2. Opportunity Recognition

Student edition

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Introduction

In order to understand entrepreneurship, it is crucial to learn where business opportunities or potential innovations come from. Opportunities can occur as a result of serendipity. In other words, they can spring from a flash of genius. However, this is not always the case. Most, especially the successful ones, result from a conscious, purposeful search for new ideas and opportunities.

This unit begins by identifying the sources of innovation which lead to opportunity. Next it provides an example of some practical idea generation tools. The unit then describes the difference between an opportunity and an idea.

Learners are reminded that many firms fail, not because the entrepreneurs involved didn't work hard, but because there was no real opportunity to begin with. The unit concludes by describing methods that can help you to evaluate ideas and opportunities.

Learning objectives

When you have successfully completed this unit, you will be able to:

- Determine where ideas come from.
- Use various idea generation tools.
- Explain the difference between an opportunity and an idea.
- Present general approaches entrepreneurs use to identify opportunities.

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1. Sources of Innovation

Innovative ideas follow different paths from generation to development to deployment.

Research suggests that innovations can be either technology driven or market driven. These are often referred to as push or pull factors.

A push factor is when people make a discovery and recognise an opportunity to exploit the discovery. For example, employees may identify a new technology that promises to enhance the organisation's performance, and decide to implement it. On the other hand, a pull factor is where a need for a change is identified. This is usually triggered by a problem or a potential opportunity. Employees then actively seek an innovative response to solve the problem or exploit the opportunity.

In reality, the sources of innovation are much more varied than either of these two models portray. Ideas often occur as a result of a combination of influences from within or outside the organisation. Providing and developing information from a large number and a wide variety of sources is known to be conducive to innovation. It also has a significant relationship with the success of the innovation and performance.

Figure 1 portrays an **interactive model of innovation**. This model suggests that innovations occur as a result of the interaction of the market place, scientific research and the organisation's capabilities. Here, there is no explicit starting point. Information flows are used to explain how innovations can arise from many points. This model advocates that innovation happens at the fringes. Therefore, it can be said that the key to successful innovation is about managing those at the boundaries and providing them with the appropriate encouragement as well as the freedom, time and resources needed to generate ideas.

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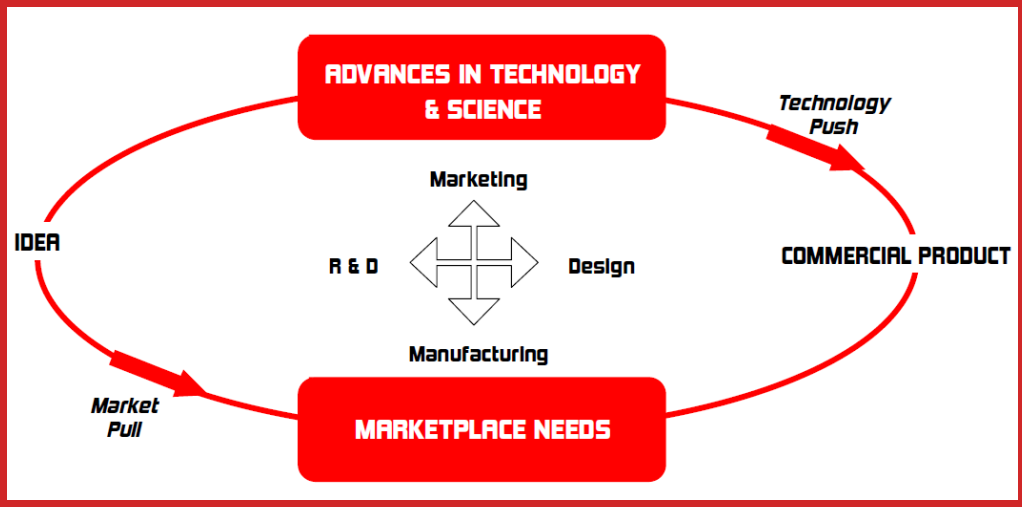


Figure 1: Interactive Model of Innovation (Source: Adapted from Trott 2005)

Innovation occurs most often when a need and a means for resolving this need are simultaneously recognised. They originate from experts who understand and are interested in a particular kind of development. They know when something new is needed, they know whether a new idea can fit with their current technology, and they also know how to implement it.

However, it is important to remember that the vast majority of new ideas do not result in a successful innovation. According to Stevens and Burley's study (2003), 90% of raw ideas never advanced beyond the idea generator's desk-top. So think of many ideas, then focus, and turn this idea into an opportunity.

2. Idea Generation Tools

Effective idea generation is critical to successful product innovation.

It is important to note that ideas are usually not independent, but rather they build on each other to form streams of ideas. Therefore the more ideas generated, the higher the expected contribution.

The use of tools can help increase the possibility of generating new ideas. Many of these tools are problem-solving techniques used to facilitate creativity in a person or a group of people. Such techniques use associations between the goal (or the problem), the current state (which may be an imperfect solution to the problem), and some stimulus (possibly selected randomly).

Table 1 provides an example of the most popular tools in use. It is important to remember that this list is by no means exhaustive but it does demonstrate some of the tools available.

SMART Goals

SMART is used in business at the objective-setting stage. It is a way of evaluating whether the objectives that are being set are appropriate. The acronym SMART has a number of slightly different variations, but in general they refer to:

- **S**: Specific, concrete and detailed
- **M**: Measurable, meaningful, motivational
- **A**: Agreed upon, attainable, achievable, acceptable, action-oriented
- **R**: Realistic, relevant, reasonable, rewarding, results-oriented
- **T**: Time-based, timely, tangible, traceable

Example: *Before the end of this year I want to open a new pub in the center of Dublin that is open to the public six days a week and attracts at least 600 customers per week.*

Problem Definition

Problem definition helps to focus an effort and establish accuracy and clarity in the scope of a project. It involves determining a problem's characteristics, limitations, and applications. These include:

- Define the problem
- Determine who is affected by it
- Establish where is it happening
- Specify how it manifests itself as a problem
- Clarify when it occurs
- Evaluate whether it is a major or a minor problem

Example:
1) there is no fun karaoke bar in Dublin.
2) in particular (foreign) students.
3) city centre.
4) the absence of a fun karaoke bar causes that some students are not going out much.
5) evenings: especially on Mondays, Thursdays, Fridays and Saturdays.
6) small problem, but a potential opportunity.

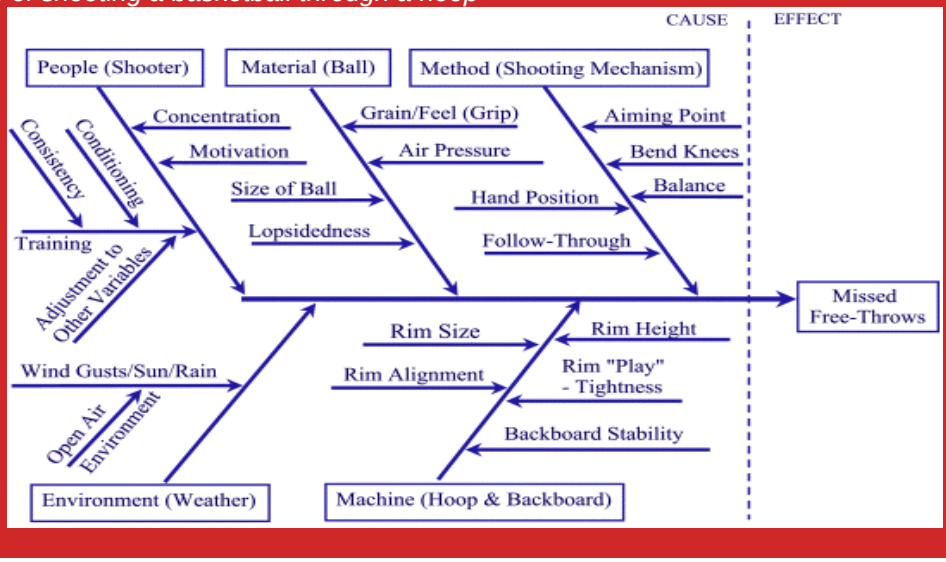
Cause-and- Effect Diagrams

The cause-and-effect diagram (otherwise known as Ishikawa or fishbone diagram) is used to explore all the potential causes (or inputs) that result in a single effect (or output). It categorises the possible causes of problems using the 4 M's technique. These include: **(1) Method, (2) Manpower (people), (3) Machine, (4) Materials**.

Steps in the process include:

- Draw a fishbone diagram, with the categories at the tip of the herring bone
- Invite input from those involved to determine the cause(s)
- Create lower-level cause-and-effect diagrams on individual causes to get to the root cause of failure
- Analyse and discuss findings

Example *of shooting a basketball through a hoop*



Brain-storming

This is a popular group-based method, focused on finding solutions to a problem.
To follow this technique you should:

- Gather an appropriate group together
- Advise the group about the problem
- Pose a clear question, not too complex or vague
- If appropriate, break into manageable sub-topics
- Invite suggestions and record everything

It is important to focus on quantity not quality and not allow discussion or criticism. It is also important to welcome unusual ideas and also to combine and improve ideas in order to find a new one.

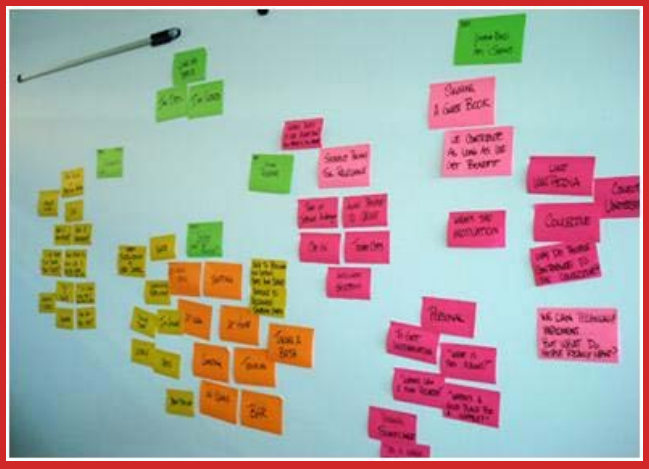
Example:

Affinity Diagrams

Affinity diagrams are used to provide initial structure to a predetermined set of ideas. They are used to organise a large number of ideas into their natural relationships. The steps in the process are:

- Invite group members to capture ideas
- Write one idea per post-it and stick them all on a wall or chart
- Categorise the post-its until you have similar or disconnected themes
- Determine titles that capture the themes of each group and write on top of the sheet
- If appropriate, move the sheets into a sequence to link to one another

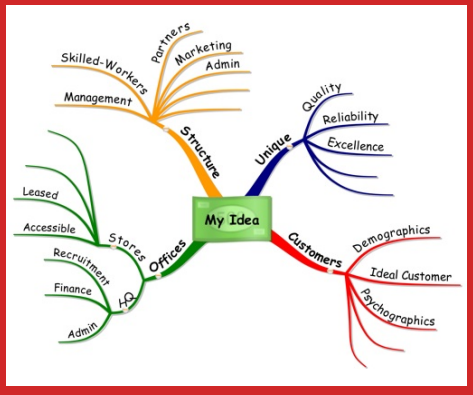
Example:



Mind Maps

A mind map is a diagram used to organise ideas or tasks related to a problem. It is used to generate, visualise, structure and classify ideas. It involves writing down a central idea and thinking up new and related ideas which radiate out from the centre. By focussing on key ideas and then looking for branches out and connections between the ideas, you can map knowledge in such a way that it will help you to understand and remember new information.

Example:



SCAMPER

SCAMPER is a tool used to find ways to improve an existing product and find ideas for a new one. The acronym refers to:

- **S**: Substitute: components, materials, people
- **C**: Combine: mix, combine with other assemblies or services, integrate
- **A**: Adapt: alter, change function, use part of another element
- **M**: Modify: increase or reduce in scale, change shape, modify attributes (e.g. colour)
- **P**: Put to another use
- **E**: Eliminate: remove elements, simplify, reduce to core functionality
- **R**: Reverse: turn inside-out or upside-down.

Example questions:

***S**: What materials or resources can you substitute or swap to improve the product?*
***C**: What would happen if you combined this product with another, to create something new?*
***A**: What other products or ideas could you use for inspiration*
***M**: How could you change the shape, look, or feel of your product?*
***P**: Can you use this product somewhere else, perhaps in another industry?*
***E**: How could you make it smaller, faster, lighter, or more fun?*
***R**: What would happen if you reversed this process or sequenced things differently?*

Table 1: Idea Generation Tools (adapted from Hennelly & Cormican 2004)

Some of these approaches can be more fruitful than others. Users may not appreciate the value of each approach in advance, but must learn it through practice and experience.

3. Turning an Idea into an Opportunity

It is important to understand that there is a difference between an idea and an opportunity.

An idea is a thought, impression, or notion.
An opportunity is a favourable set of circumstances that creates a need for a new product, service, or business.

For an entrepreneur to capitalise on an opportunity, its window of opportunity must be open. In other words, the time-period in which a firm can realistically enter a new market must be right. According to Barringer and Ireland (2008) an opportunity has four essential qualities: it must be (a) attractive, (b) durable, (c) timely, and (d) anchored in a product, service, or business that creates value for its buyer or end user. An idea may or may not meet the criteria of an opportunity. This is a critical point because, many businesses fail not because the entrepreneurs that started them didn't work hard, but because there was no real opportunity to begin with.

In order to assess whether your idea will be successful, you should evaluate its worthiness. To do this you should ask, and attempt to answer, the following questions about your idea:

- What need are you filling or what problem are you solving?
- Who are you selling to?
- How will you make money?
- How will you differentiate your company from what is already out there?
- How many competitors do you have and of what quality are they?
- How big is your market in euro?

- Is the market growing or shrinking?
- What percentage of the market do you believe you could gain?
- How much will it cost to get started?
- Do you plan to use debt capital or raise investment? If so, how much and what type?
- If you take on investment, how much money do you think your investors will get back in return?

With this short checklist, you can already realise if your idea is really an opportunity. You can also use another tool which poses similar questions but in a more organised manner. This method is called **RAMP**. Each letters stands for an important point to focus on.

R stands for return
Return in term of return on investment. You must be sure that you idea can be profitable. You must also identify how long this will take and assess how much money you need to start the venture.

A stands for advantages
You must see if you will have competitors, and if yes, what can you do better than them. You should also determine how to manage the intellectual property of your idea.

M stands for market
It is crucial to know who could buy your product. You must identify whether there is a real need for your product or service.

P stands for potential
You should identify what is the balance between risk and reward for your project. This is an important question for investors. You should also assess whether the timing is right for your idea.

These evaluation tools can be very useful and it is important to take them very seriously. In fact, making mistakes in evaluating your ideas can lead to dramatic consequences for your product and your pocket!

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Review

Idea-generation is critical to effective entrepreneurship. However, there has been relatively little formal research on the underlying incentives needed to encourage people to focus their energies on relevant and novel ideas. This unit begins by identifying the sources of innovation. You learned that ideas come from many sources and that generating plenty of ideas is imperative for success. In order facilitate this process, the unit provided an example of some popular and useful **idea-generation tools.**

The focus of attention then moved to the concept of **opportunity**. You learned the difference between an idea and an opportunity.

The unit provided techniques to help you assess your opportunity to see if your idea is worthy of further development. It is useful to assess your idea using the **RAMP** checklist:

- Return
- Advantages
- Market
- Potential

Self-Assessment Questions

1. How does innovation occur?

2. SMART is used in business at the objective-setting stage. It is a way of evaluating whether the objectives that are being set are appropriate. What does the acronym SMART refer to?

3. Explain the difference between an opportunity and an idea.

References

Barringer, B.R. and Ireland, R.D. (2008) *Entrepreneurship: Successfully Launching New Ventures*, 2nd ed., Prentice Hall.

Hennelly, F. and Cormican, K. (2004) 'Creativity toolkit for R&D managers', *Proceedings of the 10th International Conference on Concurrent Enterprising*, 14th - 16th June, Seville, Spain.