Competition

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Macroeconomics

Mindset

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Motivation

Written by

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The Opportunity Analysis Canvas

Dr. James V. Green

www.opportunityanalysiscanvas.com

Publication Data

Green, James V.

The opportunity analysis canvas / James V. Green

Edition 1.0

1. Entrepreneurship 2. Innovation

For Jamesia and Ally

Thank you for giving me the opportunity every day
to be a husband and dad.

About the Author

An award-winning educator at the University of Maryland, Dr. James V. Green leads the education activities of the Maryland Technology Enterprise Institute. As its Director of Entrepreneurship Education, he manages 25 undergraduate and graduate courses in entrepreneurship, innovation, and technology commercialization. He has created and led a host of innovative programs and activities to serve 100,000 innovators and entrepreneurs from 150 countries. With 20 publications, he is a thought leader in entrepreneurship education pedagogy and entrepreneurial opportunity analysis.

In 2011, he earned first prize in the 3E Learning Innovative Entrepreneurship Education Competition presented at the United States Association for Small Business and Entrepreneurship (USASBE). In 2013, he launched the University of Maryland's first course with Coursera, "Developing Innovative Ideas for New Companies".

Prior to the University of Maryland, Dr. Green held founder, executive, and operational roles with multiple technology startups to include Cyveillance (acquired by QinetiQ, LSE: QQ.L), WaveCrest Laboratories (acquired by Magna International, NYSE: MGA), and NetMentors.Org.

CONTENTS

FORWARD

The Opportunity Analysis Canvas is a collaborative effort based on my experiences of teaching over 100,000 students and advising 100 companies, to include multiple *Inc. 500* award winners. The canvas began to take shape years ago with my doctoral dissertation titled "Educating entrepreneurship students about opportunity discovery: A psychosocial development model for enhanced decision-making". While this dissertation title may sound complicated, the basic idea is that before drafting business models and writing business plans, aspiring entrepreneurs need to think and see things differently than others.

As I explored this topic of entrepreneurial opportunity analysis, I recognized a pattern that could be identified. With that identification and understanding, it is a process than could be taught. Before writing this book, I tested various ideas and approaches of teaching over nine years at the University of Maryland. These activities that engaged thousands of my students in readings, assignments, projects, and mentoring that led to dramatic improvement in their entrepreneurial opportunity analysis skills.

The outcome of this opportunity analysis exploration, and the proven success of its teaching, is this book. It is my hope that by understanding the principles and patterns of the Opportunity Analysis Canvas that you will be more effective in identifying and analyzing entrepreneurial opportunities and realizing your personal and professionals goals.

James V. Green
May 14, 2013

1 INTRODUCTION

I was seldom able to see an opportunity
until it had ceased to be one.

Mark Twain
Author and humorist

94,725. This is the number of results for business plan books on Amazon.com at the time of this writing. As we need the business *idea* before writing the business *plan*, aspiring entrepreneurs need insights and direction on how to identify and analyze entrepreneurial ideas. This is the goal of this book.

The opportunity analysis canvas is a new tool for identifying and analyzing entrepreneurial ideas. Structured as a nine-step approach, the canvas is segmented into: (a) *thinking entrepreneurially* with an entrepreneurial mindset, entrepreneurial motivation, and entrepreneurial behaviors; (b) *seeing entrepreneurially* with macroeconomic changes, industry conditions, industry status, and competition; and (c) *acting entrepreneurially* with the value curve and opportunity identification.

Definition: Opportunity

- a favorable juncture of circumstances
- a good chance for advancement or progress

- Merriam-Webster Dictionary

What is an *opportunity*?
Within the opportunity analysis canvas, the term *opportunity* refers to the creation of a new venture. This can be a for-profit venture, a non-profit venture, or any related venture that creates value for the customers and the operators of the venture.

In retrospect, we all see good opportunities. It is easy to see the successes of others and believe that we too could have achieved similar success had we acted on our own past ideas. Our decision making processes, however, are only valuable in the present.

Missed opportunities
Each year, thousands of students enroll in business plan courses at universities worldwide. Estimations suggest that less than 5% of these students actually launch a business. Why are so few students launching businesses?

While many are interested in learning skills for future use, a significant number do desire to launch a new venture.

This mismatch of (1) entrepreneurial ambitions versus (2) actually launching ventures exists for students of all ages.

What's missing?

There is the need for something new, something different, that helps to identify and analyze entrepreneurial opportunities. For aspiring entrepreneurs, new tools are necessary to develop the ideas that can lead to business planning and successful ventures of all types.

The business model approach

The emergence of business "model" (not plan) courses and competitions are a step in the right direction. This is a precursor to writing the business plan. The focus of these new courses and activities is to engage students in customer discovery early, and test the major hypotheses of the business model.

While this is a viable approach and valuable lesson in entrepreneurship education, business models only begin to take shape when a new venture idea is formulated. Customer discovery requires having a product or service concept to test.

Without the idea for the product or service, no business model nor customer discovery can begin. It is this first step of ideation that the opportunity analysis canvas aims to fulfill.

How to use this book

This book is structured on a new tool called the opportunity analysis canvas. Each of the below nine steps are addressed in a dedicated chapter. The focus of each chapter is to first introduce you to the topic. This provides a background on the subject, and emphasizes its relationship to entrepreneurial decision-making. Next, tips and techniques are presented for how to develop your skills. Lastly, challenge questions are posed for you to apply these skills in developing your opportunity analysis abilities.

The Opportunity Analysis Canvas™

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Steps 1 – 3: Thinking entrepreneurially

Thinking in this context is influenced by individual mindsets, motivations, and behaviors. Part I addresses these first three steps of the opportunity analysis canvas. This sets the stage for the subsequent chapters on seeing entrepreneurially.

Steps 4 – 7: Seeing entrepreneurially

Seeing entrepreneurially requires that you have a "big picture" perspective. This means that you recognize and understand the economic forces impacting your ideas as well as the industry and competitive factors now and in the future. With dedicated chapters on macroeconomic changes, industry conditions, industry status, and competition, each of these steps are explored in detail.

Steps 8 – 9: Acting entrepreneurially

As you develop your abilities to "think" and "see", you are better prepared to "act". With attention to the value curve and opportunity identification, your entrepreneurial ideas can be transformed into action.

Part I. THINKING ENTREPRENEURIALLY

Entrepreneurial Mindset

Entrepreneurial Motivation

Entrepreneurial Behaviors

To explore the role of thinking entrepreneurially and opportunity identification, an introduction to *entrepreneurial opportunities and strategic decision-making* is in order.

What are *entrepreneurial opportunities*?

Casson (1982) defines entrepreneurial opportunities as "those situations in which new goods, services, raw materials, and organizing methods can be introduced and sold at greater than their cost of production."

Drucker (1985) classifies entrepreneurial opportunities into three categories: "(1) the creation of new information, as occurs in the invention of new technologies; (2) the exploitations of market inefficiencies that result from information asymmetry, as occurs across time and geography; and (3) the reaction to shifts in the relative costs and benefits of alternative uses for resources, as occurs with political, regulatory, or demographic changes."

By all definitions, entrepreneurial opportunities differ from the larger set of general business opportunities. Entrepreneurial opportunities require the discovery of new relationships and interactions in the marketplace that are uncertain and dynamic (Baumol, 1993; Kirzner, 1997).

The existence of entrepreneurial opportunities therefore depends on differences of opinion by individuals, with some seeing opportunities, while others view the same situation with doubt or disinterest (Hayek, 1945; Kirzner, 1973).

Understanding decision-making in the context of entrepreneurial thinking is central to joining this population that sees opportunities.

What is *strategic decision-making*?

Strategic decision-making is a cognitive process, meaning that it is a thinking process. Cognition involves individual decision-making and the selection of a specific course of action that is supposed to bring a certain result.

By strategic decisions, this means decisions that are significant in time and resources involved and/or in the consequences of their outcomes.

We always have a choice, to include the choice of doing nothing. Making informed choices is easier if the expected outcomes can be better predicted.

Understanding entrepreneurial decision-making is critically important for aspiring entrepreneurs.

Decision-making is a unique and significant tasks for entrepreneurs.

Entrepreneurs must make quick, high-stakes decisions with incomplete information in a dynamic market.

With an appreciation for the opportunities and challenges of strategic entrepreneurial decision-making, you can explore the next chapters on entrepreneurial mindset, motivation, and behavior (the first three steps of the opportunity analysis canvas). Next, you will examine the elements within each of these steps.

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2 ENTREPRENEURIAL MINDSET

Part of the challenge of being an entrepreneur, if you're going for a really huge opportunity, is trying to find problems that aren't quite on the radar yet and try to solve those.

Sean Parker

Co-founder of Napster and 1st President of Facebook

By exploring the components of the entrepreneurial mindset, you can understand exactly *who are entrepreneurs*. Entrepreneurs can be independent individuals, intensely committed to persevere in starting and growing a venture. They may be confident optimists who strive for success and desire to create a for-profit, non-profit, or social venture. They often burn with the competitive desire to excel and use failure as a learning tool. While every entrepreneur is unique, there are select commonalities in their mindset.

Entrepreneurs cause entrepreneurship. While this book will also introduce the role of market opportunities, technology changes, and other factors in entrepreneurship, it is important to recognize that the person, the entrepreneur, is at the heart of the matter. Without the entrepreneur, there is no entrepreneurship. This is why an understanding of the mindset of entrepreneurs is critical to understanding how to develop and launch successful ventures. This chapter focuses on the entrepreneurial mindset, with attention to achievement, individualism, control, focus, and optimism.

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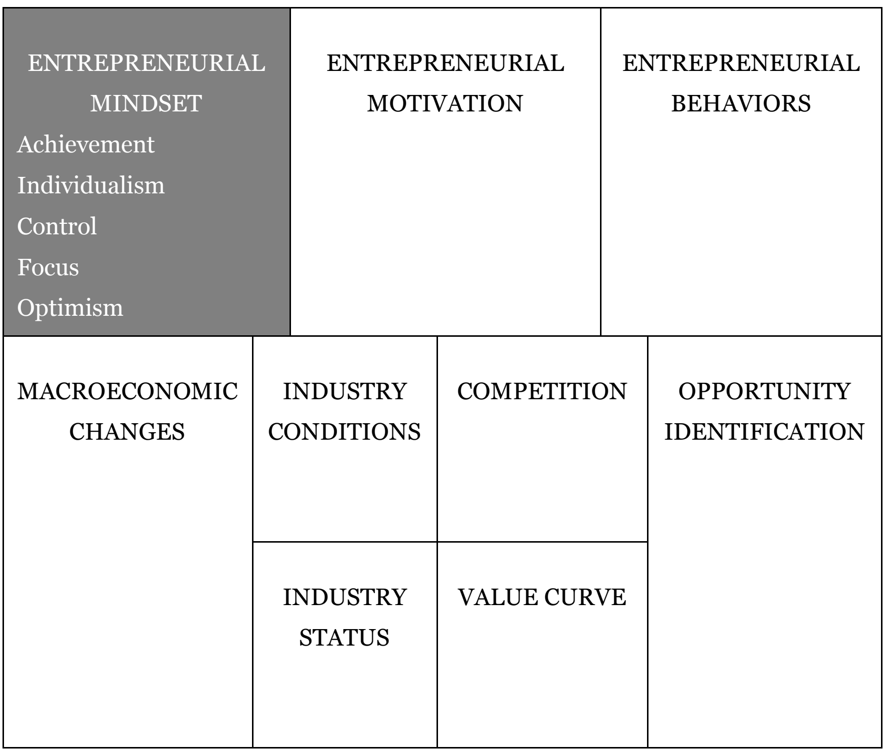

Do you have a high **need for achievement**?
How does **individualism** influence your decision-making?
Do you have an internal and external **locus of control**?
Are you able to effectively **focus** your time and resources?
Do friends characterize you as an **optimist**?

Achievement
Entrepreneurship researchers have examined the influence of need for achievement on entrepreneurial success since the earliest entrepreneurship research studies (McClelland, 1961).

Need for achievement is defined as a preference for challenge, an acceptance of personal responsibility for outcomes, or a personal drive for accomplishment.

Achievement motivation is a related area that examines the ways that individuals overcome obstacles in their attempt to reach success.

Individualism
Individualism means that you need less support or approval from others. There is a willingness, and often a preference, to go against the norm. High individualism is associated with an emphasis on individual initiative and achievement.

Control

Control plays an important role in the entrepreneurial mindset. A valuable segment of research into control is autonomy and locus of control.

Autonomy is an individual's belief about their level of freedom from the influence of others.

Locus of control is an individual's belief that they can influence the environment in which they are found (Rotter, 1966). The locus of control may be internally-oriented, with one believing that they are in control and are able to influence their environment and outcomes. Locus of control can also be externally-oriented, meaning that you feel subject to other people and events, with minimal influence on the outcomes.

People with higher levels of autonomy and an internal locus on control are more likely to discover an entrepreneurial opportunity than those with low levels of autonomy and an external locus of control (Caird, 1991; Shapero, 1975).

The beliefs about the value of entrepreneurial opportunities are therefore influenced by your self-evaluation. Do you believe that you have the ability to pursue a specific opportunity? This self-evaluation depends on the degree to which you believe that you can influence the environment and your circumstances (Harper, 1996).

Focus

Successful entrepreneurs are able to focus attention on a single task and see it through to completion. Investing their attention, and processing information efficiently, enables entrepreneurs to be decisive and thoughtful in their decisions.

Optimism

Optimism enables entrepreneurs to try new things and attempt difficult tasks. Optimism can also be contagious, in that team members, partners, and investors may share in the enthusiasm and excitement of the entrepreneur, if the entrepreneur is optimistic.

Optimism may also present negative impacts. Optimism leads entrepreneurs to frequently make judgments on subjective positive factors. This can result in a tendency to overlook critical elements and discount uncertainties. Excessive optimism can lead to high levels of risk acceptance and business losses or complete failure.

Tips and techniques for developing your entrepreneurial mindset

A high need for professional achievement should align with your personal goals. Of course, it is important to work hard and be committed to your ideas and ventures as an entrepreneur. It does not have to be all consuming and at the sacrifice of all of your time, relationships, money, etc.

Many entrepreneurs desire a high level of control, understandably so. It is important to be cautious of whom to trust, and whom to tell what about your ideas. Balance these considerations with a collaborative nature in order to build positive relationships and grow your ideas.

Successful entrepreneurs set high goals, and plan accordingly to achieve those goals. Poor focus results in excessive time urgency and over-committing on projects. Effective planning, and a focus on implementing your plans, can often result in success.

Optimism is also an important asset for the entrepreneur. If you do not believe you can succeed, neither will anyone else. Trying to convince yourself that your solution is better than competitors may lead to over-optimism. When you are overly optimistic, you tend not to see things realistically when critiquing your own ideas.

Instead, you should engage in an objective evaluation of the strengths and weaknesses of your solution to the customers' current and future needs.

However, an overbearing need for control, a sense of distrust, and unrealistic optimism are too much of a good thing. Take time to self-moderate these factors.

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Ideas in Action: Entrepreneurial Mindset

What roles does need for achievement play in your decisions?

What level of influence do friends and family have in your decision-making?

Do you believe that you have control of your own destiny?

What techniques do you use to focus your time and resources?

How can you improve your level of optimism?

3 ENTREPRENEURIAL MOTIVATION

Motivation is everything. You can do the work of two people, but you can't be two people. Instead, you have to inspire the next guy down the line and get him to inspire his people.

Lee Iacocca

Past President and CEO of Chrysler

Entrepreneurial motivation encompasses the factors by which goal-directed behavior is initiated, energized, and maintained. For entrepreneurial strategic decision-making, three factors are emphasized: self-efficacy, cognitive motivation, and tolerance for ambiguity.

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Do you have high **self-efficacy**?
Do you exhibit high **cognitive motivation**?
What is your **tolerance for ambiguity**?

Self-efficacy

Self-efficacy is defined as your belief in your ability to accomplish a specific task. Self-efficacy intersects the entrepreneurial mindset and entrepreneurial motivation.

While locus of control and confidence are general characteristics that apply to all tasks, self-efficacy differs as it is task dependent.

For example, your self-efficacy may be high for financial tasks if you enjoy working with numbers. Alternatively, your self-efficacy may be low for selling your product in front of an audience if you fear public speaking.

Self-efficacy is a key predictor of individual performance in entrepreneurial endeavors. It is valuable to increase your self-efficacy across a variety of tasks.

Cognitive motivation

Cognition is the process of thought. Individuals exhibiting a high need for cognition tend to seek, acquire, think, and reflect on relevant information. Individuals low in need for cognition tend to rely on experience, assumptions, and luck.

Individuals with a high need for cognition make better entrepreneurial decisions. They engage and enjoy effortful cognitive activities. They recall more relevant information about challenges and opportunities. These individuals more accurately analyze arguments and generate more alternative solutions. They are less uncertain about relationships and therefore demonstrate better logical reasoning abilities. In total, individuals with a high need for cognition learn more effectively and make better decisions.

Tolerance for ambiguity

Tolerance for ambiguity is defined as the tendency to perceive ambiguous situations as desirable rather than threatening.

This is a necessary factor for entrepreneurs based on the dynamic nature of markets and competition. It is important for entrepreneurs to make complex decisions quickly with limited information.

Tips and techniques for developing your entrepreneurial motivation

To improve your self-efficacy and tolerance for ambiguity, seek opportunities to build firsthand experience in areas that interest you. Successes in these tasks will elevate your self-efficacy and increase your comfort with new and unpredictable situations. You can also observe experts and study new topics to improve your self-efficacy and tolerance for ambiguity.

Enhancing your cognitive motivation, in the context of entrepreneurial ideas, is best achieved by exploring business ideas that align with your personal interests.

> "Choose a job you love, and you will never have to work a day in your life."
>
> Confucius

Ideas in Action: Entrepreneurial Motivation

Do you believe that you have the capabilities to be successful as an entrepreneur?

Do you enjoy collecting information and gathering experts' insights before making decisions?

How can you increase your comfort level with making strategic decisions quickly, with limited information and high consequences?

4 ENTREPRENEURIAL BEHAVIORS

Surround yourself with only people who are going to lift you higher.

Oprah Winfrey
Media proprietor, actress, producer, and philanthropist

Entrepreneurial mindset and motivation can only translate into action if entrepreneurial behaviors exist. This is where *thinking* transitions into *seeing* and *acting*. While there are many behaviors that may be described as entrepreneurial, focus on the behaviors most critical to entrepreneurial opportunity analysis and action. This chapter examines confidence, interpersonal skills, social capital, and risk tolerance.

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Do you have the **confidence** to attempt the difficult?
Are your **interpersonal skills** well developed?
Are you rich in **social capital**?
What is your **risk** tolerance?

Confidence

Confidence and self-efficacy are two sides of the same coin. As introduced in the prior chapter, positive self-efficacy increases the likelihood that an individual will discover entrepreneurial opportunities. Self-efficacy increases the individual's confidence in their subjective judgment about uncertain events (Shane, 2003).

Entrepreneurs must have confidence in their own judgments, particularly when these decisions are different than popular opinion, and perhaps different from the advice of friends and family.

If an individual has limited confidence in their judgment, and a discomfort with being at odds with the majority, the level of entrepreneurial opportunity discovery is constrained (Casson, 1995; Ripsas, 1998).

Interpersonal skills

"Who you know" influences your access to information and resources. Interpersonal relationship skills facilitate meeting new individuals and building positive relationships.

Interpersonal relationships contribute to the quantity and quality of your social networks. Interpersonal relationships, as a cornerstone of social capital, influence one's ability to access information that facilitates discovery of entrepreneurial opportunities (Aldrich and Zimmer, 1986; Baron and Markman, 2000).

Social capital

Social capital refers to the resources available in and through personal and business networks. This includes information, ideas, business opportunities, and financial capital. Social capital is also a source of emotional support for entrepreneurs.

Your social capital depends on who you know, and the size, quality, and diversity of your relationships.

An important element of social capital is that it is not only about "who you know", it is also valuable to know who they know. You can ask for introductions via your connecting relationships.

People with rich social capital are better informed, more creative, more efficient, and better problem solvers. With the right networks, people save time because they know where to get the information they need. They can also foster cooperation and collaboration.

Capital seekers and providers often find each other via friends, colleagues, acquaintances, and well-connected business associates such as attorneys, insurance agents, and accountants.

A U.S. Small Business Administration survey found that 75% of new businesses find and secure financing through their social capital.

Risk tolerance

Strategic entrepreneurial decisions are inherently risky in that the outcomes are largely unknown. If information about the consequences of a decision and the probabilities of these consequences is incomplete, that uncertainty involves risk.

Do entrepreneurs show higher natural tendencies to take risks? No, not consistently. Growing consensus among researchers shows that entrepreneurs and non-entrepreneurs do not show differences in natural tendencies to take risks (Busenitz, 1999). Instead, perceptions of risk differ between entrepreneurs and non-entrepreneurs.

Therefore, risk is in the eye of the beholder. Risk is conceptualized based on the individual entrepreneur's assessment of risk and uncertainty in a decision.

Key influencing factors of entrepreneurs accepting risk in their decision:

- How high are the risks?
- What are the rewards?
- What are the consequences?
- Were all elements of the decision considered?

Tips and techniques for developing your entrepreneurial behaviors

Beware of overconfidence

Overconfidence refers to an individual's tendency to overestimate their own capabilities, knowledge and skills. This results in being overly optimistic of the future. While confidence helps entrepreneurs to successfully face the multiple hurdles of starting and managing a venture, overconfidence explains why most new ventures fail.

Beware of representativeness

Representativeness is a decision-making short cut that generalizes information based on only a few observations of similar events. This willingness to draw conclusions based on small samples of events can result in inaccurate perceptions of reality.

Beware of counterfactual thinking

Counterfactual thinking is the tendency to think about 'what might have been if…' or 'if only I would have…'. This is often negative in nature, with a sense of regret or disappointment due to perceived missed opportunities. This can result in individuals pursuing mediocre opportunities for new ventures, for fear that they may 'miss out' on a success if they do not act now.

Use your social capital

Social capital is immensely valuable to entrepreneurs, and greatly assists in moderating overconfidence, representativeness, and counterfactual thinking.

Ask friends, family, and potential customers for feedback on your idea. Use your social capital to gather information on competitors. Seek mentors and advisors to discuss your goals, ideas, and plans.

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Ideas in Action: Entrepreneurial Motivation

How can you improve your confidence level and risk tolerance?

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What resources can you use to enhance your interpersonal relationship skills?

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How can you grow your social capital?

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Part II. SEEING ENTREPRENEURIALLY

Macroeconomic Changes

Industry Conditions

Industry Status

Competition

Successful entrepreneurs introduce a product or service that: (1) satisfies customer *needs* in a better way than competitors; and (2) at a *price* that is greater than the cost of creating and delivering that product or service.

To understand how to fulfill customer needs at an attractive price, four areas are critical to assess: macroeconomic changes, industry conditions, industry status, and competition. The areas are the focus of the next four chapters.

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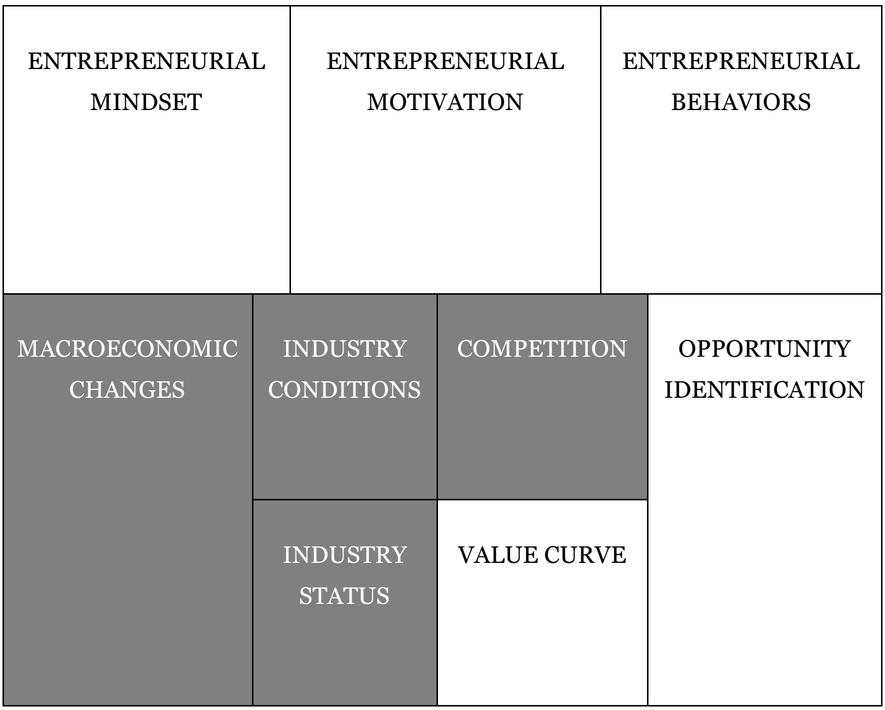

5 MACROECONOMIC CHANGES

Luck is what happens when preparation meets opportunity.

Seneca
Roman philosopher

Macroeconomics deals with the performance of the economy, and its vast number of influencing factors, as a whole. For entrepreneurs, it is valuable to understand how the needs and wants of your target audience are influenced by the world around them. This chapter explores this complex world, with an emphasis on changes in technology, society, politics, and regulations. Demographic and psychographic changes are also examined as these are central to entrepreneurs' understanding of their customers' buying behaviors.

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What **technical** advancements are emerging?

What **societal** changes are presenting new opportunities?

What **political** forces will influence new markets?

What businesses are benefiting from **regulatory** changes?

What **demographics** changes are creating new market needs?

What **psychographic** changes are opportunistic?

Technical change

Technical change is one of the most important triggers of change, because new technology allows for the expansion of new innovations. For example, portable cassette players...leads to portable compact discs players...leads to the development of portable MP3 players...leads to the capability to play songs on mobile phones.

The magnitude of technical change is important. Significant change can create entirely new markets. The larger the technical change, the greater the opportunity for new businesses to be created.

These larger magnitude changes affect more uses for technology, allowing the use of new technology in more things. The effect of the technical change on industry dynamics alters how firms compete with one another. This can open new markets for new ventures.

Societal change

Societal change opens up opportunities for new businesses by altering people's preferences and creating demand for things where demand had not existed before.

This may include new interests, changing priorities, different moralities or ethics, and related societal shifts.

Political change

Political changes can introduce opportunities or challenges for entrepreneurial ventures. It is valuable to consider how local, state, or national government decisions may change policies. These can challenge existing companies, and open new opportunities for new companies.

Be aware of the political shifts that will influence business policy, taxation, corporate social responsibility, environmental issues, or consumer protection with your venture.

Regulatory change

Governmental regulations affect entrepreneurial ventures in a variety of ways. Managerial regulations govern what the owners and operators of companies can and cannot do. Technology regulations influence standards, interoperability, safety, and a host of related areas. Price regulations often dictate pricing strategies that support fair competition, which along with competitive regulations, are designed to protect consumer interests.

Deregulation creates opportunities because it allows more ideas to be put forward by entrepreneurs who might have been barred from entry under a regulated market. Deregulation may reduce bureaucratic barriers and obstacles to creating new businesses.

Demographic change

Demographic changes can create a host of entrepreneurial opportunities. Examples in the U.S. include an aging population, increasing ethnic diversity, and a less healthier society. Each trend offers new opportunities for products and services to serve these customers. Sample solutions are assisted living centers for the elderly, foreign language radio, and organic food stores.

A shift in perception or demand opens entrepreneurial opportunities as well. For example, as Americans become more health conscious, restaurants that specialize in vegetarian or low calorie options are increasingly higher in demand than traditional fast food options.

Psychographic change

Psychographic change examines shifts in attitudes, values, opinions, interests, and related personal factors of markets. These are contrasted with demographic variables in that psychographics involve how people think and feel.

Tips and techniques for capitalizing on macroeconomic changes

As a first step to exploring new venture ideas, search for sources of pain or aggravation for customers, as these are prime opportunities for new products. The best clue that a new product or service is needed are customer complaints about existing products and services.

Identifying the need is only the start. After a real need is identified, you must develop a product or service that meets the need now and in the future.

Gathering information about customer preferences is the next step. Evaluate preferences for new products and services using interviews, focus groups, and surveys. Examine trends and adoption patterns to learn about future customer preferences. Recognize that when the product is truly new, the customer may not initially understand the product.

You do not need to meet every customer need imaginable. Separate and rank preferences and costs for product attributes to prioritize customer needs. Fulfill the preferences that are necessities, then consider added features. Focus on the products and services you can create and launch successfully.

Ideas in Action: Macroeconomic Changes

How can you stay current on technical advancements and societal changes that are emerging?

What demographic and psychographic changes are creating business opportunities for new ventures?

6 INDUSTRY CONDITIONS

Our idea is to serve everybody,
including people with little money.

Ingvar Kamprad
Founder of IKEA

After understanding the macroeconomic changes and resulting opportunities, the next step in exploring new venture ideas is evaluating industry conditions. Understanding the knowledge conditions and demand conditions within an industry provides insights into the attractiveness of an industry for new entrants. With this understanding, aspiring entrepreneurs can determine if, and how, to compete effectively within their chosen industry.

The Opportunity Analysis Canvas™

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What impact do **knowledge conditions** have in your industry?

Are the **demand conditions** in your industry favorable?

Knowledge conditions

Knowledge conditions address the amount and type of knowledge that is required to create and deliver the industry's products or services.

Within a specific industry, do you need expertise, or is success based more on financial capabilities, location, relationships, etc.?

Industries where knowledge is a key success factor favor new ventures. Alternatively, if the industry can be led by any company that has the financial resources to enter and scale, beware competing in that industry.

Demand conditions

To create a successful new company, you need to introduce a product or service that satisfies customer needs in a better way than competitors, and at a price that is greater than the cost of creating and delivering that product or service.

It is much easier to find a new way to solve a known problem than an unknown problem. Study current products and customers to see needs and wants. For a real need to exist, the new product or service must be significantly better than existing alternatives. Entrepreneurs should develop and deliver exceptionally better value to their target customers.

Tips and techniques for success in challenging industry conditions

By considering new venture ideas that build on your existing knowledge, you can create favorable knowledge conditions for yourself.

Explore ideas that align with your educational or work experiences. Seek ideas that intersect your know-how, your interests, and your social capital. This provides you with a head start versus existing and new competitors as you're able to use your existing knowledge and resources faster and better than competitors.

To capitalize on demand conditions, focus on three aspects: (1) the magnitude of customer demand for products and services, as this quantifies your number of prospective customers; (2) the rate of growth of that demand, in that you should enter a growing market; and (3) the consistency of that demand across customer segments. These three focuses ensure that you are pursuing a sufficiently large and growing market with a similar set of needs and wants.

Segment your market into smaller sub-groups based on needs and wants, location, demographics, etc. This is valuable to prioritizing your resources and aligning your focus. How can you, as the entrepreneur, carve out a niche that is sizeable enough to reach your goals, yet small enough to be unattractive to large companies?

Segmentation also presents an opportunity for entrepreneurs to specialize. As you build a reputation and a brand for doing one thing well, you can leverage that into new segments later in your venture's lifetime.

Ideas in Action: Industry Conditions

What knowledge do you possess that can contribute to serving a market need?

What are the demand conditions in the market need discussed in the above question?

7 INDUSTRY STATUS

If General Motors had kept up with technology
like the computer industry has, we would all be driving $25 cars
that got 1,000 miles per gallon.

Bill Gates
Co-founder of Microsoft

With industry conditions framing the knowledge and demand factors, it is important to understand the industry lifecycle and structure. Industry status addresses industry lifecycle and structure with an emphasis on growth opportunities and industry evolution. By studying the industry status, aspiring entrepreneurs can assess the industry's timeliness for new entrepreneurial entrants.

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COMPETITION

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What is the **lifecycle** stage of your industry?
Is the industry **capital intensive**?
Are you trying to enter a **concentrated market**?
What is **average sized company** in the industry?

Industry lifecycle
Industry lifecycle examines the stages of development of an industry. For example, (1) young and emerging, (2) middle-aged, level, and predictable, or (3) old and declining.

The lifecycle of the industry significantly affects a new venture's performance in the market. Depending on the maturity of the industry, the costs to enter and compete effectively differ dramatically.

Industry structure
Industry structure refers to the nature of barriers to entry and competitive dynamics within the industry, with an emphasis on capital intensity, advertising intensity, company concentration, and average company size.

Capital intensity is the amount of money required to enter and compete in the industry. An industry that is expensive to enter has high capital intensity (i.e. automotive manufacturing). Industries that are inexpensive to enter have low capital intensity (i.e. a website providing movie reviews and opinions).

Advertising intensity addresses the importance of advertising and branding to the success of competitors in a specific industry. If customers in this industry prefer to buy from companies with which they have had successful transactions in the past, or companies that offer their preferred products or brands, the advertising intensity is high.

Established companies may have a reputation for success with customers, whereas new ventures do not. In industries with high advertising intensity, new ventures find it harder to attract customers. Alternatively, if the advertising intensity is low due to customers' willingness to try new brands and new products, this is the preferred scenario for new ventures.

Company concentration refers to the number of competitors in the industry, while average company size refers to the level of resources (money, employees, etc.) of competitors. Industries with a small number of small sized competitors present the preferred scenario for new ventures. Competing with a few small competitors is more advantageous for entrepreneurs versus competing with many large competitors.

Tips and techniques for success within the industry status

New ventures perform better in younger industries with immature industry structures.

In young industries, there is substantially less competition versus established industries. If there are competing companies, they are often small and thereby operating on a more level playing field with new entrants. Capital intensity and advertising intensity are often low in young industries, and it is affordable for new entrants to enter and compete effectively.

Young industries also offer a common learning curve amongst all competitors. In young industries, there are no old competitors. All competitors are new and small in young industries, and no one is yet an established leader.

Ideas in Action: Industry Status

What is the lifecycle stage of industries that you are interested in entering?

What is the capital intensity, firm concentration, and average firm size within the industries cited above?

8 COMPETITION

You have to have an international reference of competition. You have to have the highest [standards].

Carlos Slim Helu
Mexican business magnate, investor, and philanthropist
World's wealthiest person

Assessing industry conditions and status provide a starting point to understanding competition. The successful entrepreneur must recognize opportunities and out compete existing companies. To compete effectively, it is valuable to understand the influences of the learning curve, complementary assets, and reputation effects on entrepreneurial companies.

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How does the **learning curve** influence your success?
What **complimentary assets** are critical to develop?
What is the **reputation** of your competitors?

Learning curve
The learning curve refers to the speed of learning something new. This is depicted graphically as the relationship between the number of times something has been done on one axis versus the level of proficiency demonstrated on the other axis.

Learning curves are influenced by what you know today, as well your interests, commitment, and resources to learn new things in the future.

You are unlikely as a novice entrepreneur to start at the same point on the learning curve as an established company, which has through its past operations, moved up the learning curve through trial and error.

The learning curve allows companies to use their experience operating in an industry to improve their efforts for success.

Complimentary assets
Complimentary assets involve tangible and intangible resources. Tangible assets include money, equipment, real estate, etc. Intangible assets include knowledge, relationships, etc. Patents or brands may sit between the tangible and intangible categories.

Entrepreneurs may have an advantage over competitors when their knowledge, relationships, or financial capital is significant.

Reputation effects

Reputation effects are similar to the advertising intensity discussed in the industry structure chapter.

Customers often prefer to buy from companies with which they have had a successful transaction in the past, or companies they know well via friends, family, or branding efforts of the company.

If the reputation of competitors is positive, be sure that you invest in branding your company and its products.

Tips and techniques for competing

To climb the learning curve quickly, it is advantageous to pursue entrepreneurial ideas in new industries and/or new markets to minimize the gap between your knowledge and your competitors' knowledge.

To leverage your assets, beware of starting a company in an area where the company with the most money wins. It is likely that large companies with more money will enter a space later and dominate that market. Instead, compete where knowledge and relationships are key sources of competitive advantage.

Reputation effects are best aligned with new ventures when new industries and/or new markets are being pursued. Focus on serving new customers in new ways to make the reputation of existing competitors irrelevant.

What is the learning curve in your industry and market of interest?

What complimentary assets are most critical in the above industry and market of interest?

How can you make the reputation of competitors irrelevant?

Part III. ACTING ENTREPRENEURIALLY

Value Curve

Opportunity Identification

With an understanding of entrepreneurial mindset, motivation, and behaviors, and insights into market and industry forces, aspiring entrepreneurs are well prepared to develop their entrepreneurial ideas. The subsequent chapters on the value curve and opportunity identification outline an approach for developing the opportunity into actionable next steps.

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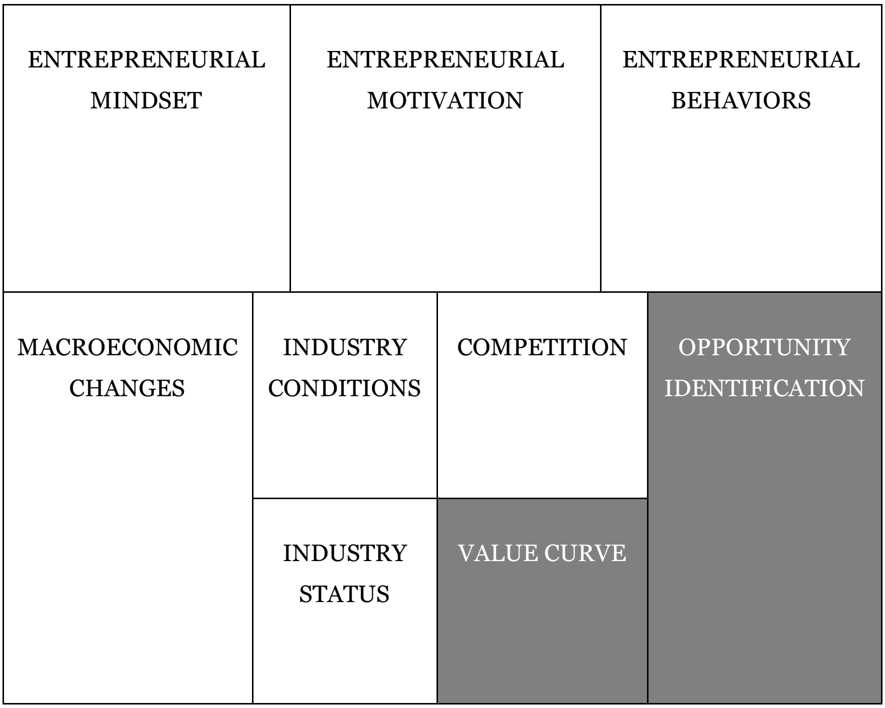

9 VALUE CURVE

We didn't reinvent the circus.
We repackaged it in a much more modern way.

Guy Laliberté
Founder of Cirque de Soliel

With big ideas and scarce resources, entrepreneurs must be efficient in their decisions, and discerning in their time and financial management. The concept of a value curve is well suited to evaluating how to compete, and where to invest.

The value curve uses a diagram to compare products or services on a range of factors by rating each factor on a scale from low to high. These factors may be features, benefits, pricing, or any other factor of importance to the business. Diagraming each competitor on a single graphic can identify gaps and highlight opportunities for entrepreneurs. This can also identify possible changes in the value proposition that entrepreneurs can create.

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What existing factors can you **eliminate**?
Where can you **reduce** factors and not reduce value?
Which factors can you **raise** above competitors?
What new factors can you **create**?

Eliminate
A first step in determining what value curve is best for a new venture is to identify opportunities to eliminate factors.

Are there factors offered by competitors that are not valuable for your target customers? How can you develop and deliver the best product or service for customers? Do you have a faster, better, and/or cheaper solution that makes competitors' features, relationships, locations, etc. less valuable?

If you are able to identify factors to eliminate, you can save the expenses of money and time. You can then redirect these resources into the factors that are truly valuable to customers.

Reduce
While select factors may be eliminated, others may be preserved, albeit reduced. These reductions present an opportunity to be more efficient and effective than competitors. Deprioritizing these less essential factors enables you to focus on the high value factors.

Raise
Once the elimination and reduction of factors are made, attention can turn to raising select factors.

What factors can elevate the values that truly matter for customers? Work to exceed customer desires in these areas.

Raising these high-value factors differentiates you from competitors and improves your competitive advantage.

Create

Lastly, are there opportunities to create new factors that will satisfy customers in new ways?

If entirely new features or benefits can be delivered in your product or service, and you are unique in this way, you are highly valuable to customers.

Tips and techniques for managing the value curve

To develop an innovative value curve, explore the benefits that matter most to customers. Understanding the customers' values enables you to focus on what matters to them, and empowers you to eliminate or reduce less valuable factors.

With these customer insights, your solution to the customers' problem, or fulfilling their desires, enhances the value of your offering and elevates your competitiveness.

[References]

Kim, W. C. and Mauborgne, R. 1997. "Value innovation: The strategic logic of high growth". Harvard Business Review (January-February): 103-112.

Ideas in Action: Value Curve

What factors are competitors offering that you can eliminate or reduce, without sacrificing value for customers?

Which factors can you raise to exceed customer expectations?

What new factors can you create that will bring new values in new ways to customers?

10 OPPORTUNITY IDENTIFICATION

Older people sit down and ask, 'What is it?' but the boy asks, 'What can I do with it?'.

Steve Jobs

Entrepreneurial opportunities become *real* when you have a solution that leverages your advantages to solve an important problem for others. This chapter examines how to translate the approaches and tools of this book into identifying and acting on real entrepreneurial opportunities. The key elements of opportunity identification are defining the problem, crafting a competitive solution, building your advantage, and forming the right team.

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Is the **problem** real?

Does your **solution** create value for your stakeholders?

Is your **advantage** superior and sustainable?

Can you build the right **team** at the right time?

Problem

Who is your customer? This is the first step to defining your market and understanding the problem or desire. With this knowledge, you can focus on assessing their needs. Focus on customer value first. Why do they need your product? What benefits will they gain? Can they make money or save money with your product? These are all questions to consider in understanding the problem that you aim to solve.

Once this first round of problem-related questions are answered, the next questions are how many people experience these problems now? In the future? How many buyers are there? Are there enough people who care about this problem for you to be financially successful by solving the problem?

Solution

Based on the identified problem, what are the fundamentals of your solution? What are the key values realized by customers? This requires an understanding of the customers' perceptions of value.

Solutions are not about the technology or the features. Solutions focus on customer value. Features, functions, and technologies are simply vehicles for value creation.

Beyond measuring solutions in terms of customer value, it is necessary to assess the competitive environment as well. How are these customer values met by current and expected competitors?

Study direct competitors, those who provide a comparable solution in a similar way. Also examine indirect competitors who provide similar value, but in a different way. For example, airlines directly compete with other airlines, but they also compete indirectly with trains, driving, and other modes of transportation.

Recognize that anything that keeps a customer from buying your solution is competition for you.

While studying the competition, also consider your key market segments. Based on the customer that you identified in your problem statement, how can you segment this group of customers into smaller sub-groups?

By segmenting your market based on their needs, geography, demographic, psychographic, and other factors, you can determine who is most desirable to serve first.

Identifying key market segments allows you to focus your limited time and resources rather than diluting yourself across multiple segments (i.e. spreading yourself too thin).

Avoid exclusive focus on the "served" market. Excessive focus on serving your competitors' customers presents the challenge of converting customers. Consider serving a market that is not well served by existing competitors. You may be able to acquire those customers faster and at a lower cost of acquisition.

Advantage

To understand your advantage versus competitors, consider the *degree* of the advantage and the *sustainability* of that advantage.

To the question of *degree*, consider the superiority of your advantage versus others. This is influenced by: (1) a product or service with better features or functions; (2) a lower price for the customer based on the value created for them (due to your operations or other cost control strategies); and (3) a rareness factor, meaning that competitors cannot offer the same set of values to this customer.

The *sustainability* of the advantage determines the likelihood of competitors replicating or surpassing your venture. How easily can a competitor copy or exceed your resources, know-how, relationships, etc.?

Team

Which is best? The talented individual acting alone or a well-comprised team? This depends on the goals and skills of the individual and the team.

As an individual founder, you can keep all of the profits, have all of the glory, make fast decisions, and focus on your needs and interests. You can do exactly what you want, when you want, and how you want (as long as customers and investors agree with you).

A complementary team brings increased competencies and greater knowledge than a single individual. A teams offers an expanded network of potential investors, partners, advisors, and customers. A team also delivers improved legitimacy as a company, and allows for continuity in the event of one person's absence due to illness, vacation, or unforeseen events.

In selecting who to join your team, as a co-founder, advisor, or collaborator, ask the questions that investors ask when evaluating the team.

Build the team with attention to understanding:

- What are their motivations?
- How committed are they to this venture?
- How realistic are they about the venture's risks and rewards?
- What skills, abilities, and knowledge do they have?
- What is their reputation?
- Where have they worked?
- Where have they been educated?
- What have they accomplished?
- Who else needs to be on the team?

Tips and techniques for managing the value curve

To validate your ideas about the problem and candidate solutions, talk with prospective customers very early in the product development process. Engaging with customers before you have a prototype provides you with insights on what features and values are most important to customers. Interacting with customers early is also critical to understanding what they are willing to pay for the product that you envision.

With a clear, customer-validated perspective on the problem for your planned solution, you can invest time and resources into developing a superior and sustainable advantage. One key advantage to build is your team.

While the team may exist among the co-founders and executive management of the new venture, there should also be an extended team. The extended team may include the board of directors or board of advisors. This extended team can also include attorneys, accountants, and other service providers.

With a strong team working to solve a real problem, your venture is well positioned for success.

Ideas in Action: Opportunity Identification

What evidence can you provide that your proposed problem is real?

What key customer values does your solution offer?

How will you make your company and product advantage superior and sustainable?

What steps will you take to build the right team at the right time?

11 NEXT STEPS

Let the future tell the truth, and evaluate each one according to his work and accomplishments. The present is theirs; the future, for which I have really worked, is mine.

Nikola Tesla

Prolific inventor and father of the modern electronics industry

With this journey now complete, you are ready to use the opportunity analysis canvas for identifying and analyzing entrepreneurial ideas.

By studying this book, your awareness of entrepreneurial mindset, motivation, and behavior has expanded. You appreciate the roles of markets and industries in entrepreneurial opportunities. You recognize the value curve and the fundamentals of opportunity identification as key elements of entrepreneurial action.

As the next step in your entrepreneurial activities, you are now equipped to explore business models for your new venture ideas.

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Develop the Business Model

As a preliminary step to writing the business plan, the business model describes the logic of how an organization creates, delivers, and captures value sustainably.

While the term *business model* is very popular today, the concept dates to the earliest days of business, and simply defines how an organization will make money.

A comprehensive model defines the how the products or services of a business serve customer needs, at what price, through what manufacturing and distribution channels, and at what financial costs to the business.

With a well-developed business model, you can test your assumptions and strategy by talking to prospective customers. They will affirm parts of the business model, and may reject other parts. This early customer feedback is valuable to adapting the business model, and perhaps the fundamental product or service idea itself, before authoring a full business plan.

Write the Business Plan

This experience of hearing the customer's needs and wants in reaction to the business model allows you to right a dramatically better business plan. With a well-researched business plan, you can raise financial capital (if needed) and proceed with launching the venture.

Now, get to work! Best wishes in fulfilling your entrepreneurial goals.

An idea that is developed and put into action is more important than an idea that exists only as an idea.

Edward de Bono
Physician, author, and inventor