Identifying Startup Ideas

It is critical to determine whether an idea for a new business actually represents a good opportunity. Many people have ideas about new products or services that seem like winners—but just because something is a good idea does not mean it is a good opportunity, as you will see. In fact, those who become infatuated with an idea sometimes underestimate the difficulty of tapping into market interest in that idea or building the company required to capture it.

To qualify as a good investment opportunity, a product or service must meet a real market need, such as a problem for which the entrepreneur offers a sensible solution. If consumers are convinced that the benefits of a product or service are worth the price they will have to pay to get it, they will likely want to buy it—assuming they know about it and can afford it. All of these factors are critical. Amar Bhide, an entrepreneurship expert and professor at Columbia University, put it this way: "Startups with products that do not serve clear and important needs cannot expect to be 'discovered' by enough customers to make a difference."

Many popular frameworks highlight important factors to consider when deciding whether a new business idea can lead to a promising business opportunity. Some of the more important features of these approaches follow.

Market factors. The product or service must meet a clearly defined market need; furthermore, the timing must be right. Even when the concept is good, success requires a window of opportunity that remains open long enough for an entrepreneurship to take advantage of it. If the window closes before the enterprise can get established, it is unlikely to survive for long.

Competitive advantage. In practical terms, a competitive advantage exists when a firm offers a product or service that customers perceive to be superior to those offered by competitors. It follows that the business must be able to achieve an edge that can withstand challenges from rival businesses. Many startups fail because entrepreneurs do not understand the nature and importance of a competitive advantage.

Economics. The venture needs to be financially rewarding, allowing for significant profit and growth potential. Its profit potential must be sufficient to allow for errors and mistakes and still offer acceptable economic benefits. At a minimum, the enterprise must offer a reasonable path to profitability—no business can operate for long when it is losing money. And without adequate growth, the business will not be able to provide sufficient returns to attract investors, if they are ever needed.

Management capability. The fit between entrepreneur and opportunity must be good. In other words, a business idea is an opportunity only for the entrepreneur who has the appropriate experience, skills, and access to the resources necessary for the venture's launch and growth. For example, offering suborbital space tourism services is out of reach for most entrepreneurs, but not for Sir Richard Branson, an extraordinary and very well-funded British entrepreneur who has set up Virgin Galactic, with plans to offer space flights to the general public before the end of the decade. Launching the world's first "space line" is a challenging but promising business opportunity for Branson, but it is at best a dream for nearly every other entrepreneur.

Fatal flaws. There must be no fatal flaw in the venture---that is, no circumstance or development that could, in and of itself, make the business unsuccessful John Osher, serial innovator and entrepreneur, estimates that nine out of ten entrepreneurs fail because their business concept is deficient. In his words, "They want to be in business so much that they often don't do the work they need to do ahead of time, so everything else right, and fail because they have ideas that are flawed." It is important to look (honestly) for potential weakness in your own setup ideas. No matter how awesome the startup concept may seem to be, moving forward is pointless if it uses a manufacturing process that is patent protected, requires startup capital that cannot be raised, ignores environmental regulations, or is unsound in some other way.

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