**Identifying Business Opportunities**

In this lesson, we will look at the stages of developing a new product or service.

*There are six stages involved in developing a new product or service:*

1. *Idea generation*
2. *Product screening*
3. *Concept development*
4. *Feasibility study*
5. *Prototype development*
6. *Product testing*

**(1) IDEA GENERATION**

**Sources:** New product ideas can come from both internal and external sources.

**Internal Sources:** These include employee suggestions; meetings with sales representatives, customer suggestions and complaints, in-house research and development, and brainstorming.

**External Sources:** These include happenings on foreign markets, actions of our competitors, current fashions and trends, trade fairs and exhibitions; and import substitution.

**Needs and Wants:** Before selecting a new product idea, the firm must consider what the consumer needs and wants.

**Market Research:** Market research can be used to discover the needs and wants of consumers, as well as other important information relating to the product or service being considered.

**MARKET RESEARCH**

**Definition:** Market research is defined as the gathering, recording, and analysing of all information concerned with the transfer of goods from the producer to the consumer.

**Reduced Risk and Cost:** Market research reduces both the risks associated with introducing new products and the development costs of the product.

**Aims of Market Research**

**Identify Market:** Market research helps a firm to identify if a market exists for a particular product or service and the various characteristics about the market, e.g. size, age, income levels, geographical location, etc.

**Strengths/Weaknesses:** Market research helps to identify the strengths and weaknesses of specific products.

**Needs and Wants:** Market research helps to identify the needs and wants of consumers.

**Competitors:** Market research can be used to establish the strengths of our competitors and the percentage of market share held by them.

**Advertising:** Market research can be used to find the most suitable advertising medium.

**Selling Price:** Market research can be used to establish a suitable selling price for a product.

**Product Name:** Market research can be used to test a suitable name for a product.

**Techniques for Gathering Information about a Market**

There are two main methods used to gather information about a market. They are desk research and field research.

**DESK RESEARCH**

**Existing Information:** Desk research refers to researching a market by utilising existing reports, newspaper articles, surveys, published facts and figures, etc.

**Cost:** There is little cost involved.

**Outdated:** There is a limited amount of information available in this way, and what is available can easily become outdated.

**Secondary Data:** Information collected through desk research is referred to as secondary data.

**Examples:** The Internet, agencies such as Enterprise Ireland, CSO, the Offices of the European Commission, and trade associations.

**FIELD RESEARCH**

**Marketplace:** This involves going out into the marketplace (the field) and making contact with the people who make up a particular market.

**Primary Data:** Data collected in this way is referred to as primary data.

**Examples:** The main methods of conducting field research are questionnaires, surveys and personal observations.

**Questionnaires**

**List of Questions:** A questionnaire is a printed list of questions to be completed by members of the public and returned to the researcher.

**Methods:** They may be carried out on the street, sent in the post to people’s homes, or read out over the telephone.

**Maximum Information:** Questionnaires should be carefully designed in order to get maximum information which is both accurate and helpful.

**Clarity:** The questions should be clear.

**Leading Questions:** Leading questions, i.e. those that suggest an obvious answer, should be avoided.

**Control Questions:** Control questions should be used to check the consistency of the answers given.

**Variation:** Different types of questions should be used, i.e. dichotomous (Yes/No answers), multiple choice, and open-ended questions that give the respondents complete freedom in answering.

**(2) PRODUCT SCREENING**

**Short-Listing:** Product screening involves short-listing ideas from stage one that warrant further development and research.

**Consumer Demand:** This list will comprise ideas which satisfy consumer demand and which are likely to generate substantial profits for the firm in the long term.

**Market Research:** The results of the market research carried out by the firm must be consulted throughout the product screening stage.

**(3) CONCEPT DEVELOPMENT**

**Exact Needs:** Concept development is the stage where the firm decides on exactly what consumer needs the product will satisfy.

**Unique Selling Point:** Most products will have a unique selling point (USP) that makes them stand out from their competitors.

**Example:** For example, DVDs offer better sound quality, clearer picture and improved graphical presentation.

**(4) FEASIBILITY STUDY**

**Cost and Profit:** A feasibility study is carried out by a firm to see if they can produce a particular product or supply a particular service at a cost that will yield the firm an acceptable profit.

**Joint Effort:** Many different functions of the firm will contribute to the feasibility study, including sales, production, accounts, design, and marketing.

**Sales:** The feasibility study will determine the likely sales of the product/service as well as the number of units that will have to be sold for the firm to break even.

**Resources:** The feasibility study will determine whether or not the firm has the necessary resources, including staff, skills, materials, and equipment available.

**Cost of Production:** The feasibility study will determine how much it will cost the firm to produce the product/service.

**Capital:** The feasibility study will determine whether the firm needs to raise additional capital or if it can finance its plans from existing resources.

**(5) PROTOTYPE DEVELOPMENT**

**First Working Example:** A prototype is the first working example of a new product.

**Identify Problems:** A prototype helps to identify potential problems with the product, including design, suitability of materials, etc.

**Product Testing:** Before launch, the product must be tested to make sure it performs as it is supposed to. All aspects of the product will be tested, including efficiency, safety and packaging.

**Refinements:** A number of prototypes may be made as refinements are taken into account.

**BREAK-EVEN ANALYSIS**

**Revenue = Costs:** The break-even point represents the number of units of a product that must be sold in order for the firm’s total revenue from sales to equal its total costs of production.

**Total Costs:** Total costs include both variable and fixed costs.

**Variable Costs:** Variable costs are costs that vary according to how much the firm produces, e.g. materials costs, production wages, delivery charges, etc.

**Fixed Costs:** Fixed costs are costs that remain the same over a given period, e.g. rent of premises, insurance, etc.

**Formula:** Break-even point can be worked out using the following formula:

Break-even point

**Margin of Safety:** The margin of safety is the difference between the firm’s anticipated level of sales and the break-even point.

***Example***

A firm has fixed costs of €32,000. Products sell at €10 each and have a variable cost of €6 per unit. Draw a break-even chart to graphically show (i) the number of products that must be sold to break even; (ii) the profit at sales of 12,000 units; and (iii) the margin of safety at sales of 12,000 units.

***Solution***

**(i) Break-even point:**

Break-even point example

**(ii) Profit at 12,000 units**

|  |  |  |
| --- | --- | --- |
| Sales (12,000 x €10) | = | €120,000 |
| Less Fixed Costs | = | (€32,000) |
| Less Variable Costs (12,000 x €6) | = | (€72,000) |
| Profit |  | **€16,000** |

**(iii) Margin of Safety**

Projected Sales – Break-even point

12,000 – 8,000 = 4,000 units

To draw the break-even chart, we will calculate sales and costs at three levels: zero, break-even and 12,000 units.

|  |  |  |  |
| --- | --- | --- | --- |
| **Sales (units)** | **0** | **8,000** | **12,000** |
| Variable costs (€6) | 0 | 48,000 | 72,000 |
| Fixed costs | 32,000 | 32,000 | 32,000 |
| Total costs | 32,000 | 80,000 | 104,000 |
| Sales revenue (€10) | 0 | 80,000 | 120,000 |

