine how, when, why (and if) you move forward with the idea.

1.1 The Market and Your Potential Customers

1.1.1 Does the product or service fill a gap in the market? Do your customers have an incentive to switch to this new product or service?

The ability to fill a viable gap in the market is key to the success of your product or service. "Me Too" ideas will find it difficult to attract funding and invariably fail because of competitive pressures. Your product or service should be unique, solve an existing or potential problem, and provide an incentive for your customers to switch – be it quality, price, improvement or other. Understand who the competitors are (either directly or indirectly) operating in your target market, and how your offering compares on functionality, durability, appearance and price.

1.1.2 Is your target market free of competitors and suppliers that would represent a threat or risk to the commercialisation of your idea?

Competition is one of the major reasons new products or services fail. Established market leaders have the ability to assert massive financial pressure on new product entrants through pricing strategies, promotion and preferred supplier arrangements (effectively blocking certain distribution channels). If you are not willing to compete in your new market space, then you still have the option of licensing or selling off your technology outright to those firms.

1.1.3 Is the industry you will be competing in growing, stable or declining?

Markets experiencing negative growth or that are vulnerable to economic or environmental factors need to be analysed closely. In examining your target market, try to identify economic conditions and growth trends in the specific segments and sub-segments of the general market in which your innovative business process improvement enables you to compete more effectively or your new idea will be sold.

1.1.4 Can the finished product or service compete on price in your target market? Is the market for your type of product or service considered large enough to ensure commercial viability?

The retail price for your finished product or service and the size of the market with the buying power and willingness to purchase at that price, are two of the most important aspects of the commercial feasibility of your idea. If you cannot sell the product or service to the final consumer at a price - in large enough volumes - that covers the costs of production, marketing and distribution of that product or service, then you need to think seriously about the viability of the new venture. This is called price sensitivity modeling. It provides a market tested analysis of the probability of people purchasing your product or service at any given price. This provides a justified basis on which to make any innovation investment decisions.

1.1.5 Does your potential target market extend outside of Australia?

If the product or service you intend to commercialise only targets the domestic market, this may restrict your ability to grow the business and secure more funding. The limited size of the Australian market and the lure of large international markets mean strong consideration needs to be given to your idea's export potential.

1.1.6 Do you understand how a customer would actually use this product or service?

Some of the seemingly best ideas are fundamentally flawed because the idea cannot be translated into a usable or user-friendly product or service. This may be purely a feature of the technical complexity of the technology, or cost restrictions imposed on the final product that prevent it from being built and marketed in the way the product or service was intended for use. Your goal should not only be to produce a functional product or service, but to produce it in a way that it becomes attractive to the consumer and within the price points the market can bear.

1.1.7 Do you understand how your product or service will be physically distributed to customers?

Physical distribution of a product or rollout of a service is a highly time consuming and demanding activity, particularly if you are marketing your idea internationally. It requires a well-planned, well-financed marketing and distribution strategy. For products, this generally involves the establishment of a system of agents and distributors to sell and ship your products to end-users. If your management team lacks sales experience in your target market, the complexities and expense of establishing and monitoring a distribution system may require you to consider alternative strategies, including licensing, assignment, or joint ventures.

1.2 The Idea and the Product/or Service

1.2.1 Is the product or service completely safe to use?

The level of safety of your product or service when used under both informed and untrained operation needs to be taken into account in determining the technical and market feasibility of your idea. If it presents any potential risk to the wellbeing of the user, no matter how remote, then you should consult legal counsel early in the idea development process. If you are unable to alleviate operational risks you will not only have difficulty in attracting funding, but may also find barriers to commercialisation through relevant international laws and regulations, industry standards, and expensive product liability insurance costs.

1.2.2 Is the research and development lead time to get the product to market less than two to three years?

Lengthy research and development time lines tend to impact negatively on the ability to secure funding to finance your venture. This is because many investors are seeking relatively short-term returns on their investment (i.e. 12 months - three years). Long lead times can be offset somewhat by the promise of exceptional returns over the medium to long-term.

1.2.3 Is the development required to bring the product to the market-ready stage likely to prove relatively simple?

Technical problems in completing a market-ready and user-friendly product need to be considered. There is a need to visualise and detail what you expect will be the completed format and design of the product or service. A stocktake of expected bill of materials will similarly help determine if you can produce and sell the product within profitable price points.

1.2.4 Can the product or service be commercialised without relying, to any great extent, on its linkages with other products or systems?

If your idea is dependent on linkages with other products or systems (e.g. hardware that requires software to drive it), careful consideration needs to be given to how this could affect the marketability or technical feasibility of your technology. Market failures, competition or unexpected developments in products or systems upon which your technology is dependent may undermine your progress.

1.2.5 Can the product be distributed and sold without the hindrance of industry standards, regulations and other tariff and non-tariff barriers to trade?

Regulations and standards vary significantly from product to product. Moreover, each of the regulations and standards themselves differ between international markets, even down to a state or local level. If you have identified barriers that may restrict the distribution of your product or idea in a target market, you need to investigate the potential impact of this on your commercialisation efforts. Mitigation strategies to avoid such barriers may exist, but the expense or effort in doing so may not prove commercially viable.

1.2.6 Can the intellectual property be protected in this industry?

Intellectual Property (IP) protection is a fundamental issue that needs addressing from the time of idea conception. There are cases for and against protecting your IP which need to be considered at an early-stage. From the outset you should seek advice from an appropriately qualified IP lawyer or patent and trade mark attorney.

1.2.7 Does potential exist for additional products, models, styles, variations and price ranges?

You need to determine through a market feasibility study how long the expected life cycle of your product or service will be. Ideas with short-term life cycles (i.e. less than six - ten years) may have difficulty in attracting funding. You need to demonstrate the wide range of market applications for your product or service, or the ability to update or to make some design iterations that will ensure the longevity of the idea. The potential to offer multiple units or designs at varying prices is also a precondition for successful marketing.

1.2.8 Does your product or service have an extended life cycle that ensures long-term revenue flow?

Every product category has a limited life. Software, for example, tends to have a very short product life cycle unless it is updated and upgraded to meet the competition. Therefore, an element of your feasibility study should be to assess how long your product or invention can expect a fair run in the market before it is superseded, made redundant or falls to market competition.

1.3 Revenues, Finance and Skills Needs

1.3.1 Do you know how the product or service will generate revenue and profit for you?

At an early-stage you need to start thinking about how your idea will make money. A number of commercialisation options exist, including manufacturing, licensing or selling your technology outright - each dictating differing business or company structures and levels of investment in product development and marketing.

1.3.2 Have you identified the funding options to progress your product or service?

Once your feasibility study has been completed it may be time to consider developing your idea to the next stage. Typically this involves identifying what cash, human and technical resources are required to take your new idea or innovation further. This includes identifying funding needs and other capital requirements.

1.3.3 Do you have the marketing, technical, financial, operational and management competencies required to commercialise the new idea or innovation?

If you do not possess all the above skills or knowledge sets, the progress of your innovation or service will be affected to some degree. It is important that you consider seeking the services of appropriate people with the skills to assist you with clearly defined roles and responsibilities. Don't fall into the trap of thinking you can fulfil all of these critical roles; allocating specialist tasks to experts as you need them completed will only increase your chances of success.