MODULE 2 · SESSION 1

# Spotting Signals of Opportunity

How to tell an attractive opportunity from an interesting observation, by linking unmet need, change and capability.

Theory session

Beginner

Running case: RouteRoot

ORIENTATION

# Where this session sits

Module 1 framed problems; Module 2 asks whether a market exists around one

**MODULE 1**
Founder Thinking
and Problem Framing

**MODULE 2**
**Recognizing and
Investigating Opportunities**

**MODULE 3**
Turning Insight
into Viable Ventures

SESSIONS IN THIS MODULE

**2.1** **Spotting Signals of Opportunity**
Telling a real opportunity from an interesting observation
YOU ARE HERE

**2.2** Segmenting Markets and Researching Demand
Defining actionable segments and sizing demand

**2.3** Discovering Customers and Competitors
Evidence from behaviour, and the alternatives you compete with

SESSION OUTCOMES

# What this session explains

Why most interesting observations are not opportunities, and what separates the ones that are

01 **Opportunities are found and made**

Two accounts of where opportunities come from, and why the difference changes what you do next.

02 **Prior knowledge decides what you notice**

Two people can see the same change and only one of them registers it.

03 **Change is the raw material**

A systematic list of the places where new opportunities reliably appear.

04 **Four tests, not one**

Need, change, capability and timing all have to hold at once.

DEFINITION

# What makes something an opportunity

An observation becomes an opportunity only in relation to someone who could act on it

WORKING DEFINITION

An entrepreneurial opportunity is a situation in which a need can be met in a new way, made possible by a change in conditions, by someone positioned to act before the window closes.

1

### A need that is not met

Someone is currently doing something worse, more slowly or more expensively than they would prefer.

2

### A change that opened it

Regulation, technology, cost, demographics or behaviour has shifted, so the old answer is no longer the only one.

3

### A party able to act

An opportunity that nobody reachable can pursue is a market observation, not an opportunity.

Shane, S. & Venkataraman, S. (2000). The promise of entrepreneurship as a field of research. Academy of Management Review, 25(1), 217–226.

# Discovered or created?

Two accounts, and the practical difference between them

**DISCOVERY VIEW**

## The opportunity exists

**THE CLAIM**

Changes in an industry create objective opportunities that are waiting to be noticed.

**WHAT IT IMPLIES YOU DO**

Search systematically. Scan for change, and move before competitors notice it.

**ASSOCIATED WITH**

Kirzner's alertness: the entrepreneur spots a mismatch others have overlooked.

**CREATION VIEW**

## The opportunity is built

**THE CLAIM**

Opportunities do not pre-exist; they are formed through the actions the entrepreneur takes.

**WHAT IT IMPLIES YOU DO**

Act, observe the reaction, and let the opportunity take shape from what comes back.

**ASSOCIATED WITH**

Schumpeter's new combinations, and the effectual reasoning from Session 1.1.

**HOW TO HOLD BOTH**

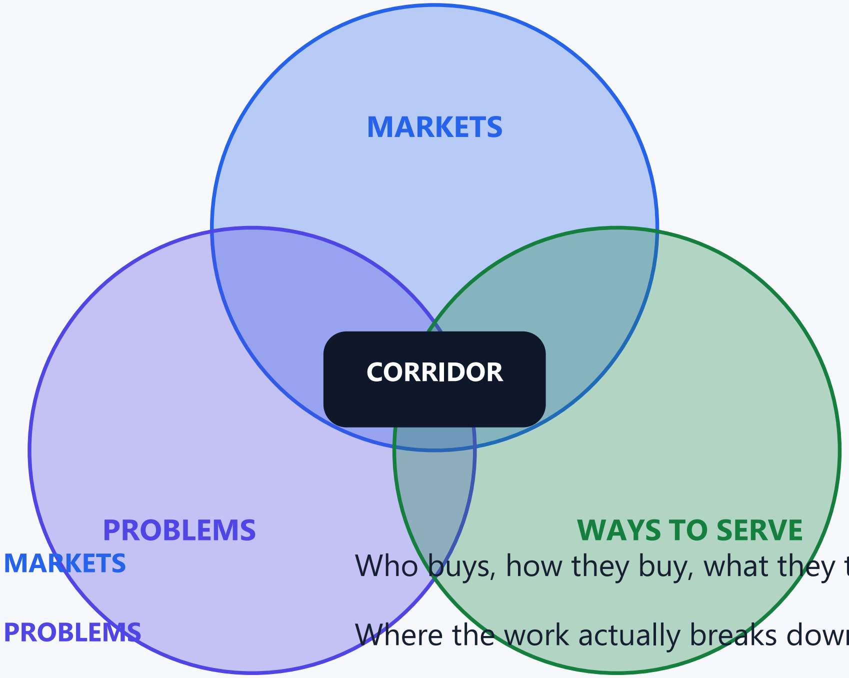
In practice both operate. Change creates the opening; what the venture becomes is shaped by the actions taken inside it.

Alvarez, S. & Barney, J. (2007). Strategic Entrepreneurship Journal, 1(1–2). · Kirzner, I. (1973). · Schumpeter, J. (1934).

CONCEPT 2 · NOTICING

# Why you notice what you notice

Prior knowledge acts as a filter before judgement gets involved




- **MARKETS** — Who buys, how they buy, what they tolerate
- **PROBLEMS** — Where the work actually breaks down today
- **WAYS TO SERVE** — Which technologies and methods are usable now

Shane, S. (2000). Prior knowledge and the discovery of entrepreneurial opportunities. Organization Science, 11(4), 448–469.

SHANE (2000)

## The knowledge corridor

The same technical change spawned different ventures depending on what each founder already knew. Prior knowledge decides which opportunity is even visible.

THE IMPLICATION

## Your history is data

Where you have worked tells you which signals you can read faster than others.

THE RISK

## It also blinds

A corridor that explains what you see also hides what sits outside it.

# Where opportunities reliably come from

Drucker's seven sources — the first four sit inside an industry, the last three outside it

1

### The unexpected

An unanticipated success, failure or outside event. The cheapest source, and the most ignored, because it contradicts the plan.

2

### The incongruity

A gap between what the economics of an industry say should happen and what actually happens.

3

### Process need

A weak link everyone in a workflow works around, without anyone naming it as a problem.

4

### Industry and market structure

Consolidation, new entrants, or regulation that changes who is allowed to serve whom.

5

### Demographics

The most reliable source, because population shifts are slow and already visible.

6

### Changed perception

The facts hold, but what people consider acceptable or desirable moves.

7

### New knowledge

The source with the longest lead time and the highest failure rate.

Drucker, P. (1985). Innovation and Entrepreneurship. New York: Harper & Row.

# From observation to opportunity

Four conditions, each of which can independently disqualify an idea

**OBSERVATION**
"Apartment deliveries generate a lot of complaints." Interesting; nothing follows from it yet.

**UNMET NEED**
Someone is losing time or money because of it, repeatedly.

**ENABLING CHANGE**
Something has shifted that makes a new answer possible now.

**ABILITY TO SERVE**
You can reach these customers and deliver, at a cost they would accept.

Conditions synthesised from Drucker (1985) and Shane & Venkataraman (2000).

**THE MOST COMMON FAILURE**

### Frequency mistaken for value

A problem that happens often is not necessarily one anyone will pay to remove.

**THE SECOND FAILURE**

### No enabling change

If nothing has changed, ask why the existing players have not already done this.

**THE TEST TO RUN FIRST**

### Reachability

It is the cheapest condition to check and the one that most often fails quietly.

# The window of opportunity

The same opportunity is worth different amounts depending on when you arrive

**TOO EARLY**

The enabling change has not finished. You spend your resources educating a market that is not ready.

**THE WINDOW**

The change has happened, incumbents have not responded, and customers already feel the gap.

**TOO LATE**

Alternatives exist and are adequate. Entry now competes on price rather than on the unmet need.

## READING WHERE YOU ARE

| Question | Too early looks like | In the window looks like |
|---|---|---|
| **Do customers already have a workaround?** | They do not recognise the problem when described. | They describe their workaround without prompting. |
| **Has the enabling change completed?** | It is announced or partial. | It is in force and others have adjusted to it. |
| **What do incumbents do?** | Nothing, because there is nothing yet to answer. | Nothing yet, though the gap is visible. |

CASE STUDY

# Joco

An e-bike company whose regulatory defeat turned out to be the clearest signal it ever received.

# A lawsuit read as a signal

The same event could have been treated as an obstacle or as evidence about the market

THE ORIGINAL READING

## Consumer bike-share

### THE ASSUMPTION

Docking on private property would place the service outside bike-share regulation.

### THE OBSERVATION THAT FOLLOWED

New York City's transport department sued for operating without authorisation.

### THE TEMPTING CONCLUSION

Treat the ruling as an obstacle to fight, and keep the original customer.

THE RE-READING

## Delivery infrastructure

### WHAT THE SIGNAL ACTUALLY SAID

The operating context, not the docking design, decided who could be served.

### THE CHANGED OPPORTUNITY

Gig delivery riders and enterprise fleets have a recurring need the same asset already serves.

### THE OUTCOME REPORTED

Around 20-fold revenue growth, and expansion beyond New York to Chicago and Miami.

### READING THE CASE

Opportunity recognition here was a disciplined response to evidence, not a flash of inspiration. The failed assumption was specific enough that its failure pointed somewhere.

Drawn from the session case pack.

APPLICATION

# Bringing the theory to RouteRoot

Testing one observation against the four conditions

| Condition | The question to answer | RouteRoot example |
|---|---|---|
| **Unmet need** | Who loses what, how often? | Couriers repeat failed apartment deliveries several times a week. |
| **Enabling change** | What is different now that was not before? | Building access systems became app-controlled, so entry can be coordinated. |
| **Ability to serve** | Can we reach them and deliver at an acceptable cost? | Couriers are reachable through the depots RouteRoot already works with. |
| **Timing** | Is the window open, and how would we know? | Couriers already run a manual workaround; no incumbent product addresses it. |
| **Disqualifier** | What would make us drop this? | If building managers, not couriers, control the decision and will not engage. |

WHAT COMES NEXT

Session 2.2 takes the surviving opportunity and asks how many people it actually covers.

SUMMARY

# What to carry out of this session

1. **An observation is not an opportunity.**
   Need, enabling change, ability to serve and timing must all hold; any one of them can disqualify it alone.
2. **Opportunities are partly found and partly built.**
   Change creates the opening; your actions decide what the venture inside it becomes.
3. **Prior knowledge determines what you can see.**
   It is a genuine advantage and a genuine blind spot at the same time.
4. **Change is the raw material.**
   Drucker's seven sources are a checklist for where to look rather than a theory to admire.
5. **Failed assumptions point somewhere.**
   An assumption specific enough to fail cleanly tells you where the real opportunity sits.

FURTHER READING

# Sources for this session

Primary references behind each concept


| | |
|---|---|
| **FIELD DEFINITION** | Shane, S. & Venkataraman, S. (2000). The promise of entrepreneurship as a field of research. *Academy of Management Review*, 25(1), 217–226. |
| **PRIOR KNOWLEDGE** | Shane, S. (2000). Prior knowledge and the discovery of entrepreneurial opportunities. *Organization Science*, 11(4), 448–469. |
| **DISCOVERY VS CREATION** | Alvarez, S. & Barney, J. (2007). Discovery and creation. *Strategic Entrepreneurship Journal*, 1(1–2), 11–26. |
| **SOURCES OF CHANGE** | Drucker, P. (1985). *Innovation and Entrepreneurship.* New York: Harper & Row. |
| **ALERTNESS** | Kirzner, I. (1973). *Competition and Entrepreneurship.* Chicago: University of Chicago Press. |
| **NEW COMBINATIONS** | Schumpeter, J. (1934). *The Theory of Economic Development.* Cambridge, MA: Harvard University Press. |
| **RECOGNITION PROCESS** | Ardichvili, A., Cardozo, R. & Ray, S. (2003). A theory of entrepreneurial opportunity identification. *Journal of Business Venturing*, 18(1), 105–123. |