



Discovering Entrepreneurial Opportunities

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Where do entrepreneurial opportunities come from?

Entrepreneurship is creating the illusion of reality, slightly ahead of reality itself.

- Michael Hay, 2013¹

Behind each successful business is brilliant idea. But where do these ideas come from? Surely finding the source of ideas could be a pure goldmine. Some people even seem to have cracked the idea-generating code; serial-entrepreneurs draw from an apparently endless fountain of ideas, as though they are on-tap.

How are entrepreneurial ideas uncovered? There appears to be no single source, but a variety of methods that entrepreneurs use to uncover the next big thing. The discovery process is unique for each entrepreneur, and even for a given serial-entrepreneur, each of venture may have been discovered through a very different path.

Simple rules: A *new* approach to an *old* problem

No Constraints: Dreaming the impossible

Perhaps the simplest approach to uncovering ideas is to dream big. To say that there may be a way to do something better, unconstrained by price or technology.² The intent is to let the entrepreneur's mind expand the horizon of possibility, and worry about cost later in the process.

An example of this in our everyday lives is Apple products. In particular, the iPad is seen as a genuine green-field innovation. From the outset, exactly how it would fit into the suite of digital products already in our everyday lives, particularly given its high-cost was unclear. Broader examples are the motorcar, solar-powered cells or the 3D-printer. Each of these had initially a huge cost, and their viability was unclear.

The key with no constraints is to lower costs *after* the ingenuity of the innovation. Successful entrepreneurs talk of 'making mistakes early, and often', which supports the idea of no-constraints innovation. However, this process can also be risky. It allows very forward thinking ideas to emerge, but are prone to being shot-down by investors if they are too outlandish. Nevertheless, the no constraints method can be a powerful idea source to leapfrog to truly innovative ideas.

Internalization & Crowdsourcing

Where pain exists with customers, so does an opportunity. Closely observing what makes customers unhappy can be a great source of finding entrepreneurial ideas.³ Crowdsourcing, or 'drawing on the wisdom of crowds', is a public version of internalisation. Companies like Innocentive have even used this at the heart of their business model.

The low-cost airline revolution, pioneered by the Southwest Airlines model is a macro-example of where a whole industry has been revolutionised by identifying the true value that

¹ Hay, M., in *Discovering Entrepreneurial Opportunities (DEO) Lectures*, LBS

² Nalebuff, B. and Ayres, I. *Why Not, How to use everyday ingenuity to solve problems Big and Small*, 2006, HBS Press

³ Ibid

consumers have in travelling by air for leisure; affordability. Southwest internalised this pain-point and re-engineered the whole flight experience to subtract items from the customer experience. Blockbuster, famously changed its business model with studios to realise that it could better satisfy demand for availability, previously a huge issue for consumers.

Interestingly, if spotting patterns in consumer behaviour is a source of innovation, then this may be a hot innovation source in future. With the onset of Big Data, more data will be available from which entrepreneurs can track consumers, providing a rich data set to draw innovative ideas.

Simple rules: An *old* approach to a *new* problem

Translation

Thinking broadly about ‘where else something might work’, is another source. This process starts not with a problem, but instead with the latest idea, engineering innovation or concept and applies this in a totally new and often surprising context.

A common example today is the use of a ‘digital platforms’ or online marketplaces. Although eBay was one of the first to pioneer this concept, this has now been extended to a variety of problems, such as peer-to-peer loan schemes such as The Funding Circle.⁴ It would have been previously unheard of for anyone other than a high-street bank to provide loan finance, but with a breakdown in the UK banking system, this model appeared as the perfect candidate.

Arguably, translation can be a lower risk source of opportunities, as part of the model is partly already proven. Customers and investors already understand how it works, only needing to apply it into a new setting.

Symmetry

‘Flipping’ the business model can be an unexpected source of innovation. Many business models work one-way, but by simply reversing the concept, a new and sometimes more effective business model is born.

One of the most surprising flipped ideas was Priceline.com where name their name-your-price approach seemed at first ridiculous, but has emerged as a very viable approach to yield management. In businesses with large, fixed assets almost any price is of value so long as it helps fill unused capacity. Suddenly this new business model helps both customers and suppliers by capturing the hidden value in clearing prices.

Flipping is powerful, but the challenge is in the detail. Priceline.com depends on subtle ingredients to make it viable – such as providing supplier anonymity. With symmetry, the easy bit is the idea; the difficult part is working out the details.

Other opportunity sources

Applying a Judo-kick!

Entrepreneurship may appear bleak in the face of large industry incumbents, but the truth is often the opposite – smaller, nimble players can make inroads by taking advantage big players, and their inertia to change.

⁴ The author went to school with The Funding Circle’s CEO and is familiar with the process behind starting the venture!

Contrary to expectations, HP did not 'squash' Cartridge World (CW), a small player that significantly undercut HP, as it was not worth the financial cost of change. CW leveraged the benefits of one price, and HP's spillover effects across products to its advantage. Critically, CW's strategy was also focused, so as not stimulate the incumbent to retaliate.⁵

A judo-kick might not be an explicit source of ideas, but can significantly help a start-up. Above all, it can provide entrepreneurs with optimism to pursue an idea, and buy time, even in the face of a formidable dominant player.

Creative Observation

Observing an existing (broken) business model can be a powerful source of re-invention. Using a 4-impacts framework, entrepreneurs can amend an existing model to determine; through *Elimination* – what factors should be removed, *Reduction* – what factors are not valued by the consumer, *Raising* – what factors does the customer want more of, and finally *Creating* – what added factors would greatly enhance customer value? Additionally, entrepreneurs can use the 6 Paths to opportunities across 'adjacencies'.⁶

Cirque du Soleil revived a dying business, lost in the digital age, to a new and highly lucrative format. The company was able to do this by re-engineering the offering by selectively keeping the most interesting and attractive elements of the traditional circus (originality, artistic flair), while ruthlessly discarding anything that detracted from the audiences' experience (animals and aisle concession sales).

Changing the financial business model

Often, the solution can come from simply aligning financial incentives, or redesigning the risk structure in the business model. Recently this has been a popular phenomenon with a shift from asset ownership to rental. Companies like ZipCar have sprung up, offering car use instead of ownership. By doing so, this captures the value consumers derive from their cars into a model that is significantly cheaper by avoiding the costs of lost car use time.

AirBnB and WhipCar have developed this further – providing the platform for others to manage their assets and sell them as they wish. This model is currently a very common approach that is being used in the market to help redesign the financial incentive structure of using assets.

Insights from the ideation process

Ideation is just the start, and maybe even not the most important factor

Discovering opportunities is important, but it is just the start.⁷ Often a great idea with a poor team will fail, but a great team can make almost anything work. Teams are important, as is persistence. Schneider talks of being "stubborn on your vision, but flexible with your business model and how you get there."⁸

⁵ Dushnitsky, G., Judo in Action Case in *Discovering Entrepreneurial Opportunities (DEO) Lectures*, LBS

⁶ Hay, M., The Evolution of the Circus Industry in *Discovering Entrepreneurial Opportunities (DEO) Lectures*, LBS

⁷ Clearly the next steps would involve filtering ideas down using a funnel approach – possibly using the 7-Tests method or the Venture Capitalist's "OUTSIDE IMPACTS" framework

⁸ Schneider, S., quoting Jeffrey Bezos, CEO of Amazon.com, in *Discovering Entrepreneurial Opportunities (DEO) Lectures*, LBS

Motivation, especially from failure, is a powerful source of ideas, or at least a key ingredient in the discovery process. Although not outlined as a source, it is clearly critical to success. Schneider offers three ingredients; “passion, dreaming and not being afraid of failure.”⁹

Entrepreneurship is not only for entrepreneurs

Finally, it's worth noting that we live in a period where innovation's time has truly arrived. In a globalised world, with the onset of increased connectivity and technology development speed, economic development and growth will increasingly depend on new innovation. Uncovering and developing ideas is not only for entrepreneurs; it is critical even deep inside corporations or government.

Each of us has an inner entrepreneur that we can, and should, nurture. Identifying where our own unique entrepreneurial ideas come from is the first step on this journey.

⁹ Schneider, S., in *Discovering Entrepreneurial Opportunities (DEO) Lectures*, London Business School