Chapter 2

Recognizing Opportunities and Generating Ideas

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Chapter Objectives

1. Explain why it's important to start a new firm when its "window of opportunity" is open.

2. Explain the difference between an opportunity and an idea.

3. Describe the three general approaches entrepreneurs use to identify opportunities.

4. Identify the four environmental trends that are most instrumental in creating business opportunities.

5. List the personal characteristics that make some people better at recognizing business opportunities than others.

Chapter Objectives

6. Identify the five steps in the creative process.

7. Describe the purpose of brainstorming and its use as an idea generator.

8. Describe how to use library and Internet research to generate new business ideas.

9. Explain the purpose of maintaining an idea bank.

10. Describe three steps for protecting ideas from being lost or stolen.
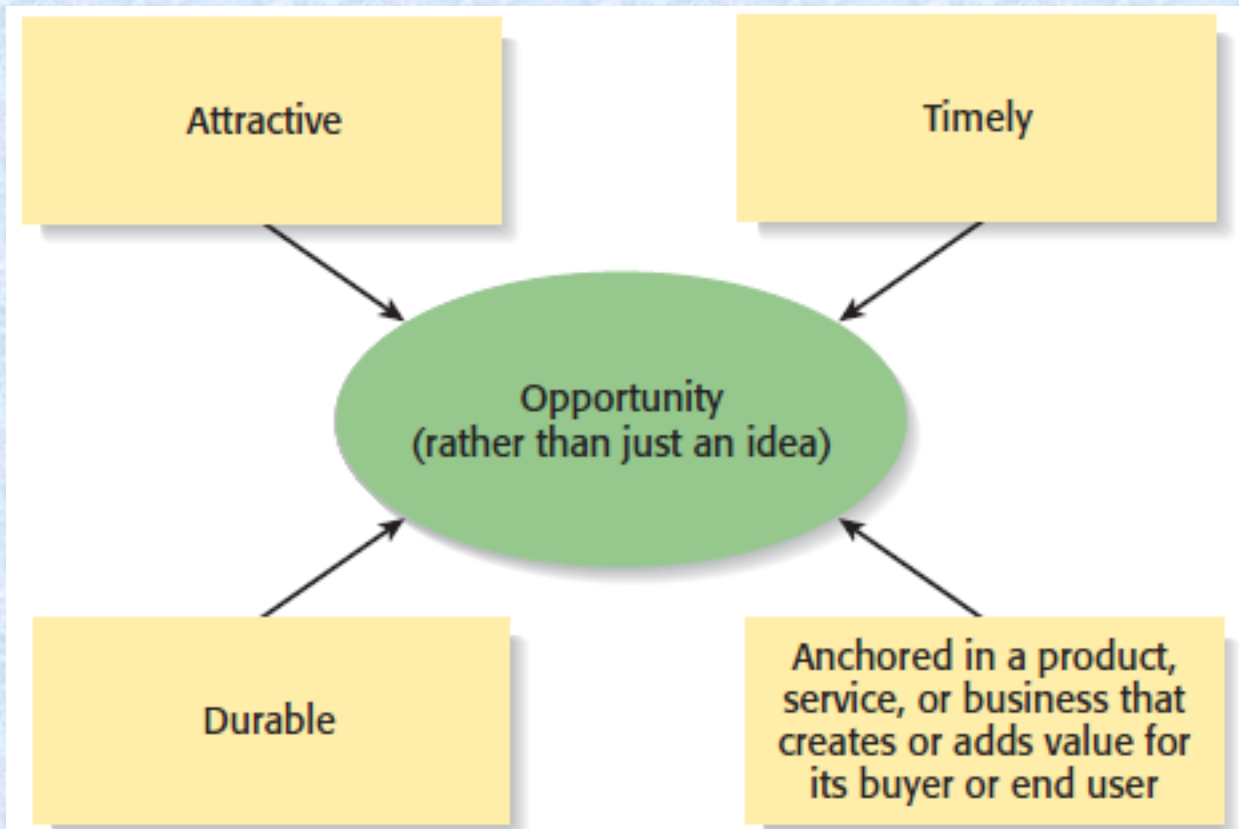
What is An Opportunity?

Opportunity Defined

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

What is an Opportunity?

An opportunity has four essential qualities

Three Ways to Identify an Opportunity

Observing Trends

Solving a Problem
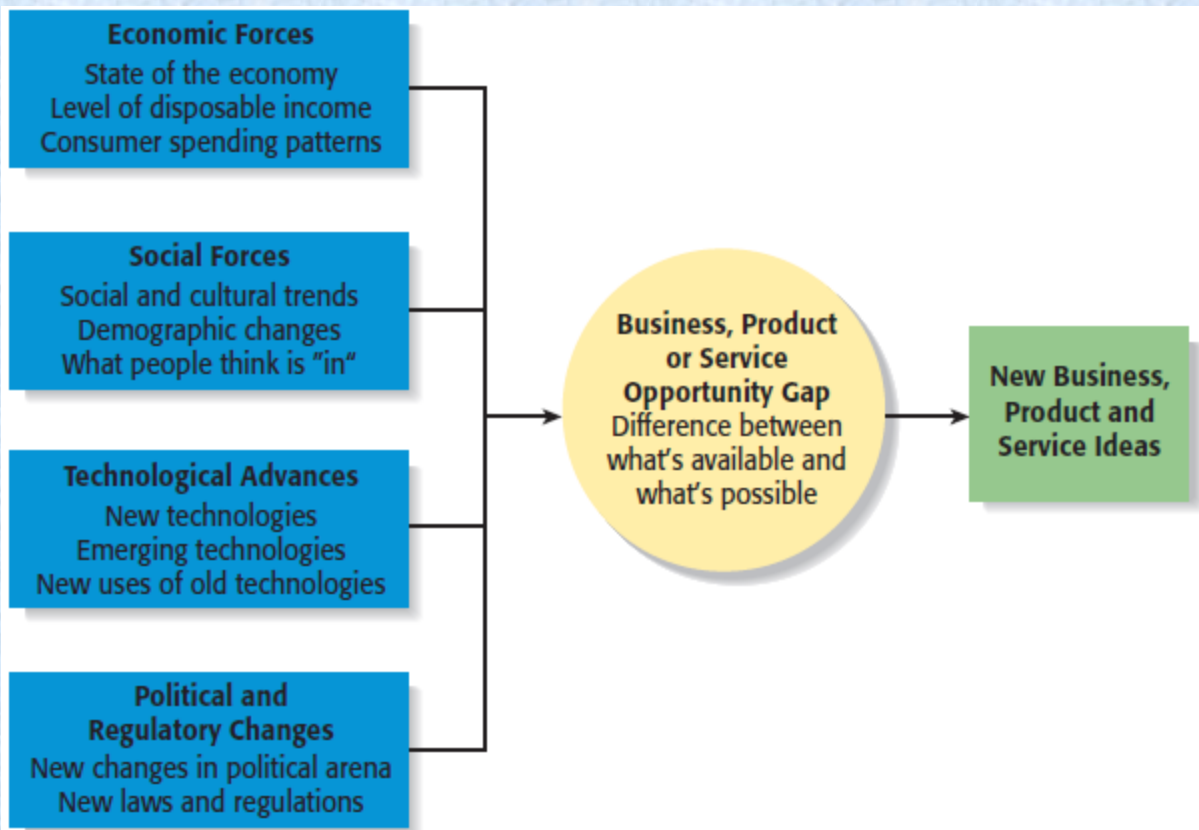
Finding Gaps in the Marketplace

- Observing Trends
    - Trends create opportunities for entrepreneurs to pursue.
    - The most important trends are:
        - Economic forces.
        - Social forces.
        - Technological advances.
        - Political action and regulatory change.
    - It's important to be aware of changes in these areas.

Environmental Trends Suggesting Business or Product Opportunity Gaps

Economic Forces
State of the economy
Level of disposable income
Consumer spending patterns

Social Forces
Social and cultural trends
Demographic changes
What people think is "in"

Technological Advances
New technologies
Emerging technologies
New uses of old technologies

Political and Regulatory Changes
New changes in political arena
New laws and regulations

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

New Business, Product and Service Ideas

Trend 1: Economic Forces

Economic trends help determine areas that are ripe for new startups and areas that startups should avoid.

Example of Economic Trend Creating a Favorable Opportunity

- A weak economy favors startups that help consumers save money.
- An example is GasBuddy.com, a company started to help consumers save money on gas.

Trend 2: Social Forces

Social trends alter how people and businesses behave and set their priorities. These trends provide opportunities for new businesses to accommodate the changes.

Examples of Social Trends

• Retirement of baby boomers.
• The increasing diversity of the workplace.
• Increasing interest in health, fitness, and wellness.
• Emphasis on alternative forms of energy.
• New forms of music and other types of entertainment.

Trend 3: Technological Advances

Advances in technology frequently create business opportunities.

Examples of Entire Industries that Have Been Created as the Results of Technological Advances

- Computer industry
- Internet
- Biotechnology
- Digital photography

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Trend 3: Technological Advances

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

Example: H20Audio

An example is H20Audio, a company started by four former San Diego State University students, that makes waterproof housings for the Apple iPod.

Trend 4: Political Action and Regulatory Changes

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

General Example

Laws to protect the environment have created opportunities for entrepreneurs to start firms that help other firms comply with environmental laws and regulations.

Trend 4: Political Action and Regulatory Changes

Company created to help other companies comply with a specific law.

Specific Example

The No Child Left Behind Act of 2002 requires states to develop criterion-based assessments in basic skills to be periodically given to students in certain grades. Kim and Jay Kleeman, two high school teachers, started Shakespeare Squared, a company that helps high schools comply with the act.

Second Approach: Solving a Problem

- 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 and through more simple means, such as intuition, serendipity, or change.

Second Approach: Solving a Problem

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- A problem facing the U.S. and other countries is finding alternatives to fossil fuels.
- A large number of entrepreneurial firms, like this wind farm, are being launched to solve this problem.

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- Gaps in the Marketplace
  - A third approach to identifying opportunities is to find a gap in the marketplace
  - A gap in the marketplace is often created when a product or service is needed by a specific group of people but doesn't represent a large enough market to be of interest to mainstream retailers or manufacturers.

Third Approach: Finding Gaps in the Marketplace

Product gaps in the marketplace represent potentially viable business opportunities.

Specific Example

In 2000 Tish Cirovolv realized there were no guitars on the market made specifically for women. To fill this gap, she started Daisy Rock Guitars, a company that makes guitars just for women.

Personal Characteristics of the Entrepreneur

Characteristics that tend to make some people better at recognizing opportunities than others

Prior Experience

Cognitive Factors

Social Networks

Creativity

Prior Experience

- Prior Industry Experience
  - Several studies have shown that prior experience in an industry helps an entrepreneur recognize business opportunities.
    - 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.

Cognitive Factors

- Cognitive Factors
    - Studies have shown that opportunity recognition may be an innate skill or cognitive process.
    - 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.

Social Networks

- Social Networks
  - The extent and depth of an individual's social network affects opportunity recognition.
  - People who build a substantial network of social and professional contacts will be exposed to more opportunities and ideas than people with sparse networks.
  - In one survey of 65 start-ups, half the founders reported that they got their business idea through social contacts.
- Strong Tie Vs. Weak Tie Relationships
  - All of us have relationships with other people that are called "ties." (See next slide.)

Social Networks

- Nature of Strong-Tie Vs. Weak Tie Relationships
  - Strong-tie relationship are characterized by frequent interaction and form between coworkers, friends, and spouses.
  - Weak-tie relationships are characterized by infrequent interaction and form between casual acquaintances.

- Result
  - It is more likely that an entrepreneur will get new business ideas through weak-tie rather than strong-tie relationships. (See next slide.)

Why weak-tie relationships lead to more new business ideas than strong-tie relationships

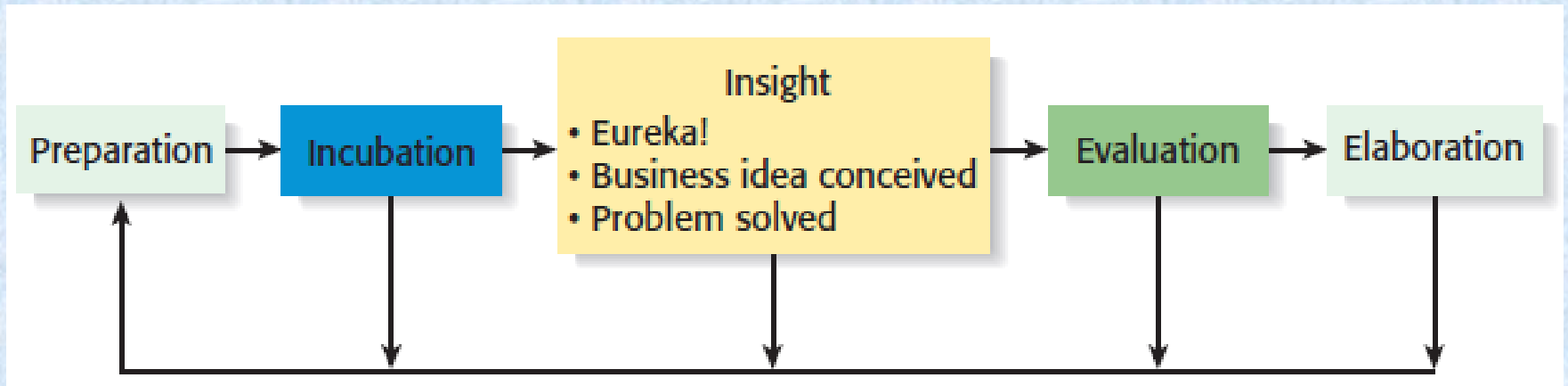| Strong-Tie Relationships	Weak-Tie Relationships
These relationships, which typically form between like minded individuals, tend to reinforce insights and ideas that people already have.	These relationships, which form between casual acquaintances, are not as apt to be between like-minded individuals, so one person may say something to another that sparks a completely new idea.

Creativity

- Creativity
  - Creativity is the process of generating a novel or useful idea.
  - Opportunity recognition may be, at least in part, a creative process.
  - For an individual, the creative process can be broken down into five stages, as shown on the next slide.
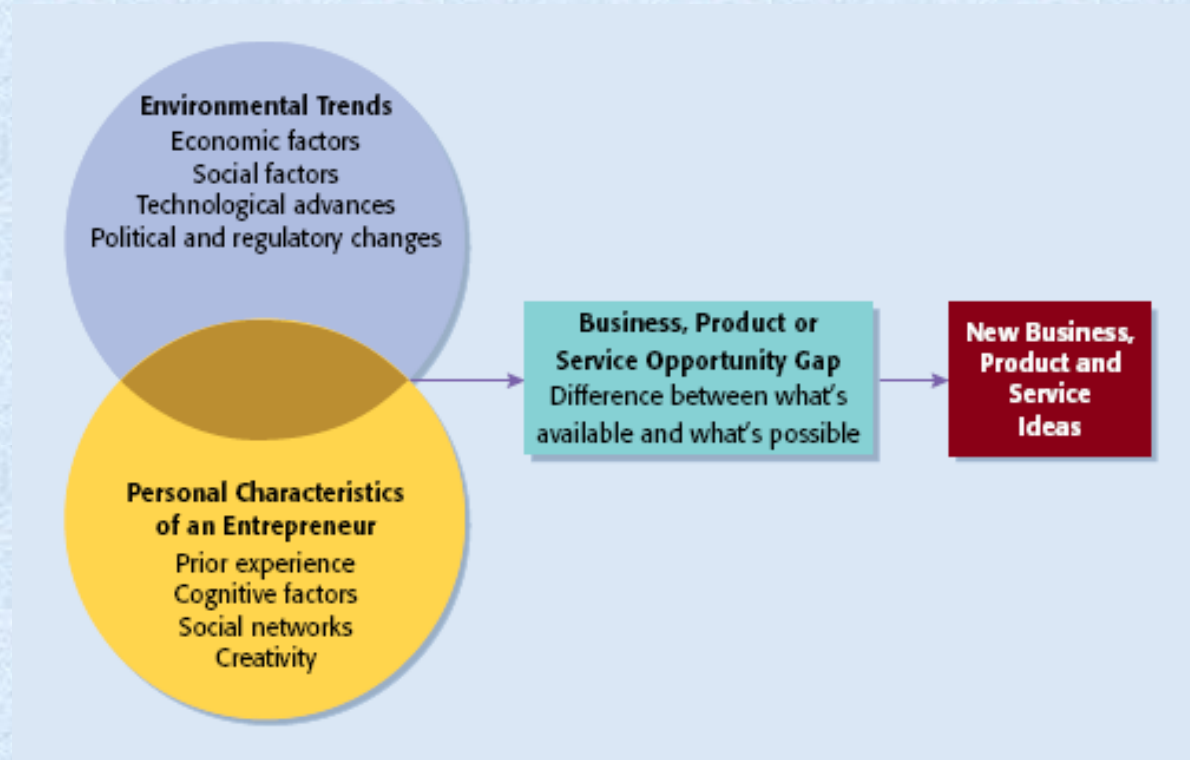
Creativity

Five-Steps to Generating Creative Ideas

Preparation → Incubation → Insight
- Eureka!
- Business idea conceived
- Problem solved
→ Evaluation → Elaboration

Full View of the Opportunity Recognition Process

Depicts the connection between an awareness of emerging trends and the personal characteristics of the entrepreneur

Techniques For Generating Ideas

Brainstorming

Focus Groups

Library and
Internet Research

Brainstorming

- Brainstorming
  - Is a technique used to generate a large number of ideas and solutions to problems quickly.
  - A brainstorming "session" typically involves a group of people, and should be targeted to a specific topic.
  - Rules for a brainstorming session:
    - No criticism.
    - Freewhelling is encouraged.
    - The session should move quickly.
    - Leap-frogging is encouraged.

Focus Groups

- Focus Group
  - A focus group is a gathering of five to ten people, who have been selected based on their common characteristics relative to the issues being discussed.
  - These groups are led by a trained moderator, who uses the internal dynamics of the group environment to gain insight into why people feel they way they do about a particular issue.
  - Focus group usually work best as a follow up to brainstorming.

- Library Research
  - Libraries are an often underutilized source of information for generating new business ideas.
  - The best approach is to talk to a reference librarian, who can point out useful resources, such as industry-specific magazines, trade journals, and industry reports.
  - Simply browsing through several issues of a trade journal or an industry report on a topic can spark new ideas.

Libraries and Internet Research

Large public and university libraries typically have access to search engines and industry reports that would cost thousands of dollars to access on your own.

Examples of Useful Search Engines and Industry Reports

• Lexis-Nexis Academic
• ProQuest
• IBISWorld
• Mintel
• Standard & Poor's Net Advantage

- Internet Research
  - If you are starting from scratch, simply typing "new business ideas" into a search engine will produce links to newspapers and magazine articles about the "hottest" new business ideas.
  - If you have a specific topic in mind, setting up Google or Yahoo! e-mail alerts will provide you to links to a constant stream of newspaper articles, blog posts, and news releases about the topic.
  - Targeted searches are also useful.
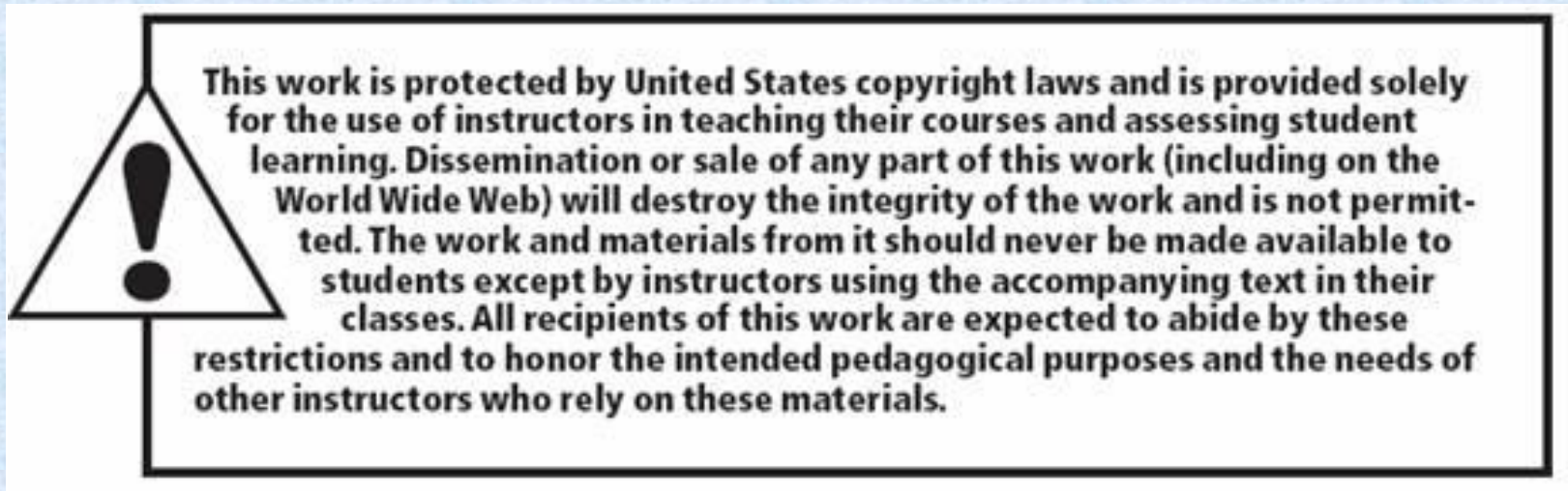
Other Techniques

- Customer Advisory Boards
  - Some companies set up customer advisory boards that meet regularly to discuss needs, wants, and problems that may lead to new ideas.

- Day-In-The-Life Research
  - A type of anthropological research, where the employees of a company spend a day with a customer.

Encouraging New Ideas

- Establishing a Focal Point for Ideas
  - Some firms meet the challenge of encouraging, collecting, and evaluating ideas by designating a specific person to screen and track them—for if its everybody's job, it may be no one's responsibility.
  - Another approach is to establish an idea bank (or vault), which is a physical or digital repository for storing ideas.

- Encouraging Creativity at the Firm Level
  - Creativity is the raw material that goes into innovation and should be encouraged at the organizational and individual supervisory level.

Protecting Ideas From Being Lost or Stolen

- Step 1
  - The idea should be put in a tangible form such as entered into a physical idea logbook or saved on a computer disk, and the date the idea was first thought of should be entered.

- Step 2
  - The idea should be secured. This may seem like an obvious step, but is often overlooked.

- Step 3
  - Avoid making an inadvertent or voluntary disclosure of an idea, in a manner that forfeits the right to claim exclusive rights to it.