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The 16-Step Guide to Evaluating the Viability of Any Product Idea

The 16-Step Guide to Evaluating the Viability of Any Product Idea

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When it comes to building a highly profitable ecommerce business, choosing the right product is without a doubt the most important piece of the puzzle.

A critical first step in making sure you've picked a winner is evaluating the market demand, existing competition and viability of the product itself.

Get this step wrong and you run the risk of wasting your time and energy, or worse, sinking a bunch of money into inventory you can't move.

Get it right and you set yourself up for sales and success.

To help you determine if you've got a viable and profitable product idea on your hands, we've put together this comprehensive guide that shows you exactly how to take a look "under the hood" of your market and your product to make sure you're building your business on a strong foundation.

Let's dive in.



Free Guide: How to Find a Profitable Product to Sell Online

Excited about starting a business, but not sure where to start? This free, comprehensive guide will teach you how to find great, newly trending products with high sales potential.

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Note: In this post we're going to show you how to analyze a variety of factors to better understand the viability of your product idea is. We will do this by using our own product choice, a coconut oil hair care product, as a case study.

It's important to remember that no single factor can give you 100% confidence in your product choice. Rather, it's a combination of many factors that will help you paint a more complete picture and will allow you to make the best possible decision.

Make, manufacture, wholesale or dropship

Before we get into our evaluation, we first need to recognize that there are several ways we can build a business around a coconut oil for hair care product. The first step is to decide how we want to build this business: make, manufacture, wholesale, or dropship.

- **Make** - We can make a coconut oil based hair care product relatively easy. We were quickly able to find recipes and ingredients available online to make our own unique hair care product. We're lucky in that a product like this doesn't require sophisticated processes or hard-to-find ingredients. Making a product like this would be relatively easy and inexpensive. Purchasing in small quantities to make our initial product means our margins will be smaller but as a new product and brand, we would also have full control over the pricing and a lower inventory risk.
- **Manufacture** - This would consist of working with a manufacturing partner to develop a coconut oil based hair care product. Because of the relatively simple nature of the product we're creating, this option doesn't make much sense until we get to a point that we cannot keep up with demand on our own. This costs associated with manufacturing a product like this would be much higher than if we were to make it ourselves due to minimum order

quantities set by manufacturers, likely in the thousands of tens of thousands of units range.

- **Wholesale** - Purchasing wholesale means purchasing commercial and independent label coconut oil hair care products and reselling them on our own site. Typically your margins for reselling products are around 50%, so a product that costs us \$10 to buy wholesale would retail for around \$20. When buying wholesale, you'll have little control over pricing as the prices are usually established by the manufacturers and expected by the market.
- **Dropship** - If we didn't want to carry any inventory ourselves, we could go the dropshipping route. If we were to work with dropshipping partners, we would be looking at a much smaller margin, usually around 20%. This means that we wouldn't have any startup costs for our inventory. Instead we would list the product on our site and when we make a sale, our dropshipping partner would charge us and ship the product on our behalf. If you're interested in dropshipping, we recommend [Oberlo](#).

For this evaluation we have decided to evaluate the viability of building a business around making our own coconut oil hair care conditioner product. Remember, when choosing a business type of your own, you can always go back and reevaluate other business models if your first choice doesn't meet enough of the criteria below.

How to evaluate your product idea

For each evaluation criteria below, we're going to briefly explain it and then use it to evaluate our product idea. Many of the decisions are arbitrary and you may have a slightly different opinion for each criteria. For many of the points there won't be perfect answers, rather educated guesses. Each of these criteria are meant to help you better understand your own product choice and all the factors of building a business around it.

You can use these 16 questions as a framework, substituting our product choice for your own in order to get a better idea of your products potential and to avoid dangerous potential pitfalls.

Market based criteria

The first thing we want to look at is market based criteria. These are criteria that are usually external facing like market size, target customer, whether you're dealing with a trending product, and so on.

1. What is the potential market size or demand?

Gauging market size and demand can be difficult but you're going to want to have some sense of the potential market size and demand before investing any significant amount of time, money and energy in your venture. It can be as simple as using a service like Buzzsumo to better understand how many people per each day are talking about your potential product. Perhaps the most popular tool is the Google Keyword Planner Tool which will help you determine how many people each month are searching for keywords related to your product idea.

Evaluation: We determined in our last post that search volume for coconut oil hair products is extremely high. Using Google's Keyword Planner Tool we were able to determine that there are over 73,000 searches per month in the USA and Canada for *coconut oil for hair* and similar keywords.

Keyword (by relevance)	▼ Avg. monthly searches [?]	Competition [?]
coconut oil for hair	49,500	Medium
coconut oil hair	8,100	Medium
coconut oil hair treatment	5,400	Low
coconut oil hair mask	5,400	Low
coconut oil in hair	2,900	Low
coconut oil on hair	1,600	Low
coconut oil for your hair	390	Medium
refined coconut oil for hair	390	Low
coconut oil for curly hair	390	Low

Using Buzzsumo, we were also able to determine that there were approximately 150-250 Tweets per day mentioning our main keywords.

This information doesn't give us 100% certainty that our potential products will have a market of buyers but it's a vote of confidence that if we do launch a coconut oil for hair product, there are likely people with with interest in learning more.

2. Who are your competitors?

It's always good to know who you'll be competing against if you choose to start your business. The more you understand about the competitive landscape before you start your business, the less potential surprises you'll face later.

Learn More: How to Conduct a SWOT Analysis for Your Business

Evaluation: From our analysis and as we mentioned in our previous post, there are three areas of competition in the coconut oil hair product market:

- **Pure Coconut Oil** - Pure coconut oil is the main ingredient and from our research does a great job on its own of moisturizing and repairing hair. Pure coconut oil is readily available online and locally.
- **DIY Coconut Oil Recipes** - Do-it-yourself recipes are available online. All recipes obviously include coconut oil as the base ingredient, but also combine various other ingredients to improve the effects of the final product or to help change its core function/texture. For example, hair conditioner vs. hair mask.
- **Commercial Coconut Oil Hair Products** - These are products produced by businesses large and small and contain a proprietary blend of ingredients to create a unique and perceived better final product.

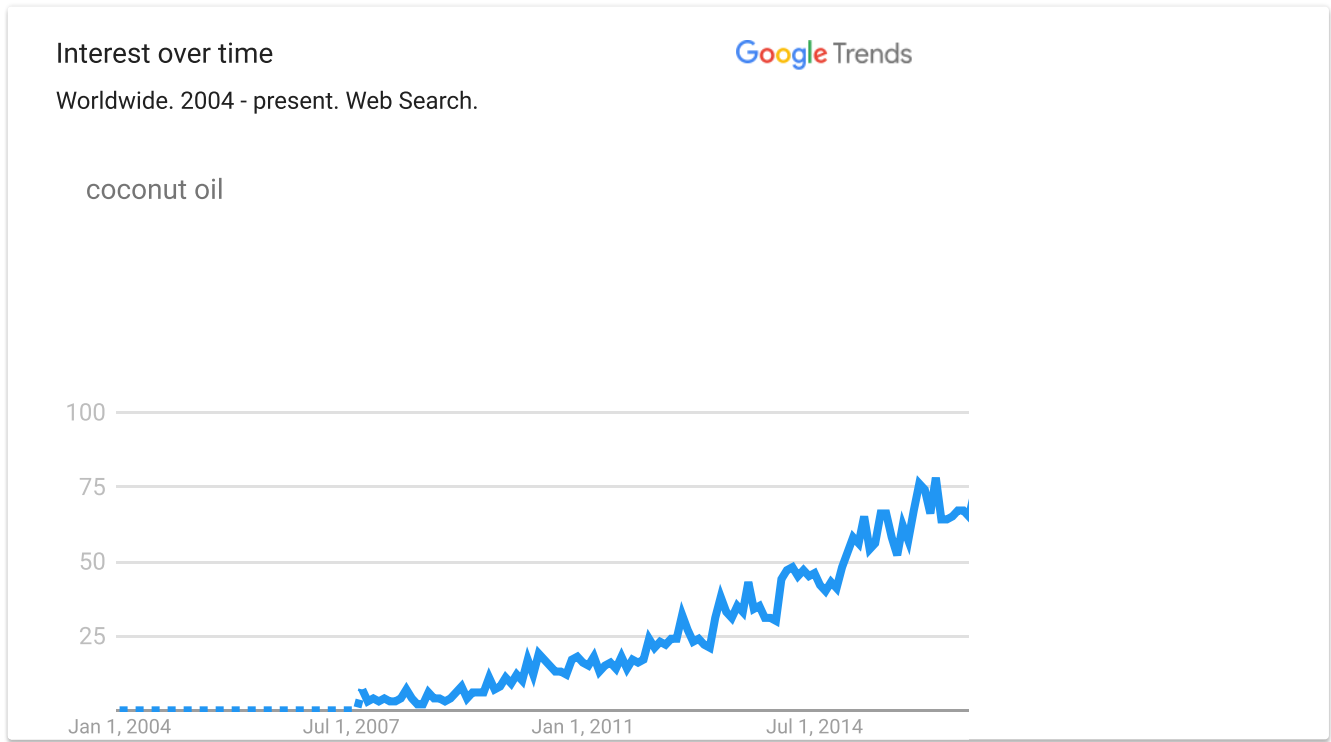
We didn't find any true market leaders for our coconut oil for hair products rather a very fragmented market of manufacturers and retailers.

3. Is it a trend, fad, flat or growing market?

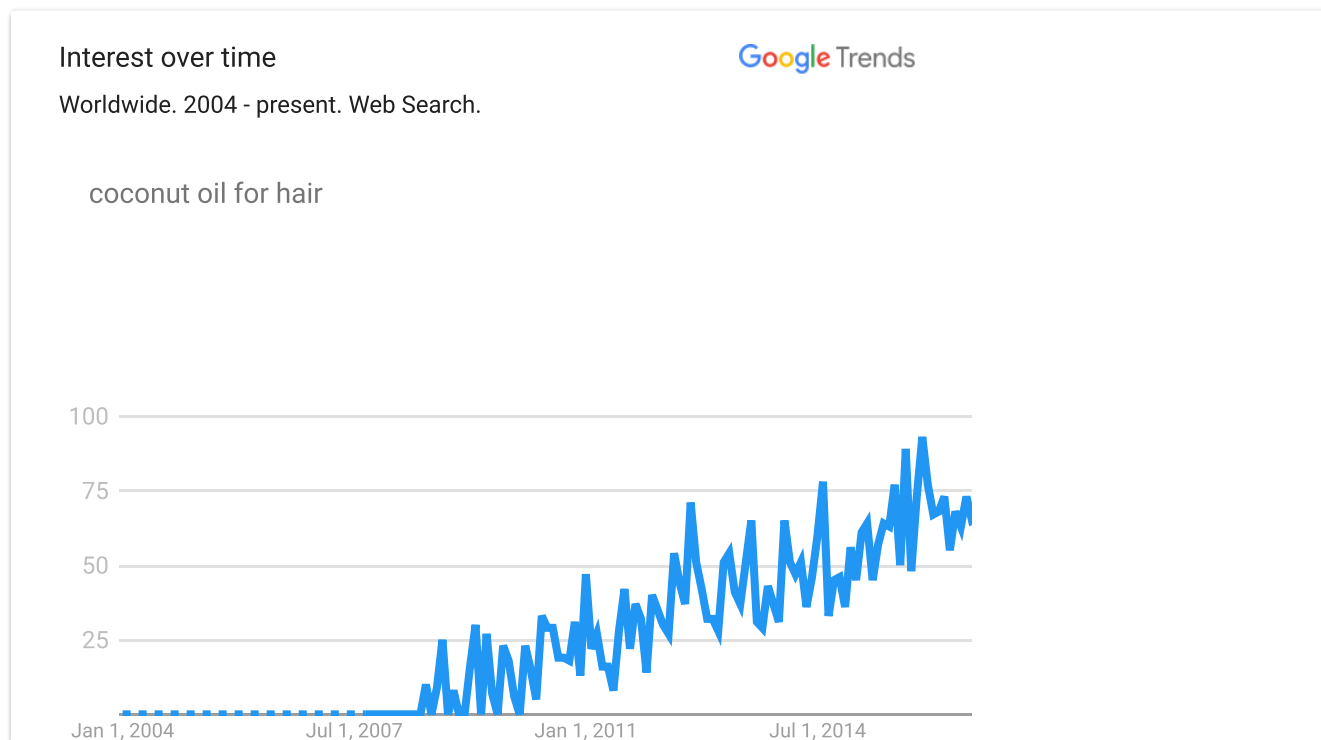
Just as important as knowing your potential market size and demand, is also knowing which direction the market is going. The last thing you want to do is spend a lot of time, money and effort to create a product and establish a business just to find that you missed the boat and the market is rapidly declining.

Evaluation: We know from [Google Trends](#) that the search interest has grown significantly over the last several years.

“Coconut Oil”



"Coconut Oil for Hair"



Even though coconut oil is trending high right now, the beauty industry is always going through massive marketing shifts that highlight and push new key ingredients as “breakthroughs” to stimulate sales. It’s important to recognize that in time, one of these marketing shifts may overshadow that of coconut oil and cause a decrease in demand.

4. Can your potential customers buy the product locally?

If your product is readily available locally, there's one less reason for people to seek your product out online.

Evaluation: We know that coconut oil on its own works well for hair repair, moisturizing and as an anti-frizz. Coconut oil as a raw ingredient is pretty widely available online and offline, we were easily able to find it at our local GNC as well as our local supermarket. However, coconut oil based commercial hair care

products are much more scarce offline and would likely require a specific trip to find it.

5. Who are your target customers?

Before you fully decide on a product, it's important to get a sense of who your potential customer are. You don't want to find out too late that all the people that would be potentially interested in your product live somewhere you can't ship to or can't purchase (i.e. kids without credit cards).

Traditionally if there were some major players in the market, we could use channels like [Quantcast](#) and [Alexa](#) to find out more about the demographic information of our potential target market. It's difficult in our case because there aren't really any major competitors with websites to analyze. As we mentioned before, the market for coconut oil hair care products is currently pretty fragmented.

To get a better idea of our potential target customers, we took to Twitter. From our last post we know that everyday there are approximately 150-250 Tweets that mention the keywords "*coconut oil for hair*" so we took a closer look at who exactly these people are that are talking about coconut oil for hair. From this analysis, and as we expected, the people on Twitter talking about our product idea were overwhelmingly female. Based on credible profile images, we can assume the average age is 18-35.

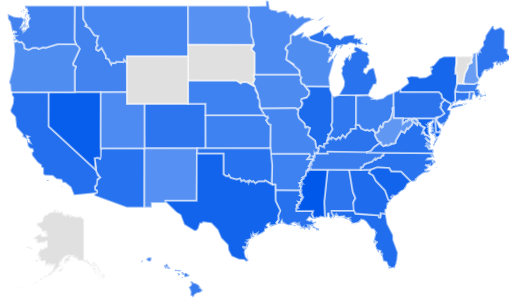
We also know from [Google Trends](#) where our target customer predominantly live:

In the USA

Coconut Oil for hair



Interest by subregion. United States. Past 12 months. Web Search.

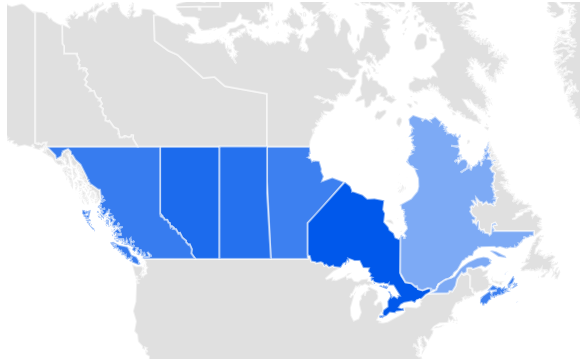


In Canada

Coconut Oil for hair

Google Trends

Interest by subregion. Canada. Past 12 months. Web Search.



From this information we know we can easily reach our potential customers and in general, we know this particular demographic isn't adverse or shy about spending money online.

Product based criteria

Now that we have reviewed our market based criteria and feel confident in the market, the direction it's going and our target customers, it's time to consider factors surrounding the actual product itself.

Product based criteria deal directly with the product's viability. These criteria can help you get a better understanding of what your product's strengths are and potential pitfalls to be aware of.

6. What is your potential selling price?

The lower the price, the lower the the potential profit per unit. This translates into more marketing dollars to find more customers. It has been generally accepted by many top ecommerce entrepreneurs that products that sell between \$50-\$150 hit a certain sweet spot where you can make a respectable amount per unit but isn't too high that customers are hesitant to purchase online or expect premium services like phone support.

Evaluation: We looked at approximately two dozen coconut oil and coconut oil hair care products from a variety of brands. After looking at average cost per millilitre we determined that we would be able to charge approximately \$9-\$20 per 120ml unit depending on the positioning of the brand. This low price point means our margins will be small and can make it difficult to use paid advertising channels, especially when we first start out.

7. What is your potential markup?

Markup is the amount over the cost of the product. This amount is what will cover your overhead and be your profit. Remember, when looking at potential markup, you may also want to consider how it may change as your business grows. For example, if we start out making our own coconut oil hair care products, we would likely be starting with a relatively small quantity of raw ingredients. However, as we grow and our purchase volume goes up, our costs for ingredients goes down. This is also the same for manufactured goods, as your order quantity goes up, your pricing goes down.

Evaluation: From our analysis of potential selling price, we know we can comfortably sell a premium coconut oil based hair care product for \$9-\$20 per 120ml.

We were able to find Raw Coconut Oil for \$80.00 for one gallon (3,785ml). We were also able to find various other essential oils and extracts that have a proven track record of helping damaged hair for a relatively low price averaging \$10 per 60ml.

If we assume our product will contain mostly coconut oil, with several other additional oils and extracts, we can assume our total price would be \$110 for 3,965ml (3,785ml + 60ml + 60ml + 60ml). We divide this by 120ml, which would be the size of our final product and we get 33 total units. If we take our total cost (\$110) and divide it by our total units (33) we get a cost per unit of \$3.33.

Taking into account a 120ml jar would cost approximately \$2.00 and \$0.50 for a label, our total cost per unit becomes \$5.83. At the lower end of our potential selling price this would be a bit of a concern but if we sell our product for \$13-\$20 with can enjoy a pretty healthy markup.

8. How many SKU's will you have to stock?

In general, more SKU's (types or styles of product) mean more potential headaches. Typically, this can become an issue when you get into things like sizes and colors. As an example, if you plan to sell jeans online you're going to have to stock many sizes for each style. This increases your costs for inventory, storage as well as increases potential for shipping mixups.

Evaluation: Our product choice would likely begin with just one or several SKU's. You could likely do well with just several of your own products or a dozen or so curated coconut oil products.

9. Can you offer a subscription?

Far from necessary to build a successful online business, however the ability to offer a subscription for your product is very desirable as it helps increase your lifetime customer value, provides you the ability to spend more to acquire customers, and decreases the number of customers you need to build a successful business.

Evaluation: It's doubtful that customers would purchase a hair care product on a subscription basis as a product like this wouldn't likely be used on a regular basis, rather it would be used as needed.

10. What is your product's size and weight?

The size and weight of your product can have a big impact on your sales and bottom line. If your product is oversized or heavy, costly shipping can deter potential buyers and squeeze your margins. Size and weight can also be a costly factor in warehousing and storage.

Evaluation: Shipping coconut oil isn't light but at the unit sizes we would likely be selling our product at, we don't expect the packages to be that heavy. For the average order, most shipping companies would consider it a small package and it should fall well below the weight limits for small packages.

11. How durable is your product?

A durable product is always more ideal. Product durability will decrease your overall shipping costs and prevent costly breakage during transit.

Evaluation: Most coconut oil hair care products come in either a glass or plastic containers. This makes them relatively durable but if we plan to use glass

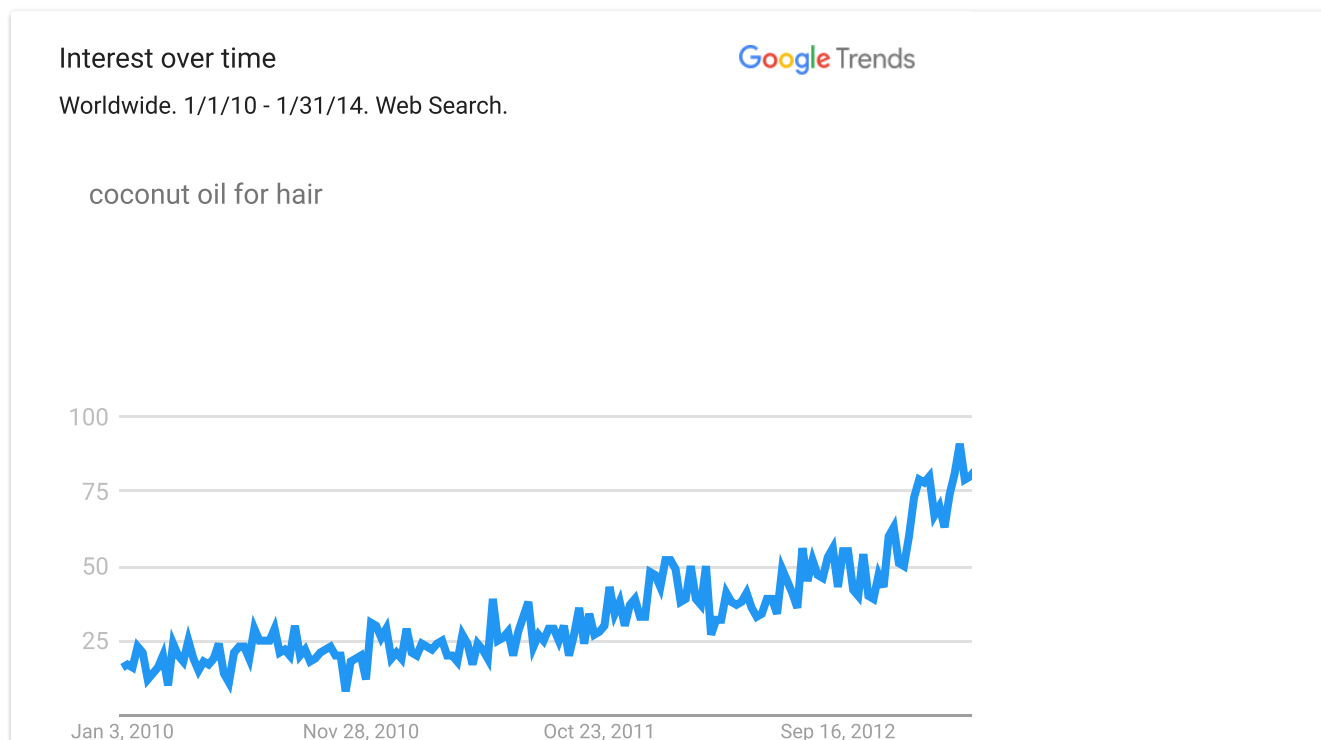
containers, it's important to consider additional shipping costs to properly and safely ship the the glass containers as to avoid breakage.

12. Will you face seasonality swings?

Seasonality refers to swings in purchasing behaviour over the course of a year. For example, Christmas Trees have extremely high seasonality with almost all of them being purchased in the months of November and December.

Seasonality swings are important to keep in mind because of the effect they can have on cash flow and the overall viability of the business.

Evaluation: We used Google Trends to look at some of the main keywords surrounding our product idea to better understand if we would potentially suffer from seasonality swings.



We can see that there are subtle spikes in searches around January that we assume can be caused from people searching for an aid to help with dry, or

frizzy from the winter. Other than that, there doesn't appear to be much in the way of seasonality affecting our product choice.

13. Does your product serve a passion or solve a pain?

Products that solve a pain point or serve a passion are much easier to find and acquire customer for compared to a product that is just a "nice-to-have".

Evaluation: It's fair to say that our product choice can definitely solve a pain point for customers, including dry, brittle and frizzy hair. Arguably it also serves a passion as well as women typically tend to go to extraordinary lengths to keep their hair healthy and beautiful.

14. Is your product consumable or disposable?

A consumable or disposable product is good from a business perspective because it provides you a better opportunity to earn the trust and repeat business from your previous customers. Overall this can help you lower your marketing costs and increase your average customer lifetime value.

Evaluation: As a hair care product, our product choice definitely falls under the consumable category.

15. Is your product perishable?

Choosing a perishable product can be a recipe for disaster if you find yourself struggling to find your market and make sales.

Evaluation: Coconut oil, along with several other ingredients we've researched for our product (other oils and extracts) have an approximate shelf life of three

years or longer. This should give us more than enough time to sell our product and give the customers ample amount of time to use the product.

16. Are there any restrictions or regulations on your product?

Restrictions and regulations are a part of life for many businesses and products. However, it's best to learn about these before investing time and money into your business. Understanding these things ahead of time will help you plan accordingly, and likely save you a lot of time, energy and money.

Evaluation: As far as we have been able to determine, there are aren't that many regulations or restrictions for our product other than labelling requirements.

Conclusion

After looking at and taking into account all market and product criteria, we feel pretty strongly about our product idea and the potential market for it. Some highlights that really stand out to us are the low cost to start this business, strong search demand, trend trajectory, and low competition keywords that we feel we could rank well for in Google over time.

However, we do have a few concerns that prevent this from being a slam dunk. Some of the biggest concerns include a low product price point and the competitive landscape.

A large part of the potential success of our product idea would come from being able to develop a product that is notably better than just coconut oil on its own, building a brand around it and ranking high for the keyword opportunities we identified.

What are your thoughts? Based on the criteria above, how confident or unconfident are you in our product choice?



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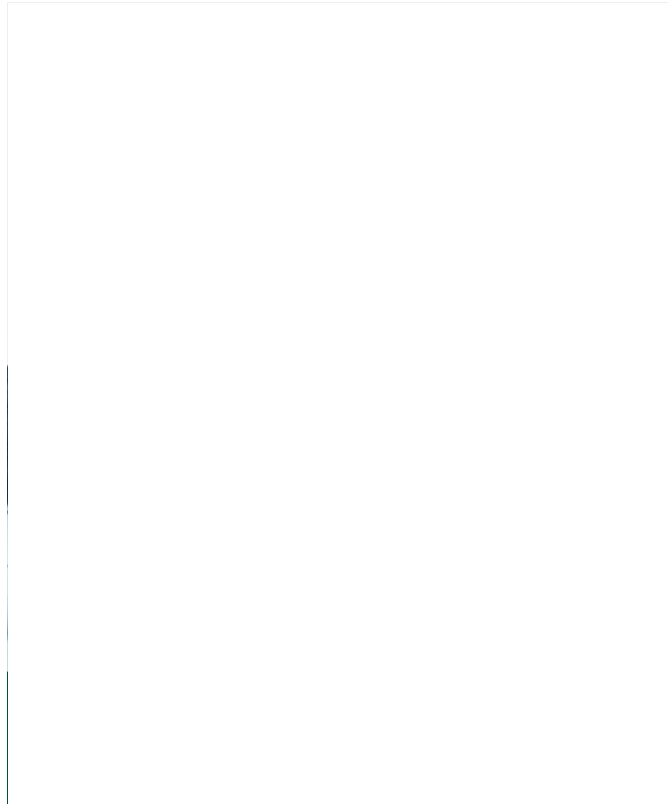
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