When Is an Idea an Opportunity?

Andrew Zacharakis, Professor of Entrepreneurial Studies at Babson College

Many students stress about finding the perfect idea; something unique, never done before. This is misguided as there are few if any truly unique ideas. Other students generate "me-too" ideas that have been done and done well, meaning competition is truly tough. While generating ideas is a topic unto itself, the key question is really when is an idea an opportunity?

Said differently, when does your idea have the potential to create social and economic value? We use the following opportunity checklist to not only evaluate if an idea has potential, but to also help screen for the best idea because an entrepreneur's most valuable resource is time. The opportunity checklist can help entrepreneurs zero in on their best ideas and then guide them in further investigating and developing opportunities.

Tip 1: Quickly identify the idea with the greatest potential.

Most entrepreneurs consider multiple ideas. Using the checklist helps identify the ideas that are most powerful. Specifically, entrepreneurs should spend five to ten minutes evaluating each idea on the checklist criteria. If an idea has more criteria checked in the better opportunities column vs. the weaker opportunities column, it deserves further investigation. Comparing three to five completed opportunity checklists on different ideas side by side can help entrepreneurs narrow to the idea with the greatest potential.

Tip 2: Shape the team's understanding of the idea.

Most ventures are launched by a founding team. When evaluating an idea, each team member should do the checklist independently, to best take advantage of everyone's unique perspective. For example, one team member may think the core customer is clearly identifiable, while another believes the core customer is undefined. Once each team member has completed the checklist independently, compare and discuss how each team member evaluated each criterion. This helps everyone develop a deeper understanding of the idea and its potential. It also helps teams plan how to move forward.

Tip 3: Start a due diligence agenda.

When entrepreneurs quickly go through the checklist, they are making lots of assumptions on each criterion. After discussing with fellow team members, they can rank order the most important criteria (those that can make or break the venture) and determine how to further investigate and validate whether their assumptions are correct. This validation process helps entrepreneurs shape this idea into stronger businesses.

Tip 4: Validate assumptions at the lowest possible cost.

Drawing from Entrepreneurial Thought & Action®, it is important to keep the affordable loss metric in mind. Entrepreneurs should come up with low-cost experiments to validate assumptions, because many assumptions pan out differently than expected. Minimizing the cost of testing assumptions lets you adjust your opportunity and create a stronger venture.

For a deeper description of the Opportunity Checklist, please see Chapter 3 in Zacharakis, A., Corbett, A., & Bygrave, W (2020) Entrepreneurship, 5th Edition. New York: Wiley.

Want more Babson Academy resources for entrepreneurship educators?

Check out babson.edu/babsonacademy

Opportunity Checklist[1]

	Better Opportunities	Weaker Opportunities
Customer		
Identifiable	Defined core customer	Undefined customer
Demographics	Clearly defined and focused	Fuzzy definition and unfocused
Psychographics	Clearly defined and focused	Fuzzy definition and unfocused
Trends		
Macro market	Multiple and converging	Few and disparate
Target market	Multiple and converging	Few and disparate
Window of opportunity	Opening	Closing
Market structure	Emerging/Fragmented	Mature/Decline
Market Size		
How many	Large core customer group	Small, unclear customer groups
Demand	Greater than supply	Less than supply
Market Growth		
Rate	20% or greater	Less than 20%
Price/Frequency/Value		
Price	Gross Margin > 40%	Gross Margin < 40%
Frequency	Often and repeated	One time
Value	Fully reflected in price	Penetration pricing
Operating expenses	Low and variable	Large and fixed
Net Profit Margin	>10%	<10%
Volume	Very high	moderate
Distribution		
Where are you in value chain?	High margin, high power	Low margin, low power
Competition		
Market structure	Emerging	Mature
Number of direct competitors	Few	Many
Number of indirect competitors	Few	Many
Number of substitutes	Few	Many
Stealth competitors	Unlikely	Likely
Strength of competitors	Weak	Strong
Key Success Factors		
Relative Position	Strong	Weak
Vendors		
Relative power	Strong	Weak
Gross margins they control in value chain	Low	High
Government		
Regulations	Low	High
Taxes	Low	High
Global Environment		
Customers	Interested and accessible	Not interested or accessible
Competition	Nonexistent or weak	Existing and strong
Vendors	Eager	Unavailable

[1]*Zacharakis, A., Corbett, A., & Bygrave, W (2020) Entrepreneurship, 5th Edition. New York: Wiley.*