A Primer in Entrepreneurship

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Universität Zürich

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Content

decision to become an entrepreneur	developing successful business ideas	moving from an idea to an entrepreneurial firm	managing and growing an entrepreneurial firm
	recognizing opportunities and generating ideas	preparing the proper ethical and legal foundation	unique marketing issues
	feasibility analysis	assessing a new venture's financial strength and viability	Intellectual Property
	writing a business plan	building a new venture team	challenges of growth
	industry and competitor analysis	getting financing or funding	strategies for firm growth
	developing an effective business model		franchising

today

A Primer in Entrepreneurship

Part II Developing Successful Business Ideas

Lecture 2
Recognizing Opportunities and Generating Ideas

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About Recognizing Opportunities – An Example

How getting dumped evolved into a successful business idea

Thomas Edwards started blogging about his life.

On demand of a follower he started to give advice on how to recover self-esteem and helped his friends as a wingman to make an introduction to women in a bar.

Nearly three years later without having any professional training in psychology he turned his social acumen into a business 'The Professional Wingman'.

http://theprofessionalwingman.com/

Check the article on www.reuters.com

Source: http://www.reuters.com/article/2012/02/23/us-column-cohen-wingman-idUSTRE71M56I20120223
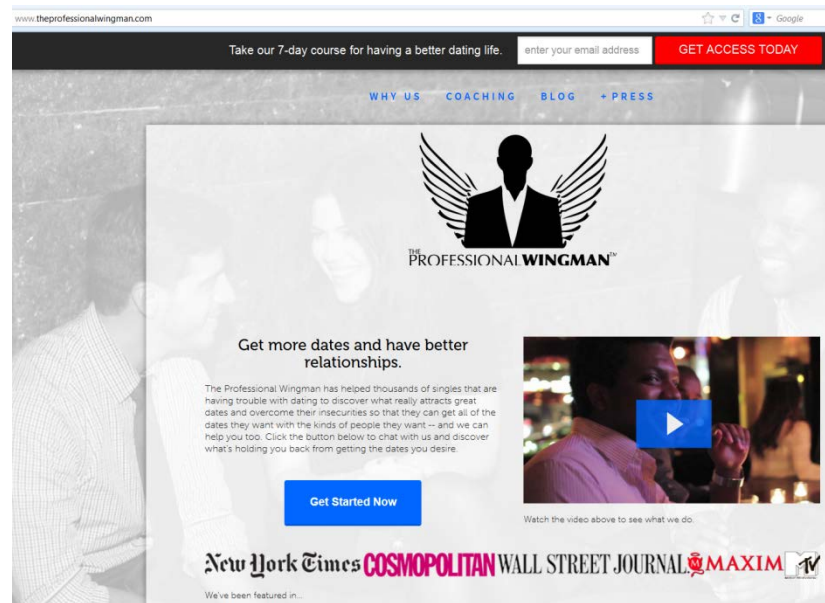
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Agenda

1. **Identifying and Recognizing Opportunities**

   1.1 Three Ways of Identifying an Opportunity

   1.2 Personal Characteristics Enabling Opportunity Recognition

   1.3 The Opportunity Recognition Process

2. **Techniques for Generating Ideas**

3. **Encouraging and Protecting New Ideas**

Questions

? What is an opportunity and how may it be recognized ?

? How can new ideas be generated ?

? What steps need to be taken in order to build an organization which encourages and protects new ideas ?
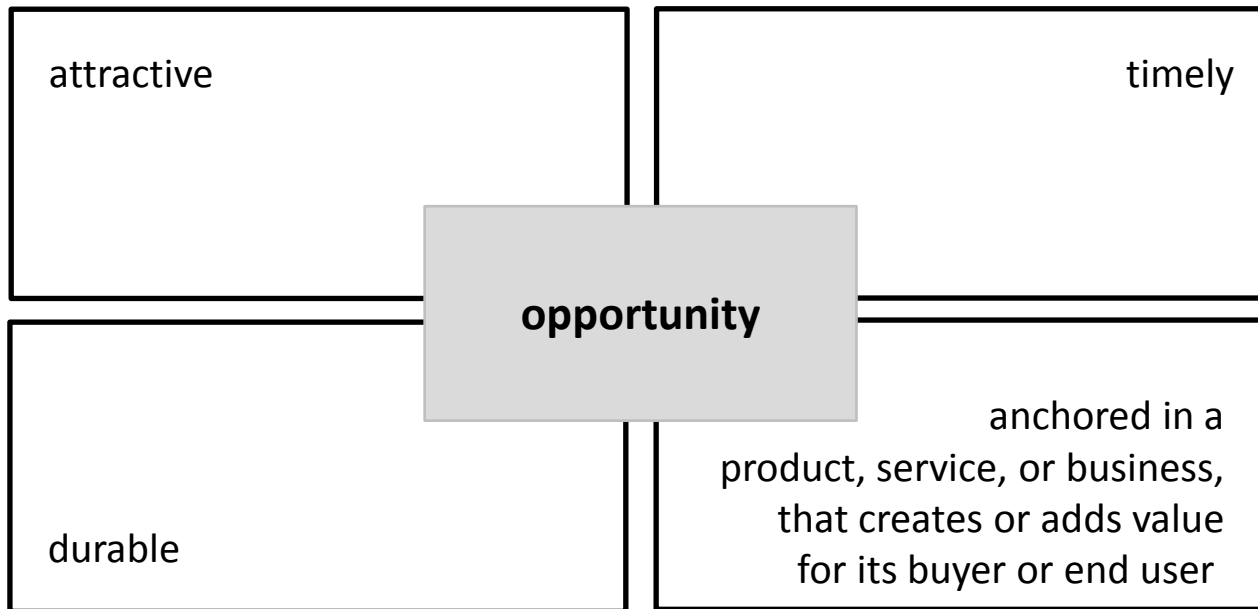
...to be answered in today's lecture.

1 Identifying and Recognizing Opportunities

An opportunity is a favorable set of circumstances that creates a need for a new product, service, or business.

An opportunity has four essential qualities.

attractive	timely
	opportunity
durable	anchored in a product, service, or business, that creates or adds value for its buyer or end user

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1 Identifying and Recognizing Opportunities

There is a difference between an opportunity and an idea !

An idea is a thought, impression, or notion, which may or may not meet the criteria of an opportunity.
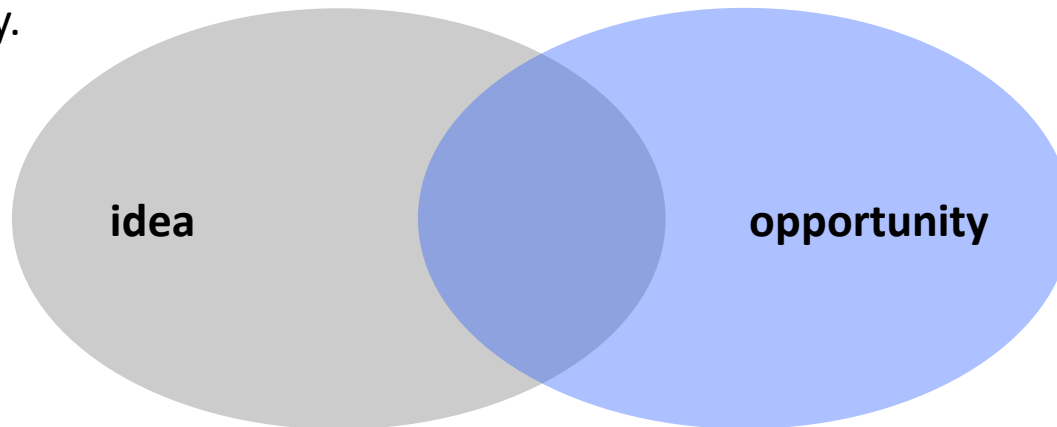
idea   opportunity

Many businesses fail not because the entrepreneurs that started them didn't work hard, but because there was no real opportunity to begin with.

1 Identifying and Recognizing Opportunities

The window of opportunity must be open for an entrepreneur to capitalize on an opportunity.

Window of Opportunity	is a metaphor describing the time period in which a firm can realistically enter a new market.

The market for a new product is established.

At some point, the market matures.

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Its window of opportunity opens, and new entrants flow in.

The window of opportunity (for new entrants) closes.

1.1 Three Ways of Identifying an Opportunity

| **1.** observing trends | **2.** solving a problem | **3.** finding gaps in the marketplace |

1.1 Three Ways of Identifying an Opportunity

1.1.1 Observing trends

The first approach to identifying opportunities is to observe trends and study how they create opportunities for entrepreneurs to pursue.

| Economic Forces |
| Social Forces |
| Technological Advances |
| Political and Regulatory Changes |

Business, Product, or Service Opportunity Gap
Difference between what's available and what's possible

New Business, Product and Service Ideas

1.1 Three Ways of Identifying an Opportunity

1.1.1 Observing trends

Economic Forces

Social Forces

Technological Advances

Political and Regulatory Changes

Economic forces affect consumers' level of disposable income. Individual sectors of the economy have a direct impact on consumer buying patterns.

Getting a handle on these forces by:
(i) studying and observing and
(ii) purchasing market forecasts/analyses

example A drop in interest rates typically leads to an increase in new home construction and furniture sales; large firms source out etc.

1.1 Three Ways of Identifying an Opportunity

1.1.1 Observing trends

| Economic Forces |
| Social Forces |
| Technological Advances |
| Political and Regulatory Changes |

An understanding of the impact of social forces on trends and how they affect new product, service, and business ideas is a fundamental piece of the opportunity recognition puzzle.

example

The persistent proliferation of fast-food restaurants isn't due primarily to people's love for fast food but rather to the fact that people are busy: the number of households with both parents working remains high.

1.1 Three Ways of Identifying an Opportunity

1.1.1 Observing trends

| Economic Forces |
| Social Forces |
| Technological Advances |
| Political and Regulatory Changes |

Some of the recent social trends that allow for new opportunities are the following:

- Family and work patterns
- The aging of the population
- The increasing diversity of the workforce
- The globalization of industry
- The increasing focus on health care and fitness
- The proliferation of computers and the Internet
- The continual increase in the number of cell phone users
- New forms of music and other types of entertainment

1.1 Three Ways of Identifying an Opportunity

1.1.1 Observing trends

| Economic Forces |
| Social Forces |
| **Technological Advances** |
| Political and Regulatory Changes |

Given the rapid pace of technological change, it is vital for entrepreneurs to remain on top of how new technologies affect current and future opportunities.

Once a technology is created, products emerge to advance it.

example RealNetworks created to add video capabilities to the Internet

Advances in technology frequently dovetail with economic and social changes to create opportunities.

example The creation of cell phone is a technological achievement, but was motivated by an increasingly mobile population.

1.1 Three Ways of Identifying an Opportunity

1.1.1 Observing trends

Economic Forces

Social Forces

Technological Advances

Political and Regulatory Changes

Political action and regulatory changes also provide the basis for opportunities.

example New laws create opportunities for entrepreneurs to start firms to help companies comply with these laws.

1.1 Three Ways of Identifying an Opportunity

1.1.2 Solving a Problem

Sometimes identifying opportunities simply involves noticing a problem and finding a way to solve it.

These problems can be pinpointed through

- observing trends
- more simple means (intuition, serendipity, or chance)

> A **"serendipitous discovery"** is a chance discovery made by someone with a prepared mind.

http://www.youtube.com/watch?v=7OcfzMIZsxA

1.1 Three Ways of Identifying an Opportunity

1.1.2 Solving a Problem

Some business ideas are clearly gleaned from the recognition of problems in emerging trends…

… or less deliberate:
- individuals may set out to solve a practical problem and realize that the solution may have broader appeal
- someone may simply notice a problem that others are having and think that the solution might represent an opportunity.
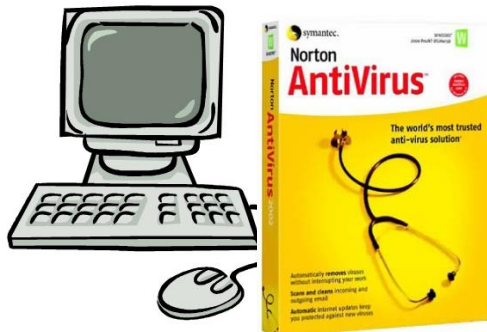

When computers were invaded by hundreds of foreign virus strains and corporate PC infection was becoming a serious problem, Symantec's Norton Group launched Norton Antivirus.

Source: http://www.nytimes.com/2007/10/24/automobiles/autospecial/24history.html

The increase in the price of petroleum and the call for environmental consciousness caused many automakers to release hybrids in the 2000s.
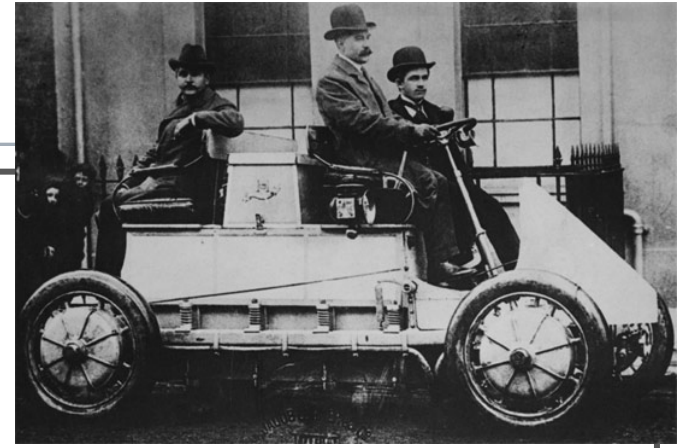
The origins of **hybrid technology** actually date to the end of the 19th century.

The Paris Exposition of 1900 featured the Lohner-Porsche Elektromobil, which would later become one of the first hybrid cars.

While initially perceived as unnecessary, the first concerns about auto emissions restored interest in electric vehicles. C. Russell Feldman, a founder of Motorola, took notice in 1962 of the rising concern over automobile pollution and explored the market possibilities for electric cars.

Then in 1994, nearly a century after Porsche's hybrid arrived on the scene, Akihiro Wada, executive vice president of Toyota, posed a challenge before a special team of company engineers: build a car with double the fuel efficiency of contemporary vehicles. Three years later, Toyota introduced the Prius in Japan as the world's first mass-produced gas-electric car.

Today, the Prius competes with conventional sedans as a top seller in the United States, and **nearly every major carmaker in the world has either introduced hybrids or is struggling to create the technologies to make cars more efficient**.

1.1 Three Ways of Identifying an Opportunity

"

1.1.2 Solving a Problem

Businesses created to solve a problem.

Entrepreneur(s)	Year	Problem	Solution	Name of Business That Resulted
Julie Aigner-Clark	1997	No method for exposing young children (six months to three years old) to arts and sciences	Created a company to produce videos designed to capture the attention and stimulate the minds of young children	Baby Einstein
Scott Cook	1982	Frustration over traditional process of paying bills and keeping track of personal finances	Developed a software program (Quicken) to make the task easier	Intuit
Lisa Druxman	2002	No fitness routine available to help new mothers stay fit and be with their newborns at the same time	Created a franchise organization that promotes a workout routine (which involves a 45-minute power walk with strollers) that mothers and their newborns can do together	Stroller Strides
Rob Glaser	1995	No way to play audio and video on the Internet	Developed software to play audio and video on the "Net"	RealNetworks
Fred Smith	1973	Inability to get spare parts delivered on a timely basis for his company, a jet aircraft sales firm	Started a new company to help others get packages delivered in a timely manner	Federal Express (now called FedEx)
Jerry Yang and David Filo	1994	No method to find or organize favorite Web sites	Created online directories to find and store favorites	Yahoo!

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1.1 Three Ways of Identifying an Opportunity

1.1.3 Finding Gaps in the Marketplace

Opportunities are identified by recognizing a **consumer need**
that is **not being satisfied** by large established or entrepreneurial firms.

For example, large retailers compete primarily on price by serving large groups of customers with similar needs. They do this by offering the most popular items targeted toward mainstream consumers.

While this approach allows the large retailers to achieve economies of scale, it leaves gaps in the marketplace.

That is why small clothing boutiques exist. The small boutiques, which often sell designer clothes or clothes for hard-to-fit people, are willing to carry merchandise that does not sell in large quantities.

1.1 Three Ways of Identifying an Opportunity

1.1.3 Finding Gaps in the Marketplace

There are also gaps in the marketplace that represent **consumer needs** that are **not being met at all** by anyone.


People wanted to listen to music on the go.

The launch of the **Sony Walkman** in 1979 was rather a **breakthrough in imagination** than in technology. For the first time headphones allowed all people to be at two places at once: People could easily listen to music while being on the road.

1.2 Personal Characteristics Enabling Opportunity Recognition

What are the specific personal characteristics shared by those who excel at recognizing an opportunity ?

Some abilities and characteristics tend to make some people better at recognizing opportunities than others.

prior experience

cognitive factors

social networks

creativity
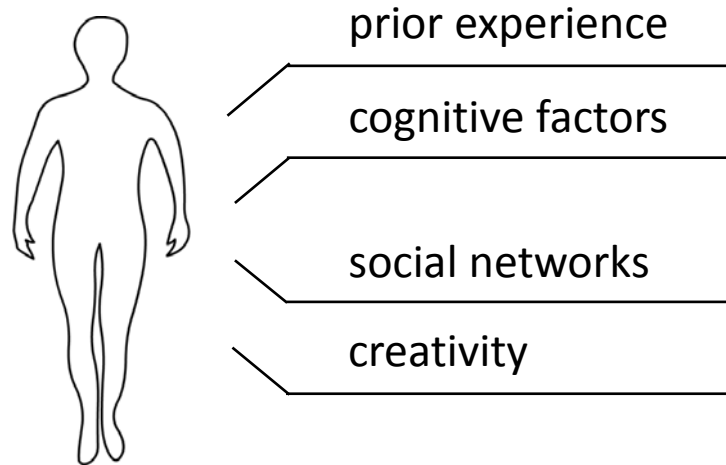
1.2 Personal Characteristics Enabling Opportunity Recognition

Prior experience helps an entrepreneur recognize business opportunities.

prior experience

- By working in an industry, an individual may spot a market niche that is underserved.

- It is also possible that by working in an industry, an individual builds a network of social contacts who provide insights that lead to recognizing new opportunities.

1.2 Personal Characteristics Enabling Opportunity Recognition

Opportunity recognition may be an innate skill or a cognitive process.

cognitive factors

Some people believe that entrepreneurs have a "sixth sense" that allows them to see opportunities that others miss.

This "sixth sense" is called "**entrepreneurial alertness**", which is formally defined as the ability to notice things without engaging in deliberate search.

1.2 Personal Characteristics Enabling Opportunity Recognition

The extent and depth of an individual's social network affects opportunity recognition.

social networks
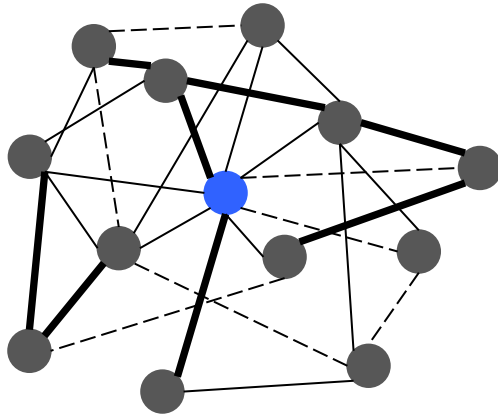
Having substantial social and professional contacts you are exposed to more opportunities and ideas potentially leading to new business starts.

In a survey of 65 start-ups, half the founders reported that they got their business idea through social contacts.
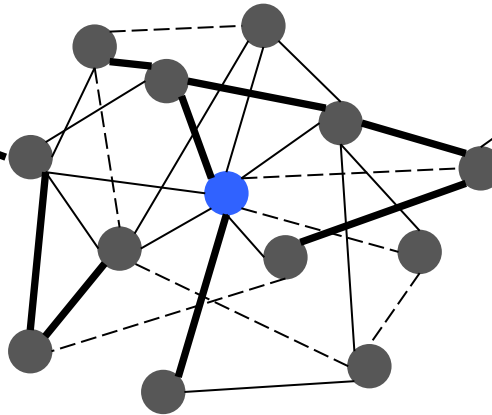
1.2 Personal Characteristics Enabling Opportunity Recognition

It is more likely that an entrepreneur will get new business ideas through weak-tie rather than strong-tie relationships.

Strong Tie Relationship

frequent interaction between coworkers, friends, and spouses
→ between like-minded individuals

like-minded individuals tend to reinforce insights and ideas that people already have
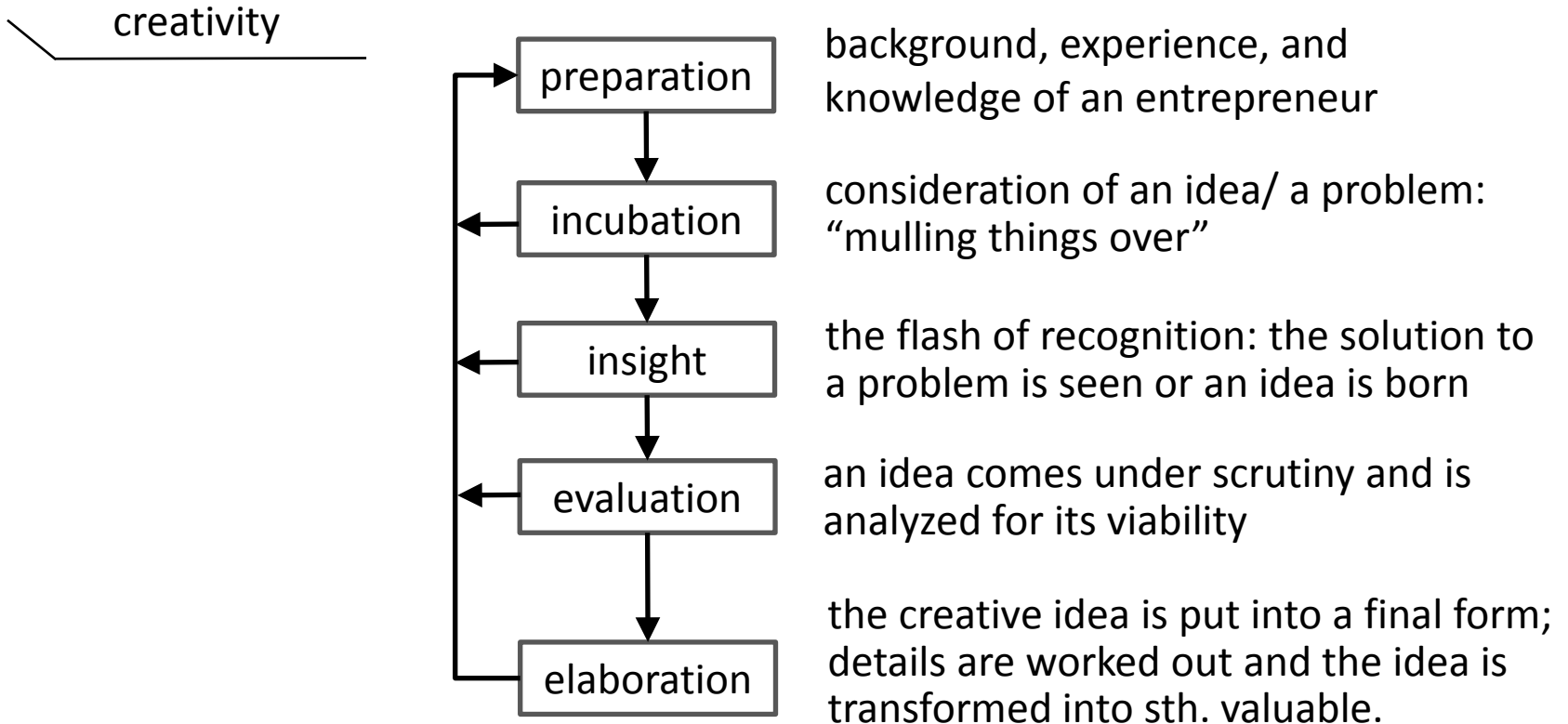
Weak Tie Relationship

infrequent interaction and form between casual acquaintances

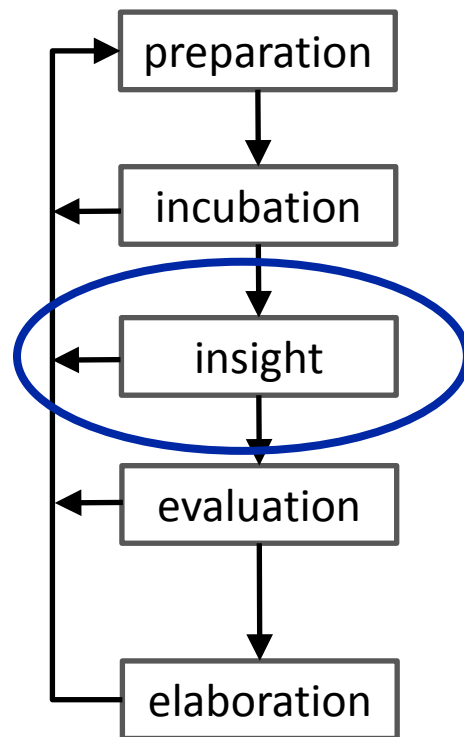**more likely to spark a completely new idea**

1.2 Personal Characteristics Enabling Opportunity Recognition

Creativity is the process generating a novel and/or useful idea.

creativity

preparation	background, experience, and knowledge of an entrepreneur
incubation	consideration of an idea/ a problem: "mulling things over"
insight	the flash of recognition: the solution to a problem is seen or an idea is born
evaluation	an idea comes under scrutiny and is analyzed for its viability
elaboration	the creative idea is put into a final form; details are worked out and the idea is transformed into sth. valuable.

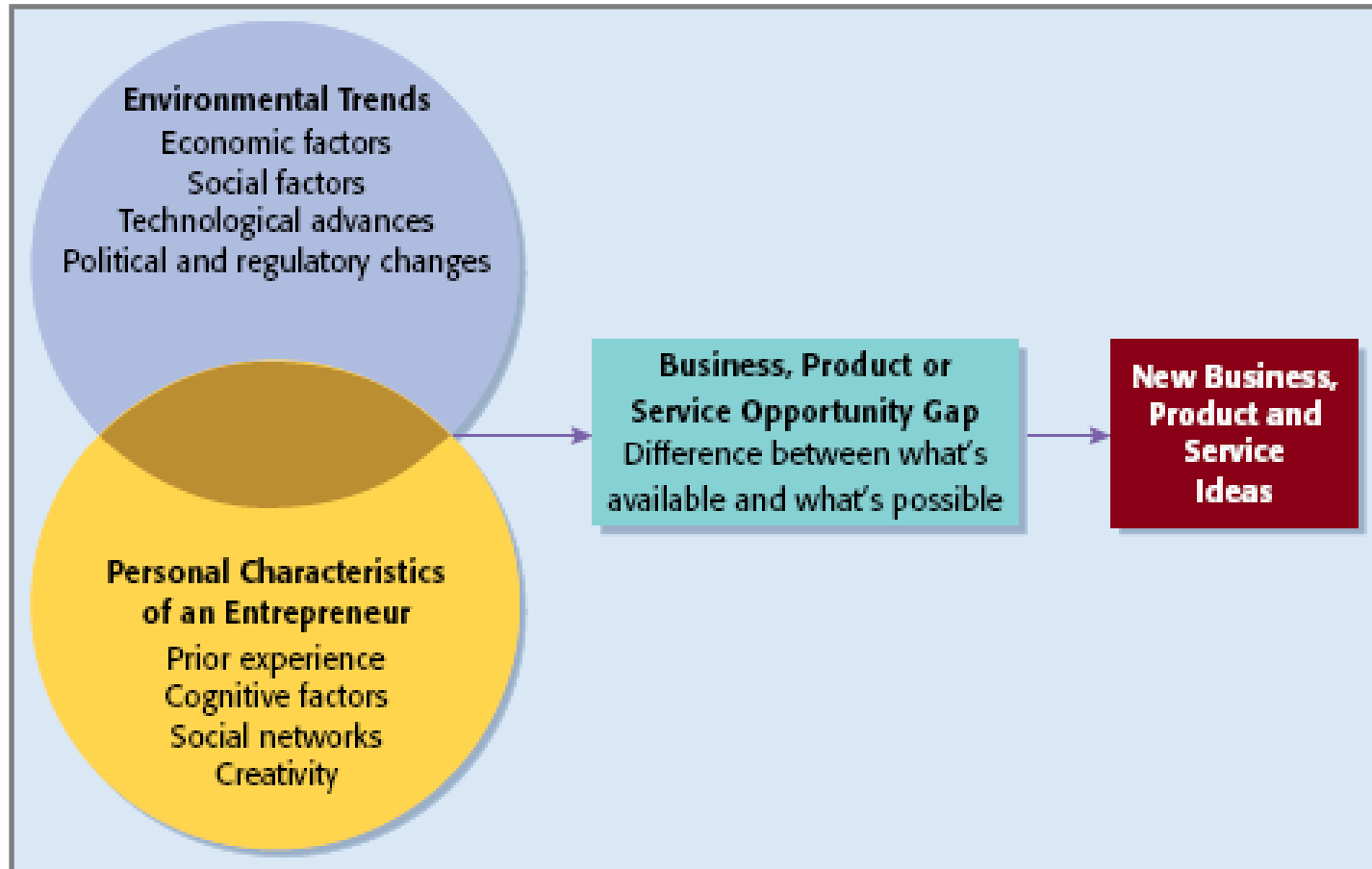# 1.2 Personal Characteristics Enabling Opportunity Recognition

Eureka !

Taking a bath Archimedes found a method for measuring the volume of irregularly-shaped objects.

1.3 The Opportunity Recognition Process

Environmental Trends
Economic factors
Social factors
Technological advances
Political and regulatory changes

**Personal Characteristics
of an Entrepreneur**
Prior experience
Cognitive factors
Social networks
Creativity

**Business, Product or
Service Opportunity Gap**
Difference between what's
available and what's possible

**New Business,
Product and
Service
Ideas**

2 Techniques for Generating Ideas

How can ideas be generated ?

brainstorming

other
techniques

focus groups

surveys

2 Techniques for Generating Ideas

Brainstorming is not used for analysis or decision making, but to quickly generate a number of ideas.

A brainstorming session is targeted to a **specific topic** about which a group of people are instructed to come up with ideas.

Rules
1.   No criticism.
2.   Freewheeling is encouraged.
3.   The session should move quickly.
4.   Leap-frogging is encouraged.

brainstorming

Brainstorming generates ideas that might not arise otherwise.
(i)   Since no criticism is allowed, people are more likely to offer **ideas**.
(ii) Brainstorming focuses on **creativity** rather than evaluation.

2 Techniques for Generating Ideas

Focus groups are used for a variety of purposes. They can be used to help generate new business ideas.

Members of a Focus Group

A focus groups consists of 5-10 people who are related to the issue discussed.

Strength

Companies are able to uncover what is on their customers' minds through the give-and-take nature of a group discussion.

Weakness

Participants do not represent a random sample, hence the results cannot be generalized to larger groups.

2 Techniques for Generating Ideas

Surveys generate new product, service, and business ideas by gathering information from a sample of people. They ask specific questions and get specific answers.

Survey Sample

The survey sample is usually just a fraction of the population being studies.

The most effective surveys sample a "random" portion of the population.

Sample is neither selected nor consisting of people who volunteered.

Survey Data

The quality of the survey data is determined largely by the purpose of the survey and how it is conducted.

2 Techniques for Generating Ideas

Self-selected opinion polls may distort results.

Self-selected Opinion Poll

Most call-in television surveys or magazine write-in polls are highly suspect because the participants represent what's called a self-selected opinion poll.

Result

Most people who take the time to participate in a self-selected opinion poll do so because they have either strong positive or strong negative feelings about the particular product or topic.

2 Techniques for Generating Ideas

Firms use a variety of other techniques to generate ideas.

|	
Customer Advisory Board	discusses needs, wants, and problems that may lead to new ideas.
Day-in-the-life research	is a form of anthropological research.
IDEO Method Cards	look like a deck of playing cards and show 51 of the methods that IDEO uses to come up with new ideas.
Trade Shows, Conferences, etc.	are used as intelligence missions to learn what their competition is doing and then use the information to stimulate new ideas.

3 Encouraging and Protecting New Ideas
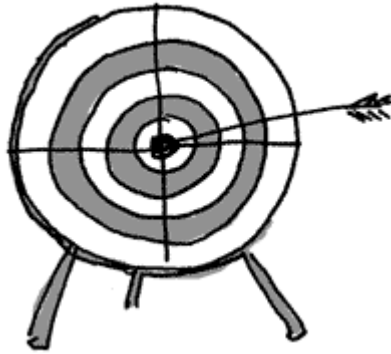
**Establishing a
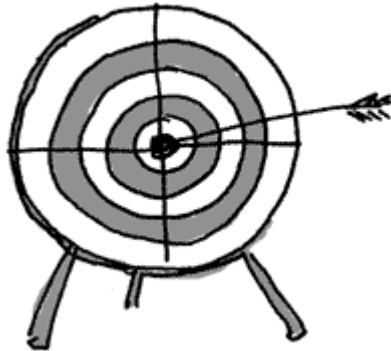Focal Point for Ideas**

**Encouraging Creativity
at the Firm Level**

**Protecting Ideas from
Being Lost and Stolen**

3 Encouraging and Protecting New Ideas

Firms meet the challenge of encouraging, collecting, and evaluating ideas by …

… designating a specific person to screen and track ideas.

… establishing an idea bank which is a physical or digital repository for storing ideas.

I.e. a password protected location on a firm's intranet that is available only to qualified employees. It may have a file for ideas that are being actively contemplated and a file for inactive idea.

3 Encouraging and Protecting New Ideas

Although creativity is typically thought of as an individual attribute, it can be encouraged or discouraged at the firm level.

An employee may exhibit creativity in a number of ways, including solving a problem or taking an opportunity and using it to develop new product or service idea.

Actions and behaviors may encourage and discourage creativity at both the organizational level and the individual supervisor level.

Table 2.3 (p. 56) in the textbook provides a list of creativity enhancers and detractors.

3 Encouraging and Protecting New Ideas

Intellectual Property is any product of human intellect that is intangible but has value in the marketplace, and therefore should be protected.

Tools

- patents
- trademarks
- copyrights
- trade secrets

Rules

A mere idea or concept does not qualify for intellectual property protection.

Protection comes later when the idea is translated into a more concrete form.

3 Encouraging and Protecting New Ideas

At the opportunity recognition stage three steps should be taken when a potentially valuable idea is generated.

Step 1

The idea should be put into a tangible form

(physical idea logbook, computer disk)

Step 2

The idea should be secured.

Step 3

Avoid making in inadvertent or voluntary disclosure of an idea in a way that forfeits your claim to its exclusive rights.

Do you know the answer ?

?! What is an opportunity and how may it be recognized ?

?! How can new ideas be generated ?

?! What steps need to be taken in order to build an organization which encourages and protects new ideas ?

...test yourself.

References

Barringer, B. and D., Ireland (2008): Entrepreneurship - Successfully Launching
      New Ventures, Pearsons Prentice-Hall.

Outlook