

Beat: Business

How do you test if there is a market for your product? For Entrepreneurs.

Product market testing.

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USPA NEWS - Special business edition- Most startup founders cannot answer this simple question when running their companies.

Lets roleplay for a moment here. You´re the founder of a rising technology startup.

Say you have a new idea for a product.

You need to test whether there is a market for the product before expending more resources to deploy it. What do you do? Proceed to the quiz below.

There is only one correct answer to an economist. And we use the mindset of an economist here because we´re dealing with microeconomics (maybe even macroeconomics if your startup is that groundbreaking).

A. Gather an email list of users from your contacts from various industries and professions. First a diverse group representing both your target market and second a control group of the general population. Email them a survey asking them if they would buy the product. Perhaps offer a gift card as an incentive for participation.

B. Create a landing page and get it online with a nice domain name. Place some polished concept artwork and make it sound fancy. Go to the forums and announce either on the forums or through a press release that the product is being developed and you are accepting sign ups for early access and beta.

C. Do market research and gather the latest data from available online sources. Spend a lot of time reading article after article to get an understanding of the target audience, the industry, the timing, etc“} Run a thorough analysis using hard data to determine if there is a market fit.

D. Consult with an expert with experience in the industry and type of product that you are working with. Consult with many experts. Use their guidance and advice to gain insight into the space and aggregate the wisdom of the crowd.

E. Call a meeting with your company and invite friends and family as well. At the meeting you will discuss the product idea as a group and proceed to make an attempt at collectively find an answer. You reserve the right to cast the final vote and make the final decision.

F. Go with your gut instincts and decide either right then and there or after a few days of thought whether you will launch the new product or not. If you choose to deploy, use a small amount of resources in the first release to test the waters and a re-invest a large amount later on if it works.

What do did you answer? The only available choices are A to F. Unfortunately, for simplicity of the quiz, we limit it to only these answers. If we wanted to list all of the options in the real world, we would be here for all of eternity.

The answer is “}“

F. Go with your gut instincts.

Why is this answer correct according to economics? I will explain

If you answered incorrectly, you were most likely thinking of this problem in microeconomic terms with simple supply and demand. You might even be a bit further along the way and considered opportunity costs and deadweight losses.

But what this really is is a behavioral economics problem. First, know that people are not rational decision makers. Based on the Nobel

prize winning work in economics by psychologist Daniel Kahneman, we know that there are 2 systems at work when making a decision.

System 1- Makes swift and rapid decision making. A fight or flight response.

System 2- Slow and derivative and less prone to failure.

Now why exactly should a startup founder go with system 1 instead of system 2 to make this decision? There are several reasons

First. Startups rely on their speed and quickness to survive. This is a defining trait of startups. The fact that they are able to use lean methodology and dish out products at an alarming pace and then pivot their business model if it goes wrong is what gives them an advantage over large corporations.

Second. This is a gamble. It is similar to deciding whether to roll dice or not and wager a certain amount of money. Sitting here and deciding whether or not you should roll the dice through elaborate means is a waste of time, energy, and resources. You know you shouldn't be gambling anyways.

Third. Consider uncertainty in economics. While it is rational thinking to strategically make a decision, it is hubris to think that you can with 100% certain or at the very least acceptable certainty move your company forward based on the results of a market test, survey, meeting, or otherwise.

Fourth. The reasons can go on and on.

But to focus our discussion on what is truly going on here. Picture this.

You are answering a question dealing with irrational economics. You must imagine that every person you interact with on this quest to find out if your product has a market fit is behaving irrationally.

For example, if I took a survey on whether I would pay for say, Google Adwords. If they gave me a chance to sign up for Google Adwords while it was still in beta (as if that's how it actually happened, I'm not going to get into that), would I do it? Perhaps. But maybe it's too complicated and I don't understand how to use it. Maybe this "cost per click" thing doesn't resonate with me yet. I think I'd rather go and pay for traditional newspaper advertising with a flat rate. And besides, who actually signs up for this early adopter things anyways? On that note, who actually takes surveys seriously?

But now reality hits. And Google Adwords comes out. And it's the hottest thing on the market. And now my competitors are using it. So man oh man I gotta hop on board to stay afloat or buy some facebook ads or something.

The market is unpredictable, and so is the future

Releasing your product into the wild is a decision best left to the founder and CEO. The person in charge. The person with the experience, the charisma, the all the good traits that make them a leader who gets to decide the direction of the company and the release of the product.

I don't like to quote, but I have to credit here:

"But in the end, for something this complicated, it's really hard to design products by focus groups. A lot of times, people don't know what they want until you show it to them." Steve Jobs

Oh and, of course, if you had enough resources the answer is that you would do A through E and then use that information so that you can do F in the end.

And go with your gut instinct.

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