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# Opportunity Evaluation

# Session Plan

- Introduction
- 5 steps of evaluating an opportunity
- Fit between opportunity-resources-context
- Opportunity Evaluation Tools
  - PEST, SWOT, Porter's 5 forces model, Technology Readiness Level Model
- Empirical Research on Opportunity Evaluation
- VRIO Model
- IPOD Example
- Assignment

# Opportunity Evaluation



OPPORTUNITY  
EVALUATION

Opportunity  
Discovery

Opportunity  
Evaluation

Opportunity  
Exploitation

# 5 step process of evaluating an opportunity

## CAPABILITIES

- Is the venture opportunities consistent with the capabilities, knowledge and experience of the team members?

## NOVELTY

- Does the product/service have significant novel, proprietary or differentiating qualities?
- Does it create significant value for the customer-enough so that the customer wants the product and will pay a premium for it?

## RESOURCES

- Can the venture team attract the necessary financial, physical and human resources consistent with the magnitude of the venture?

## RETURN

- Can the product be produced at a cost so that the profit can be obtained?
- Is the expected return of the venture consistent with the risk of the venture?

## COMMITMENT

- Do the entrepreneurial team members feel compelled to commit to this venture?
- Are they passionate about the venture?

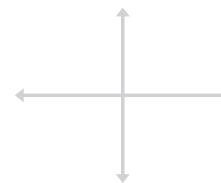
# Fit of Opportunity-Context-Entrepreneurial Team-Resources

## Characteristics of entrepreneurial teams

- Positive attitudes toward independence, achievement, and innovation
- Acceptance of risk and demanding work effort
- Capabilities matching the needs of the venture
- Willing to make the commitment required
- Passionate about the opportunity

## Resources

- Capable of securing access to the human, financial, and physical resources required by the opportunity



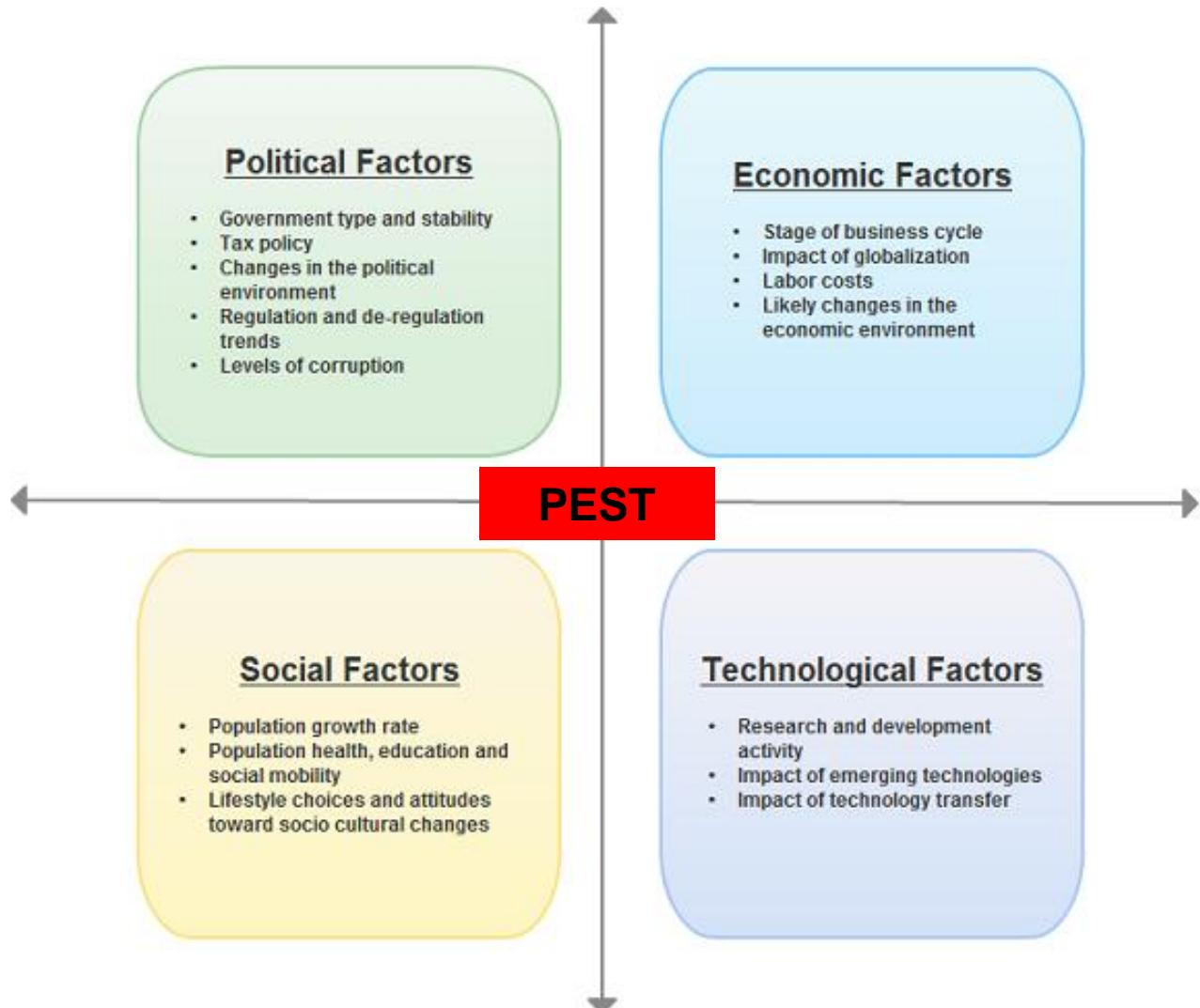
## Characteristics of the context

- Timeliness
- Favorable industry conditions
- Future conditions appear favorable

## Characteristics of the opportunity

- Novelty of the product
- Potential for sustainable long-term success
- Potential for good return on investment
- Potential for a growing market
- Good risk-versus-reward balance
- Customers are known and responsive

# PEST Model



# SWOT Model

## **Strengths**

(areas you do well or advantages of your organization)

## **Opportunities**

(external factors that may contribute to your organization and can build up your strengths)

**SWOT**

## **Weaknesses**

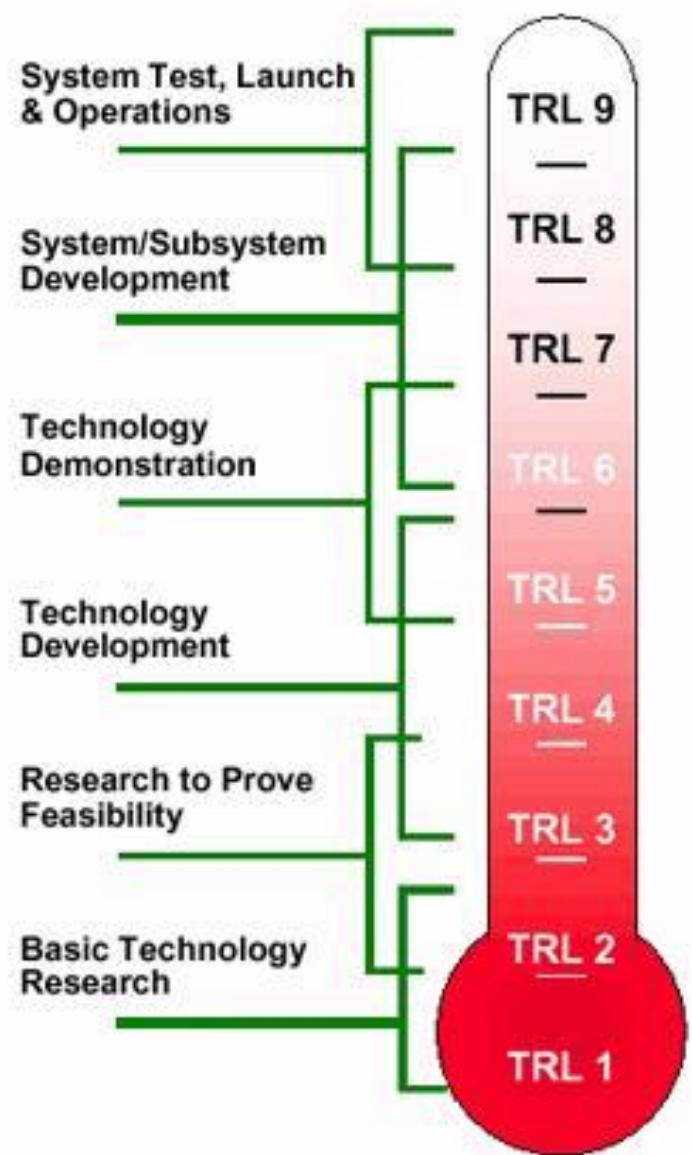
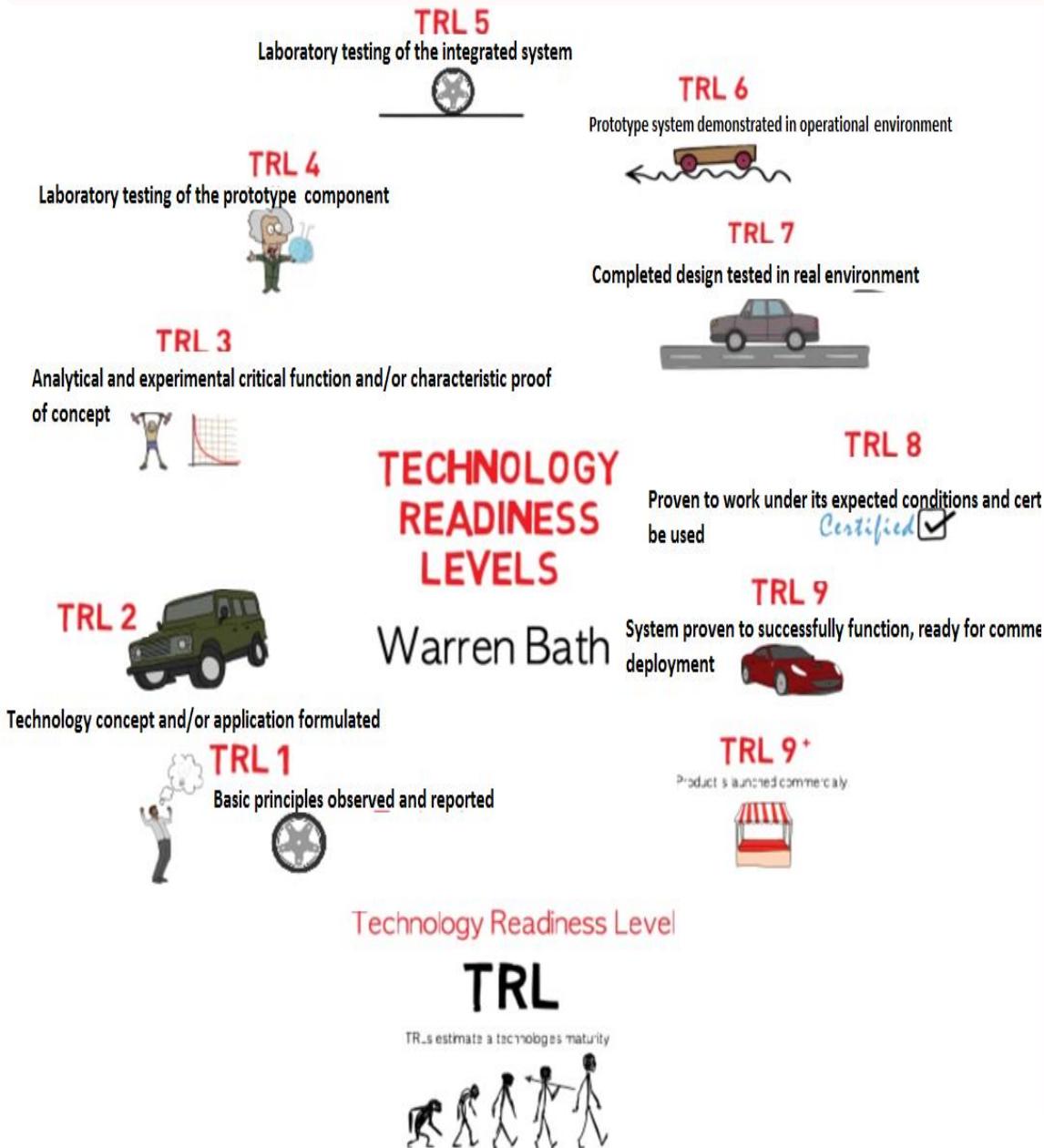
(areas to be improved)

## **Threats**

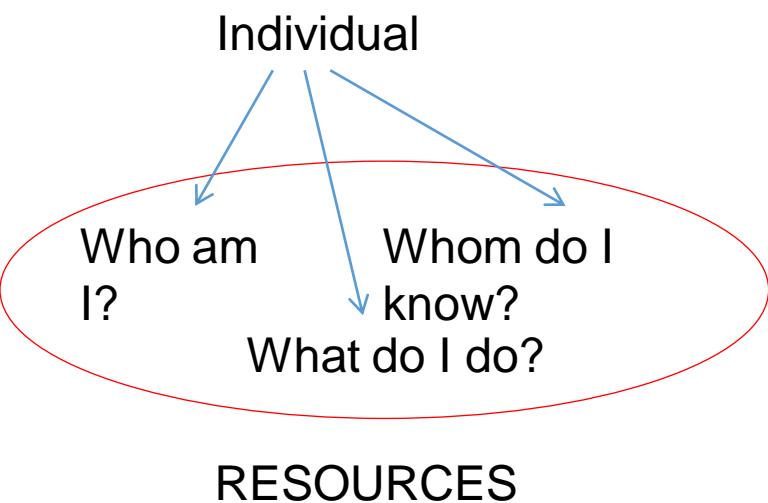
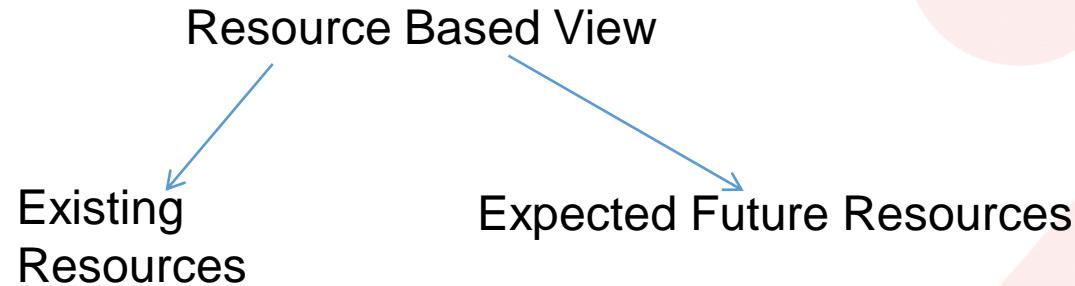
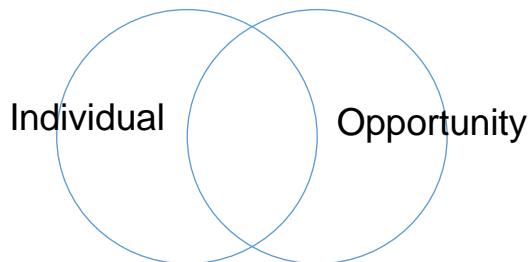
(potential problems/risks caused by external factors that your organization may face)

# Porter's Five Forces Analysis





# Empirical Research on Opportunity Evaluation



## PRIORITY LIST FOR OPPORTUNITY ATTRACTIVENESS

1. RELATEDNESS of the opportunity with existing and expected future resources
2. Given the relatedness, VALUE from the opportunity in terms of efficiency and effectiveness
3. Given the relatedness and value, YOUNG AGE of the firm

Source: Haynie, J. M., Shepherd D. A., McMullen, J.S. (2009), An Opportunity for Me? The Role of Resources in Opportunity Evaluation Decisions, Journal of Management Studies, 46, 3, 337-361.

# VRIO Model: To evaluate the opportunity

Is Valuable?	Is Rare?	Is difficult to imitate?	Is organization organized around?	Competitive Implications	Economic Implications
No				Competitive Disadvantage	Below Normal
Yes	No			Competitive Equality/ Parity	Normal
Yes	Yes	No		Temporary Competitive Advantage	Above Normal (for sometime)
Yes	Yes	Yes	No	Unused Competitive Advantage	??
Yes	Yes	Yes	Yes	Sustainable Competitive Advantage	Above Normal (for long-term)

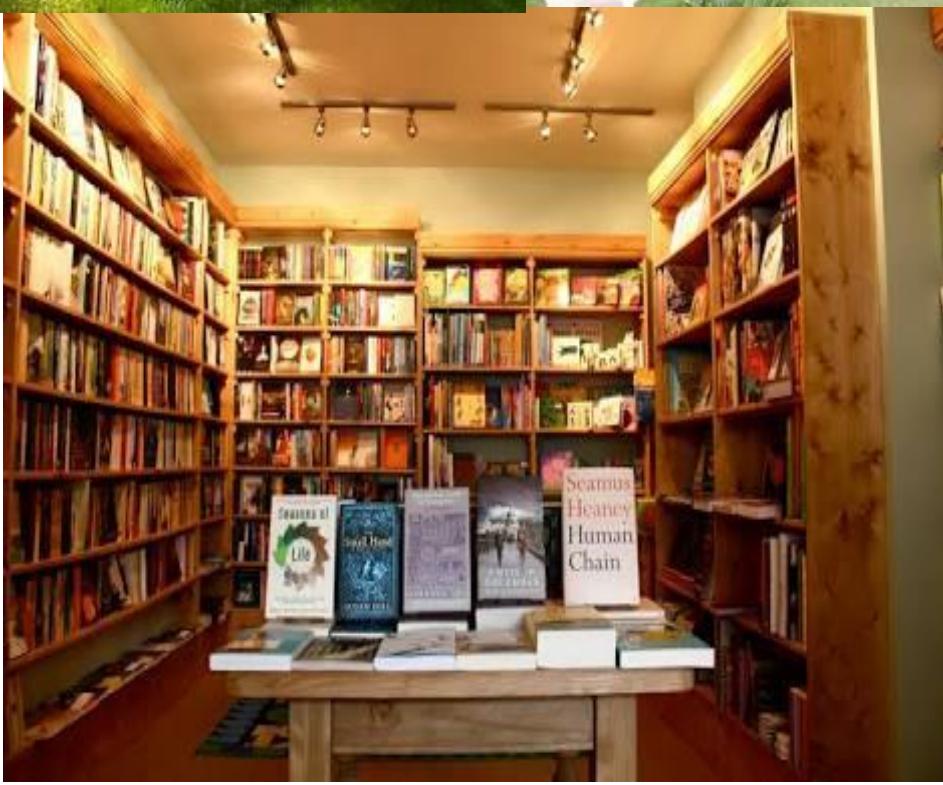
# IPOD: Created history in the MUSIC world

- **Context:** In the late 1990s, many people had been listening to music stored on their computer from Napster file-sharing service.
- **Challenge:** to design and sell a portable music storage and player device.
- **Capability:** Tony Fadell, who had worked at General Magic, started his own company, Fuse, to design consumer electronic products.
- **Resource:** He tried to secure financing for the design of a portable music player. Without financing, he went to Apple in February 2001 as a contractor and then in April 2002 joined Apple as an employee to lead the iPod project.
- **Commitment:** Fadell and Apple together recognized that the iPod opportunity possessed all the characteristics.



# “KNOCK ON WOOD COFFEE SHOP”





# Evaluate This Opportunity?

- Coffee shop with tree trunk furniture with small artificial pond under open sky with aromatic brown liquid served in earthen mugs (kulhar).
- Coffee shop is a fusion of old and modern technology (automatic shelter).
- It will offer variety of beverages, cookies, sandwiches and cakes to the customers.
- It will have a wide collection of books in its library which the customers can sit and read.
- Knock on wood coffee shop will provides 24\*7 services.
- Before you begin to evaluate the opportunities, state the assumptions of the context clearly.

# Evaluation Tools

- SWOT
- PEST
- Porter's Five Forces Model
- Resource Based View using VRIO Model

# Readings

- Haynie, J. M., Shepherd D. A., McMullen, J.S.(2009), An Opportunity for Me? The Role of Resources in Opportunity Evaluation Decisions, *Journal of Management Studies*, 46, 3, 337-361.
- Barney, J.B. (1991), Firm resources and sustained competitive advantage, *Journal of Management* 17, 1, 99-120.
- Byers, T.H., Dorf, R.C., and Nelson, A.J. (2015), *Technology Ventures: From Idea to Enterprise*. Fourth Edition. McGraw-Hill Education-Chapter 2.
- <https://www.youtube.com/watch?v=in4TnQZGYj4>