

## 10 Clues To Opportunity

As the new year begins, we are all looking for opportunities to grow our business, and while we may share the same goal, the irony is that managers and entrepreneurs walk past lucrative opportunities all the time, and later kick themselves when someone else exploits the strategy they overlooked. Why does this happen? It's often because of the natural human tendency known as confirmation bias: *People tend to notice data that confirms their existing attitudes and beliefs, and ignore or discredit information that challenges them.*

Although it is difficult to overcome confirmation bias, it is not impossible. Leaders can increase their skill at spotting hidden opportunities by learning to pay attention to the subtle clues all around them. These are often contradictions, incongruities, and anomalies that don't square with prevailing assumptions about what should happen.

Donald Sull, an author and professor of strategic and international management at the London Business School offers a "top 10" guide to clues for hidden breakthrough opportunities. If you find yourself noticing one or more of them, a major opportunity for growth could be right behind it.

### 1. This product should already exist (but it doesn't).

As the accessories editor for *Mademoiselle* magazine in the early 1990s, Kate Brosnahan spotted a gap in the handbag market between functional bags that lacked style and extremely expensive but impractical designer bags from Hermès or Gucci. Brosnahan quit her job, and with her partner Andy Spade, founded Kate Spade LLC, which produced fabric handbags combining functionality and fashion. Many well-known product innovations — including the mobile phone and tablet computer — began similarly, as products that people felt should already exist.

### 2. This customer experience doesn't have to be time-consuming, expensive, or annoying (but it is).

Consumer irritation is a reliable indicator of a potential opportunity, because people will typically pay to make it go away. Reed Hastings, for example, founded Netflix Inc. after receiving a \$40 late fee for a rented videocassette of *Apollo 13* that he had misplaced.

### 3. This resource could be worth something (but it is still priced low).

Sometimes an asset is underpriced because only a few people recognize its potential. When a low-cost airline such as Jet Blue announces its intention to fly to a new airport, real estate investors often leap to buy vacation property nearby. They rightfully expect a jump in real estate values.

### 4. This discovery must be good for something (but it's not clear what that is).

Researchers sometimes recognize that they have stumbled on a promising resource or technology without knowing the best uses for it right away. One example was the founding of the ArthroCare Corporation, a producer of medical devices based on a process called coblation, which uses radio frequency energy to dissolve damaged tissue with minimal effect on surrounding parts of the body. Medical scientist Hira Thapliyal, who codiscovered this process, founded a company to offer it for cardiac surgery, but that market turned out to be too small and competitive to support a new venture. Undeterred, he looked for other potential uses, and found one in orthopedics, where there are more than 2 million arthroscopic surgeries per year.

### 5. This product or service should be everywhere (but it isn't).

Sometimes people chance upon an attractive business model that has failed to gain the widespread adoption it deserves. Two retail food stories illustrate this. In 1954, restaurant equipment salesman Ray Kroc visited the McDonald brothers' hamburger stand in California, and convinced them to franchise their assembly-line approach to flipping burgers. In 1982, coffee machine manufacturing executive Howard Schultz visited a coffee bean producer called Starbucks in Seattle and recognized the potential of a chain restaurant based on European coffee bars.

### 6. Customers have adapted our product or service to new uses (but not with our support).

Chinese appliance maker Haier Group discovered that customers in one rural province used its clothes washing machines to clean vegetables. Hearing this, a product manager spotted an opportunity and through a product innovation helped Haier win new market share in China's rural provinces, while avoiding the cutthroat price wars that plagued the country's appliance industry.

### 7. Customers shouldn't want this product (but they do).

When Honda entered the U.S. motorcycle market, it expected to sell large motorcycles to leather-clad bikers. However, the company sold fewer than 60 of its large bikes each month, far short of its monthly sales goal of 1,000 units. Then a mechanical failure forced the company to recall these models. In desperation, it promoted its smaller 50cc motorbike, the Cub, which executives had assumed would not interest the U.S. market. When these bikes sold well, Honda realized it had discovered an untapped segment looking for two-wheel motorized transportation.

### **8. Customers have discovered a product (but not the one we offered).**

Joint Juice, a company that produces an easy-to-digest glucosamine liquid, was founded by Kevin Stone, an orthopedic surgeon. He learned about the nutrient from some of his patients, who took it for joint pain instead of ibuprofen he prescribed. Many doctors might have ignored this or even scolded their patients for falling prey to fads, but Stone recognized he might be missing something. He looked up the clinical research on glucosamine in Europe, where it was the leading nutritional supplement. Then he built a business around it.

### **9. This product or service is thriving elsewhere (but no one offers it here).**

In the early 1990s, Carl August Svensen-Ameln, a Swedish student tried to store some of his belongings in Sweden while at school in Seattle, but found that all the local self-storage facilities were full. He studied the storage industry, already prevalent in the U.S., and discovered a business model characterized by high rents, low turnover, and negligible operating costs. Yet self-storage, at the time, was virtually nonexistent in continental Europe. He and a friend set up a partnership with an established U.S. company, Shurgard Storage Centers Inc. The resulting company, European Mini-Storage S.A., was the first of several such companies that Svensen-Ameln started in Europe, to great success.

### **10. That new product or service shouldn't make much money (but it does).**

Established competitors are often surprised when upstart rivals do well. For decades, Goldman Sachs partners avoided investment management, which they believed generated lower fees than trading and investment banking. When Donaldson, Lufkin & Jenrette Inc. published its financial performance as part of a 1970 stock offering, Goldman partners were startled to learn that fees and brokerage commissions on frequent trades added up to a highly profitable business. Shortly thereafter, Goldman expanded into managing corporate pension funds, and aggressively built its business.

Incongruities like these can offer a critical clue about where your assumptions no longer match reality. From there, you are more likely to uncover the kinds of opportunities that you might otherwise have missed — and that your competitors still don't recognize. Start by asking yourself, What are the most unexpected things happening in our business right now? Which competitors are doing better than expected? Which customers are behaving in ways we hadn't anticipated? Take yourself through the list of top 10 clues. Leaders who consistently notice and explore anomalies increase the odds of spotting emerging opportunities before their rivals.