CHAPTER 1

Validating and testing your idea

We've all stood around the BBQ with family and friends having a drink and solving the world's problems, or at least coming up with lots of ideas on how things could be done better. How many of those ideas actually turn into something the next day? Realistically, almost none!

So, what if you put your money where your mouth is and give it a go? Where would you start to conceive how it could work? Did everyone agree it was a great idea? Is the timing right and would they pay for your product or service if it was available, and how much would they pay?

Is the idea novel (has it been done before) or are you just trying to improve on what's already in the market? Is the idea scalable or is it limited to just being a small business? What are the barriers to turning it from a small business into a large or even global business? You may be content with just a small business, or you may be ambitious and want to build a global business, so it's critical to consider how you would scale if that's your goal.

If you really felt inspired by people's reactions to your idea, then get online and start researching to find out whether anything like it exists, and if it does, how similar is it to your idea, and what makes your idea so much better?

Then test the idea out with other groups of friends to further validate and refine your thinking: you might even uncover some potential business partners. This initial 'market research' phase is critically important for understanding the potential opportunity. We'll go into the validation process in more detail throughout the book.

If it is a product or a service to industry rather than direct to consumers, you need to follow the same validation process, but before you talk with potential customers or partners it's crucial to protect your idea so that no-one else can easily steal it. This can be done in the first instance by writing up a non-disclosure agreement (NDA), which is a standard document with a tailored purpose that a general solicitor can provide you with quickly for a relatively low cost. You need to talk with businesses in your target market and thoroughly test your idea. Then, if you feel really inspired and compelled to take it a step further, it's time to get cracking on a simple business plan (which I'll run you through in detail in chapter 2) to thoroughly test your thinking.

Most businesses fail in the transition from an idea to actually creating and running a real business, which requires a very different skillset, and you need to be well prepared for the journey ahead, which comes down to planning.

Let's take a look at how my panel navigated this tricky step.

Tobi's start-up story

While he was studying at university, Tobi met a personal trainer at the gym where he was training who has since become a lifelong mate. He told Tobi that while he was studying at university, he worked as a personal trainer (PT) on the side. He was making $70 to $90 per hour and could book clients around his own schedule. At the time, Tobi was earning around $15 per hour doing various jobs, so he thought that was 'unbelievable!' He already enjoyed fitness and had just done some fitness competitions, and he saw this as an 'awesome' opportunity, so he started the process of getting his PT qualification.

Tobi quickly dropped his other jobs and started focusing on personal training. He had to earn $400 to $500 per week to cover his living costs, which he quickly calculated he could do in significantly fewer hours than he had been working.

With a PT qualification under his belt, Tobi soon had clients of his own, and he quickly became obsessed with growing his business for both the financial and learning opportunities it could offer. He focused on being as successful as possible and soon realised he was learning more in this practical business setting than he was learning at university.

Tobi earned around $100 000 in his first year as a personal trainer, and then had the realisation in his second year that he could do small group sessions and earn more per hour while working fewer hours. He was very focused on observation and learning, and understanding his clientele and their attitudes. Most of his clients were female and in two age groups, being around 19–20 or 35–40. Within that range, there appeared to be several different key attitudes or behaviours: with or without kids was a big divider for understanding the audience and the preferences of their individual fitness journeys.

His next thought was that he could do even bigger groups if he went outdoors, increasing his earnings to between $250 000 to $500 000 over the next couple of years. He continued to grow while maintaining very positive feedback. With too many clients to look after on his own, Tobi got other people to help with the sessions. Clients also wanted to do work outside of the sessions, which begged the question: *How do I make income from that?* 'Books' was the idea: *I'll write some eBooks that I can sell to my clients!*

Collaborating with some dietitians, he started with a book on nutrition advice, which he admits was a minimum viable product (MVP) but at the time it did okay. This was launched in November 2013. At the same time, he was putting a lot of effort into creating workout programs and custom programs, which were released in January 2014 as the photography involved delayed them coming out together as the one book initially. Tobi says they served their purpose, taking his earnings to around $500 000 per year.

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In breaking down the income, he realised about 80 per cent was coming from bootcamps and personal training so there was still a lot of scope to increase the programming income. He had recently met partner and SWEAT co-founder Kayla and they had started posting programs on social media. In Tobi's words, 'we were killing it' (compared to anything else that was around at the time). While acknowledging that social media was in its infancy at that time, and not yet fully integrated with the world the way it is today, they saw an opportunity and considered this as a way of selling legitimate eBooks online instead of only existing customers ordering them.

They saw a gap in the market for programs that met the psychological and attitudinal profile of their young female market, highlighting confidence and empowerment over aesthetics effectively. It was a combination of the right product with the right audience at the right time. What Tobi had learned at university he was now able to apply in his own business.

Validating the SWEAT business

Tobi was confident there was an unmet business need as clients were looking for something outside of their bootcamp sessions, so he needed to understand what the customer actually wanted. What could the business provide that met the need: where was the middle ground? Tobi had a deep understanding of his clientele after thousands of PT sessions. He spent more time in the gym than any other trainer there, sometimes just sitting around watching people, not even running sessions but just observing behaviours. What do they wear? How do they train? What are their goals? When do they train? What's their motivation to train?

From this understanding he started to put the product out. Before the eBooks were digitised and scaled, they were originally done on a one-on-one basis with clients. When he caught up with his clients, he would also be doing a Q&A session on the personalised book, asking 'How are you feeling? What do and don't you understand? Is it too advanced? Can you progress with it or are you regressing?' It was fundamental physiology and frameworks. Over time there was an understanding of the sensitivities. Tobi says, 'There was too much of this and not enough of that', so they would tweak things for people as needed, which, Tobi learned during the process, was actually a way of achieving product–market fit.

Once the book was digitised, both the product and the support became more sophisticated and Tobi would spend time on the help desk understanding the questions — the frequency of certain questions — that were being asked by email. The beauty of an eBook is that it's relatively low cost to modify, so repeating themes could quickly and easily be addressed, and the eBook updated. 'We'll reword this, or write a new chapter on that, or delete this …' was effectively the process. At this point Tobi considered himself an apprentice of the game, looking at, listening to and observing everything, looking for ways to improve. He would read all the social media comments and emails every week (sometimes up to 10 000) including any media publications they were featured in and every associated comment that was made. He would try to read absolutely everything to understand how the books were being perceived, how the brand was being perceived and how the product was being perceived. Tobi and Kayla became very customer directed in their development as a business through a natural evolution.

Flavia's start-up story

Flavia was working with small satellites, with dreams of these satellites solving major challenges for our civilisation both now and into the future. But it was in effect technology looking for a problem and was very much driven by Flavia and Matt's combined passion. The trend was towards small satellites and the economics were stacking up to get them into space — but for what?

Flavia and Matt founded a start-up before Fleet Space that was building small satellites for schools. It was basically launching a GoPro into space for school kids to take photos of Earth, which Flavia says, 'was pretty damn cool!' It was fun and made enough money to allow them to take time to go and talk to people and industry to try to find an application for her satellites.

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Flavia spent a couple of years in coffee shops (averaging 10 coffees a week — a lot for someone who doesn't drink coffee!) talking to people who were potential users of satellites. This was to understand what the thing was that people needed space technology for. 'I want to build satellites; do you have any problems that we can solve with this technology?' During this process, Flavia realised the problems that could be solved from space fell largely into two buckets: people who needed connectivity around the world (people without internet) and industrial connectivity for businesses with machinery or infrastructure in remote areas.

Elon Musk's SpaceX was already tackling the first problem. Should they go up against SpaceX? Their thinking was 'no!' It was a huge problem with a lot of complexity that a multi-billionaire was already trying to solve. On the other hand, connectivity for industrial applications was very much unserved, spanning through sectors including agriculture, mining and energy. 'We like this bucket; its achievable — let's jump on it.'

Within a year they had started the company with a concept utilising space to advance industrial 'Internet of Things' (IoT) applications. They needed to get test applications underway and Matt was great at building software, but it would take one and a half years to build a satellite, which was too long. So, they decided to use an available satellite company even though it was pricey, over dimensioned and 'a pain too'. But it allowed them to be operational in the field. With the initial applications they knew this set-up was a recipe for disaster because of the costs. However, they also knew they could dramatically reduce the operating costs with their own satellites in time. They set up the initial test applications to pilot at a low price, knowing they would lose money, but at least they were in the field operating and finding the right applications to build their own network for.

Validating the Fleet Space Technologies business

The first test was with technology geeks of the various target sectors: influential industry people who really liked tech — farmers who liked tech; mining and energy people who liked tech — so they could get feedback about the product. Flavia openly admits up to 90 per cent of their first efforts were terrible and they were embarrassed by them, but they were given an enormous amount of feedback on the test applications.

There were geeky farmers who were looking to monitor their cows, soil and tanks, and energy companies monitoring solar farms. Using satellites for this didn't make sense, though, because satellites cost thousands per month whereas cows only cost hundreds, but they did receive useful, in-depth analyses about what was affordable and what wasn't. Basically, the result was: 'It would be good to monitor the soil and have that information, but who really cares'. From this research they were able to start culling applications that were not economical and people who were unlikely to pay. In a good year it may have been affordable for farmers, but in a crisis, it wouldn't have been, and they would simply revert to getting in a car to check on their cows.

Flavia and Matt needed an application that would be a game changer for the industry. In year three (2020) — at the beginning of the COVID-19 pandemic — they eliminated all the 'nice to have' applications and lined up four target applications: hydro (water monitoring), gas (pipeline monitoring), electricity (transmission and distribution monitoring) and mining (exploration). If satellites could monitor a pipeline or a transformer, instead of having to use people, there's a significant efficiency gain. The application needed to produce a saving in the millions of dollars per year, not just a couple of cows!

For two years they worked in these four sectors, recognising that for a start-up it was very important to focus so they didn't spread their resources too thinly. Covering these markets was a lot of work, and it was important to identify the applications that would save their customers a lot of money and that weren't just a 'nice to have'.

Preventing blackouts at an electricity distribution business (electricity poles and wires), for instance, was a key priority. Informing a client that a transformer was overheating or exploding when there was no-one supervising it could save them $500 000 to $1 million per year, so they were happy to spend a few thousand dollars per year on the solution.

Despite these being useful and efficient applications, they were really just a 'side gig' in terms of income for the business. This wasn't going to be the game changer Flavia and Matt were after. They needed much more than this to create a large, sustainable and growing business.

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Unfortunately, this wasn't a way to avoid blackouts, and only created a more efficient monitoring process.

Three out of the four applications they had been working on for the previous couple of years turned out to be a good side income but not the game changer they were looking for.

But one showed potential, as we'll see in later chapters ...

Haigh's Chocolates' start-up story

Alf Haigh (as he was affectionately known by the family) was born in 1877, raised in Adelaide and then moved to Jamestown in South Australia's mid north in 1884 with his family, where he opened a confectionery store in 1896 at 19 years of age. In this era the store would have sold primarily boiled sweets and lollies. Alf got married and moved to Fremantle in Western Australia to try his hand at mining gold during the gold rush of the 1890s, but returned to Jamestown six months later to work for a supplier of agricultural bindings and equipment. It was there that he developed a piece of technology and had his first patent registered. The entrepreneurial brain was already working!

In 1905 Alf moved to Mt Gambier in South Australia, where his entrepreneurial legacy really commenced when he opened a fruit and confectionery business together with a cool drinks factory and introduced ice-cream into his range in 1909. Not to be underdone, Alf also became manager of the Imperial Picture Company, running silent movies at the local Institute Hall. He then opened two more stores in regional South Australia before moving back to Adelaide in 1913 where he opened a further two suburban stores.

In 1915 Alf purchased a confectionery business operating in Adelaide from a European-trained confectioner, Carl Stratmann. With World War I spreading anti-German sentiment, Carl's business was struggling, so he agreed to sell it to Alf — including all equipment, stock, recipes and the trademark 'Confiserie Surfine', which still appears on Haigh's Chocolates packaging today. The business was located in the famous

Beehive Corner building in the Adelaide CBD where Haigh's flagship retail store remains to this day.

Alf was enthusiastic about the chocolate business, as well as property development, and he opened a factory on Greenhill Road in Adelaide in 1922 that is also still in operation today. He sold the Mt Gambier businesses and started making chocolate at the new factory using beans from Ghana, Venezuela, Trinidad and Ecuador. He built shops and houses along the Adelaide foreshore at Henley Beach, including the well-known Haigh Mansions, and ran a footwear store. He also built a five-storey building with basements in Rundle Street known as the 'Haigh's building' where he opened cafés in the basements.

Recognising the annual opportunity to sell more chocolate, Haigh's started making chocolate Easter eggs and penny chocolate frogs, and as a result Alf extended the Haigh's factory to cope with the added demand at the time, even hand-making boxes at the factory. He then acquired the rights to sell confectionery at the Adelaide Oval, which Haigh's continued doing for about 50 years. Alf also opened numerous stores and purchased an 860-acre property at Mallala for his horse breeding interests.

He was a 'true entrepreneur,' and as Simon describes him, a 'Jack of all trades', having the opportunistic foresight and ability to successfully start, grow and trade various business interests. Alf died suddenly in 1933 at age 55 which, on reflection, says Simon, 'may have been fortuitous for the longevity of the Haigh's Chocolate business' as, being the constant trader that Alf was, it could easily have been sold in any of his ongoing business dealings. For the millions of Haigh's Chocolate fans around the world today this would be a very uncomfortable thought to process!

Validating the Haigh's Chocolate business

Alf's son Claude took over the business in 1933 at age 30 after Alf passed away. He grew up in Mt Gambier and moved to Adelaide with his family, where he completed high school. Claude was trained as a bookkeeper and worked for a shipping agent at the time.

Being a bookkeeper, Claude had the skills to stabilise and consolidate the business, applying a 'methodical mind and steady hand' essential for

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the management of the various business interests, including the retail and manufacturing operations. He never really worked in the factory or the practical side of the business, leaving that to the exceptional experience of Harold Lewis, who started with Alf in 1912 and who knew the operational side of the chocolate business inside and out.

Claude's focus was his six thoroughbred fillies: this marked the beginning of the family's Balcrest Stud, which developed as the other side of the family business. Balcrest Stud was the foremost stud in South Australia for many years with the importation of the leading brood mare sire Coronation Boy. Claude sold the Mallala property in 1934 and relocated the stud to a new location at Balhannah in the Adelaide Hills, where the property remains today. At one stage, Balcrest took home 75 per cent of the proceeds of the South Australian yearling sales!

During the Great Depression, Haigh's Chocolates settled into a period of quiet stability which continued into the 1940s, opening only two stores during that period. There were times during those years when the horses supported the chocolate business — until the tides turned and the chocolate business began supporting the horses.

Claude bought the Beehive Corner building that became part of the family's property business. Claude's health, however, was steadily failing, so his son John had to enter the business from a young age. John's entry marked the beginning of a period of remarkable innovation and progression for the Haigh's Chocolate business as we'll discover later in the book.

Essentially ...

- Is the timing right? (You'll read much more about this in chapter 4.)
- You must validate your business idea before you start spending money.
- Are there customers who will pay for your idea?
- How much would they be willing to pay?