

A stylized illustration of a businessman in a blue suit and black trousers, running towards the right. He is carrying a grey briefcase in his left hand and has a large blue knot on his back. His right arm is raised in a celebratory gesture. The background features a light blue sky with white clouds and a grey ground with radiating lines.

Entrepreneurship and Small Business Management

Dr. Eranga Jayasekara



Recognizing Opportunities and Generating Ideas

Session 02

Lesson 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.

Lesson Objectives

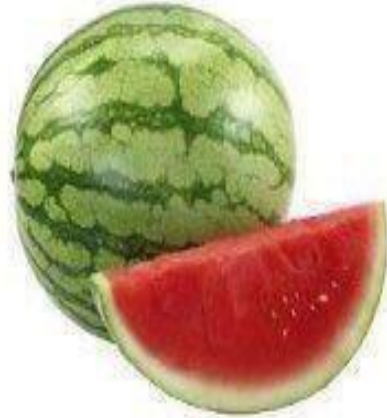
6. Identify the five steps in the creative process.
7. Describe the purpose of brainstorming and its use as an idea generator.
8. Describe how to use library and Internet research to generate new business ideas.
9. Explain the purpose of maintaining an idea bank.
10. Describe three steps for protecting ideas from being lost or stolen.

What is an Opportunity?

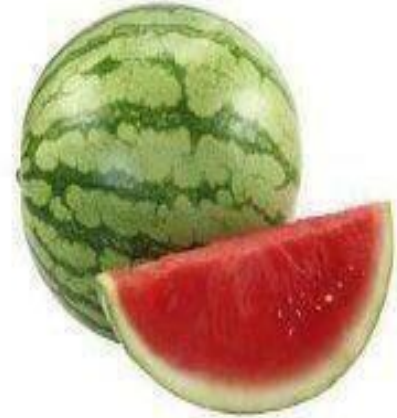
Opportunity Defined

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

BUSINESSMAN

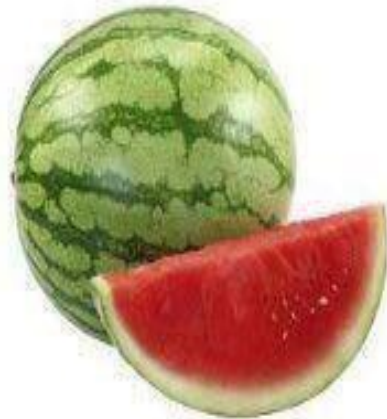


\$1



\$1.50

ENTREPRENEUR



\$1



\$5

**IF YOU PUT BANANAS & MONEY
IN FRONT OF MONKEYS THEY WILL
CHOOSE BANANAS, BCOS THEY
DON'T KNOW THAT MONEY CAN
BUY MORE BANANAS**



**IN REALITY, IF WE OFFER JOB AND
BUSINESS TO PEOPLE THEY WILL
CHOOSE JOB, BCOS MANY PEOPLE
DON'T KNOW THAT BUSINESS
CAN BRING MORE MONEY THAN
SALARIES. "SALARIES CAN MAKE
YOUR LIVING BUT PROFITS CAN
BRING YOU A FORTUNE**

What is an Opportunity?



- **Entrepreneurial opportunities** are those situations in which new goods, services, raw materials, and organizing methods can be introduced and sold at greater than their cost of production (Casson 1982)

Types of Opportunities

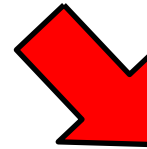
- **New Product**
- **New Market**
- **New Materials**
- **New Method of Production**
- **New Process**
- **New Organization**

The window of Opportunity



- For an entrepreneur to capitalize on an opportunity, its **WINDOW OF OPPORTUNITY** must be open.
- It is the time period in which firm can realistically enter a new market make a reasonable profit.
- Entrepreneurs recognize opportunities and turn them in to successful businesses.

Opportunities



Opportunities for profit

**Requires Involves
optimization within **existing**
ends-means framework**

Entrepreneurial Opportunities

Requires discovery of **new
ends-means relationships**

Kirzner, 1997

Opportunities Discovered or Created?



- Researchers in the **Schumpeterian stream** (**Opportunity Creation Stream**) focus on the way entrepreneurs enact opportunities in response to, political -legal, economic, social -cultural & technological (PEST) changes in external environment



- Schumpeter believed that those exogenous shocks (PEST changes) disrupt the market efficiency creating a disequilibrium and entrepreneurs make use of their early access to such information to create new products, services or processes.

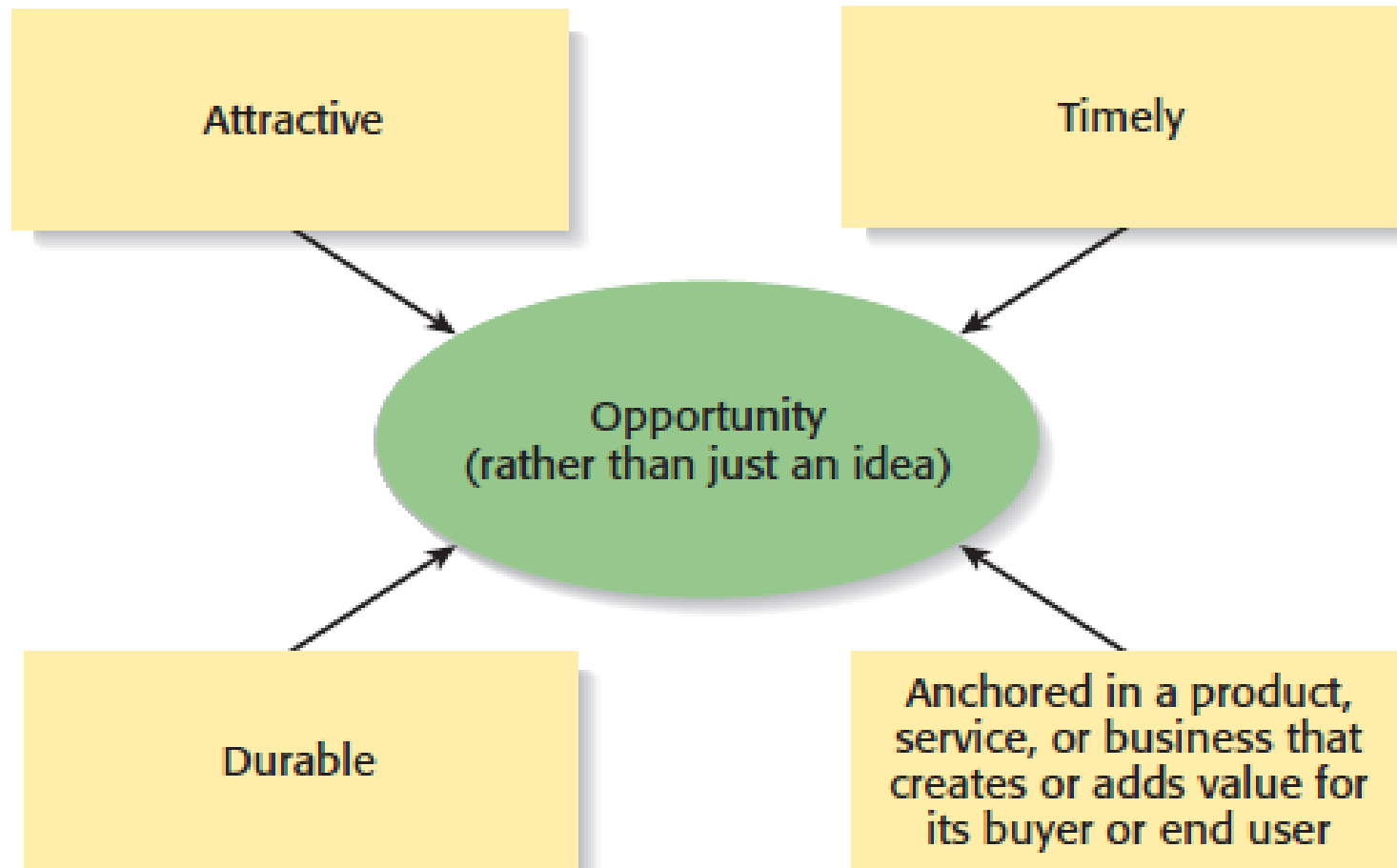
An Opportunity Vs an Idea

- **An idea is a thought, impression or notion.**
- **It may not meet the criteria of an opportunity**
- **Many businesses fail, not because the entrepreneurs that started them didn't work hard, but rather because there was no real opportunity**
- **Before getting excited about a business idea, it is crucial to understand whether the idea fills a need and meets the criteria for an opportunity.**



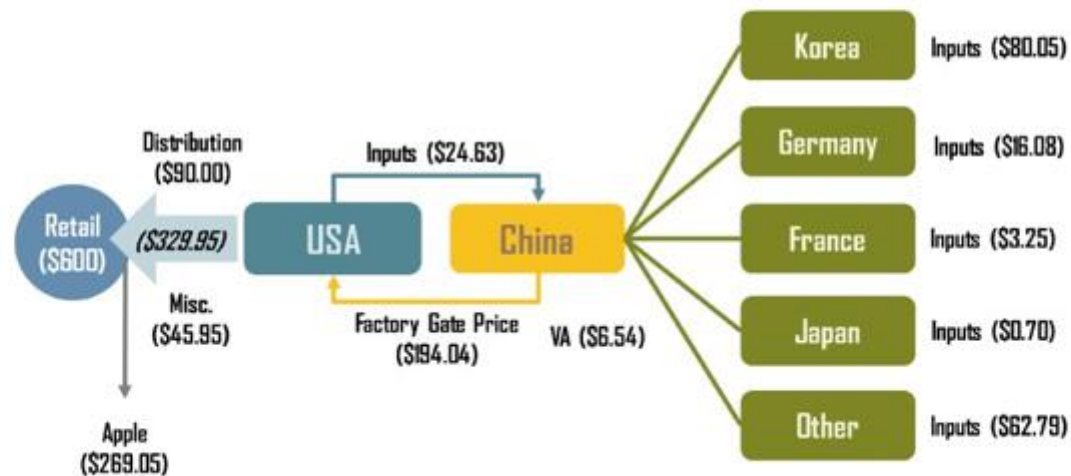
What is an Opportunity?

An opportunity has four essential qualities



Differential value addition at various stages of the chain

- Most famously the iPhone 4



Four Ways to Identify an Opportunity

Observing Trends

Solving a Problem

Finding Gaps in the
Marketplace

Industry ,Market & Sudden
CHANGES

First Approach: Observing Trends

- 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.

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

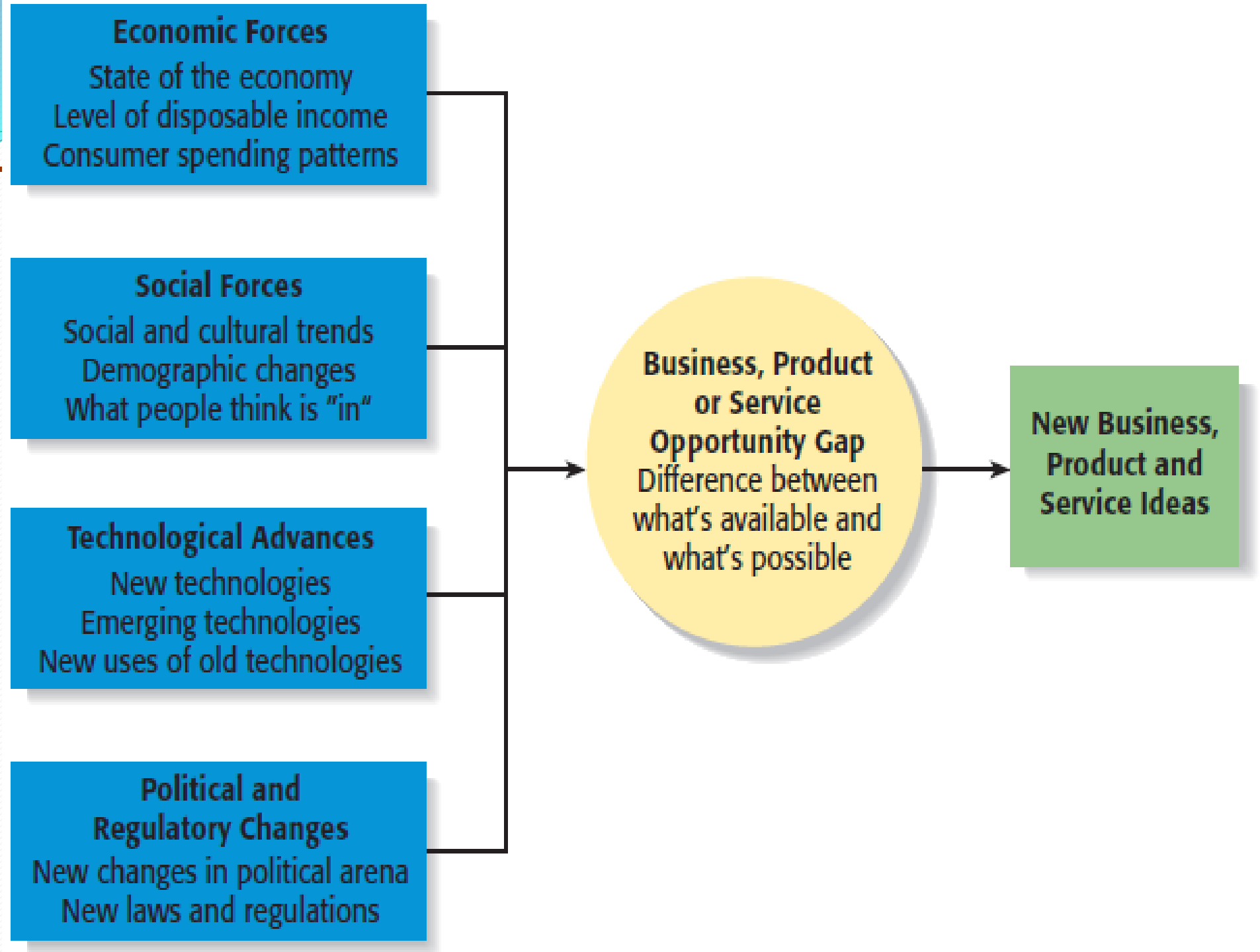
New technologies
Emerging technologies
New uses of old technologies

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

Trend 3: Technological Advances

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

Example: H2OAudio

An example is H2OAudio, a company started by four former San Diego State University students, that makes waterproof housings for the Apple iPod and accessories for portable media players. During 2008 it was notable for being one of the top 500 fastest growing companies in the United States..

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.

Eg:- Sri Lanka Overview -2015: The World Bank

- By 2036, more than 22 percent of the **population** will be over 60, and there will be 61 dependents per 100 adults
- Employment in **primary agriculture** will likely continue to decline from its present share of 30 percent of the labor force as other sectors of higher productivity absorb rural surplus labor.
- At the same, along with productivity increases, agriculture is likely to become more **capital intensive and technology-driven** as **labor shortages** emerge.
- Against the background of an aging society, efficient and well-targeted **social assistance** will also become more important

කැම ඔතන්න විකල්ප සොයන්න වෙයි

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තම දරුවා රෙදි සෝදන කුඩු වර්ගයක් යොදා සෝදමින් සිටි මවක් දුටු කාම්බෝජයේ සමාජ සේවා කටයුතුවල යෙදෙමින් සිටි සමීර් ලකානි නම් ඇමෙරිකානු සිසුවෙකුට ඇස් අදහාගන්නට බැරිවිය. සෝදන කුඩු සිරුරට යෙදීමෙන් සමේ රෝග පමණක් නොව ඇස්වල රෝග හා වමනය යාමද සිදුවිය හැකිය. සිරුර පිරිසිදුව තබාගැනීම අත්‍යවශ්‍ය වුවද මේ එයට ගැළපෙන ක්‍රමය නොවේ. ඒ සමගම ඔහුට සිහිවූයේ නොමිලේ සබන් ලබාගත හැකි ක්‍රමයකි. වසර දෙකක් ගිය තැන ගැමියන්ට සබන් පමණක් නොව රැකියා මාර්ගයක්ද ලබාදීමට ඔහු සමත්විය.

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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 or change.
- “Every problem is a brilliantly disguised opportunity”

Eg:

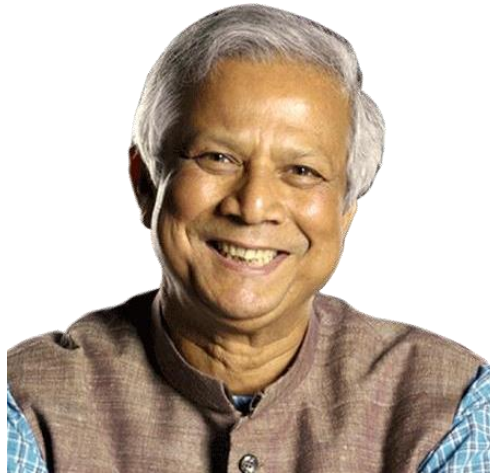
- Symantec Corporation – Norton Antivirus – Security of Computers
- Body Shop – Non availability of samples for body lotions
- Yahoo -No method to find and organize favorite web sites

Second Approach: Solving a Problem

- 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.



Garmin Bank: The Bank of the Villages



“Whenever I see a problem I immediately go and create a company. That is what I did all of my life”

Third Approach: Finding Gaps in the Marketplace

- 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 Ciravolo realized there were no guitars on the market made specifically for women. To fill this gap, she started Daisy Rock Guitars (Now \$ 2.4 million worth company serves in 25 countries), 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

- An opportunity with no or very low potential can be an enormously big opportunity.

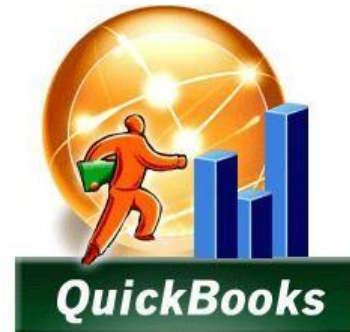
Eg: 01

intuit.

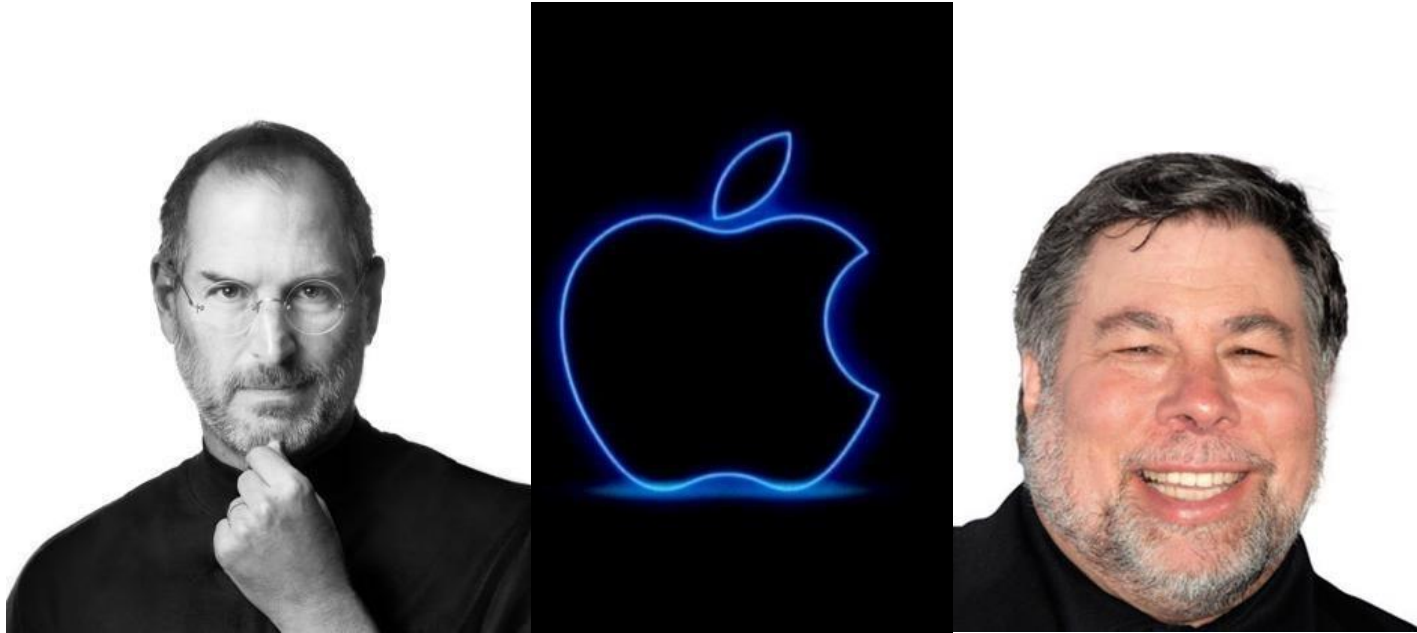
Intuit, maker of Quicken software was rejected by 20 venture capitalists before securing backing.



**Scott Cook / Tom Proulx
Co-founders**



Eg 02:

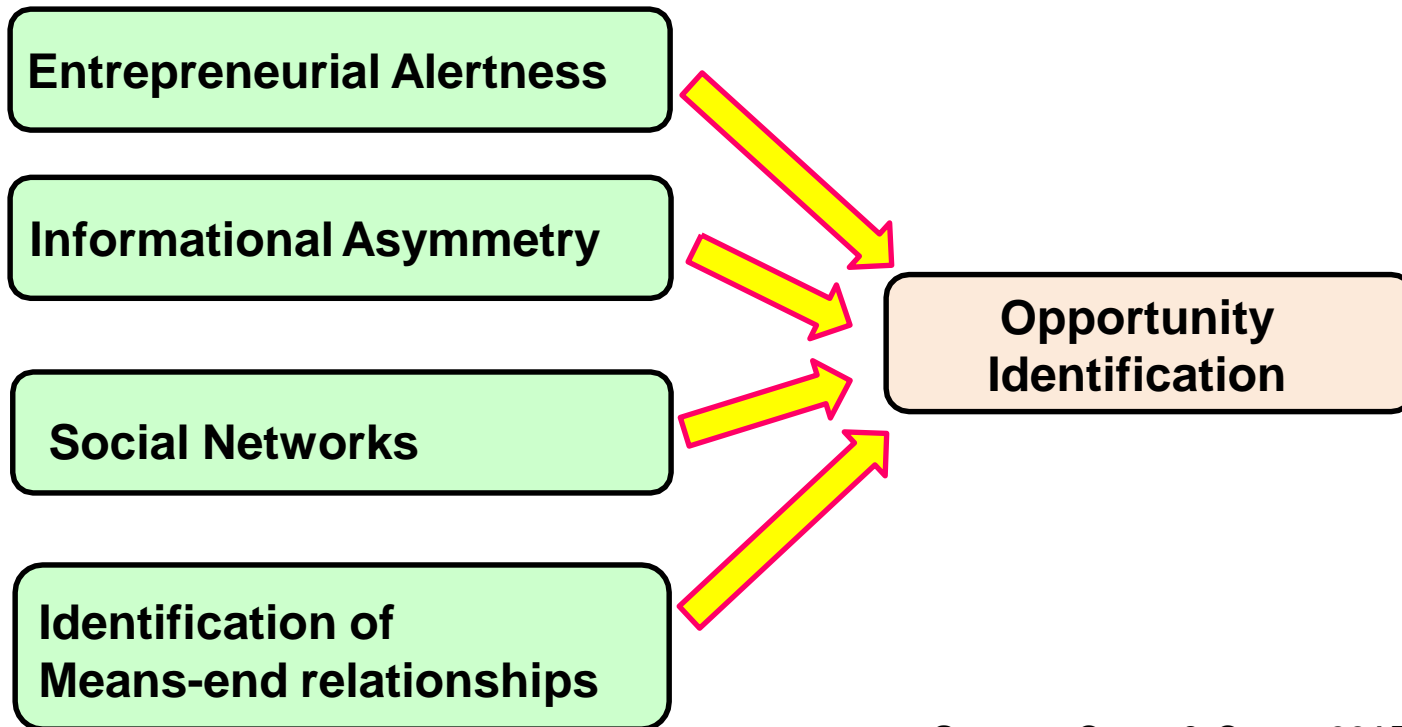


- *Apple Computer Inc. founders **Steve Jobs** and **Steve Wozniac** approached their employer **HP Corporation** , with the idea for a desktop personal computer and were told this was not an opportunity for HP. Hence, Jobs and Wozniac started their own company.*

Individual Differences and Opportunity Identification

- **The willingness of entrepreneurs to exploit opportunities is a function of various individual differences (Shane and Venkataraman 2000)**
- **Psychological and demographic characteristics represent examples of these individual differences and have been found to impact the likelihood that an individual will engage in entrepreneurial activity (Kristiansen and Indarti 2004)**

Determinants of Opportunity Identification



Source: Certo & Certo, 2015

Entrepreneurial Alertness

- **An individual's ability to notice and be sensitive to new information about objects, incidents, and patterns of behaviour in the environment**
- **Higher the alertness higher the opportunity identification**

Informational Asymmetry

- **Individuals vary in terms of the information to which they have access**
- **Individuals who have access to updated, useful information may exploit opportunity better than others**

Social Networks

- **Individual who have extended social networks may exploit opportunity better than those who have narrow social networks**

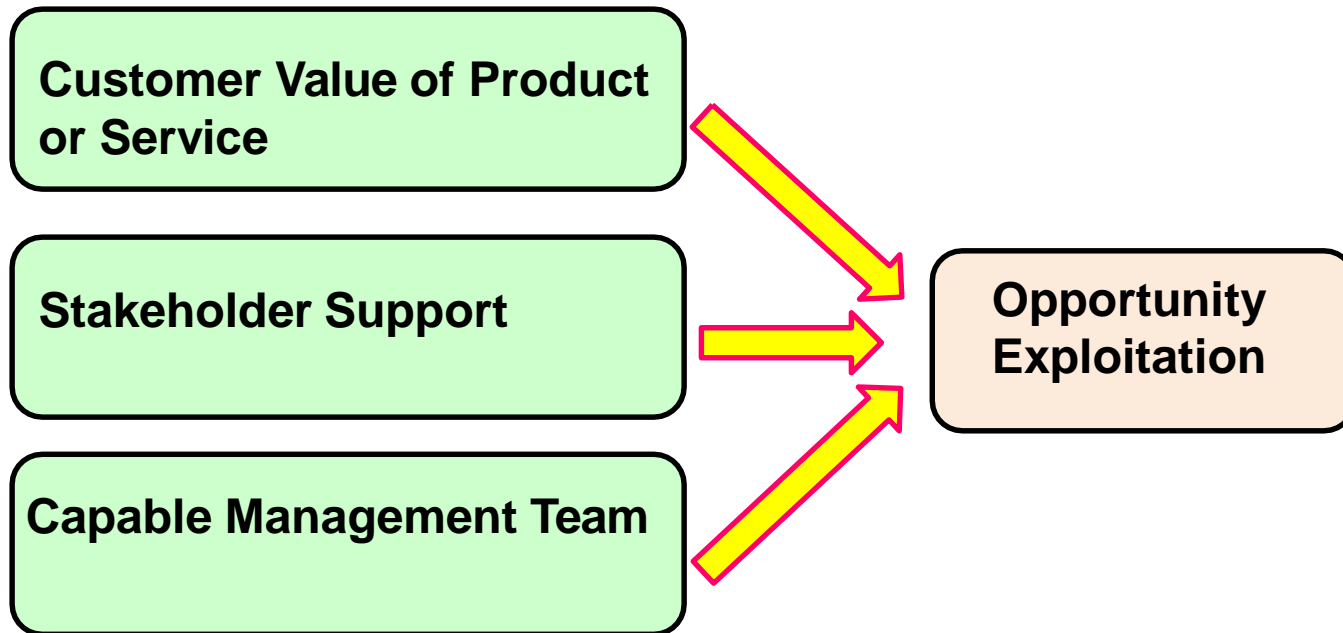
Identification of Means-end relationships

- **Means-end relationships refers to the ability of entrepreneur to understand how to turn a new technology in to a product or service that will be valued by customers**
- **Individuals who have better ability to assess means-ends relationships may exploit opportunity better than others**

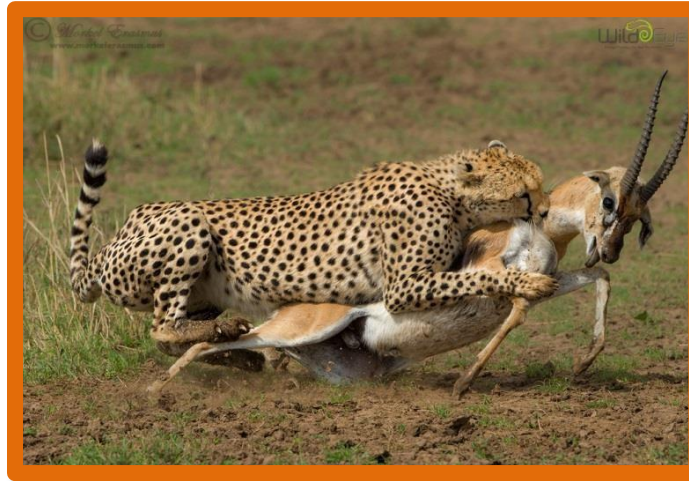
Opportunity Evaluation

- **Conduct Feasibility Analysis to whether the idea is practical**
- **Consider, consumer demands, structure of the industry, entrepreneur's capabilities**
- **Investigate entrepreneurial risk –likelihood and magnitude of opportunity's Downside Loss**
- **Downside-Loss refers to the resources the entrepreneur could lose if the opportunity does not succeed**
- **Be careful of “Law of small numbers” and “Illusion of Control”**

Factors Influencing Opportunity Exploitation



Source: Certo & Certo, 2015



Opportunity Exploitation: Starting the Venture

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.”

Social Networks

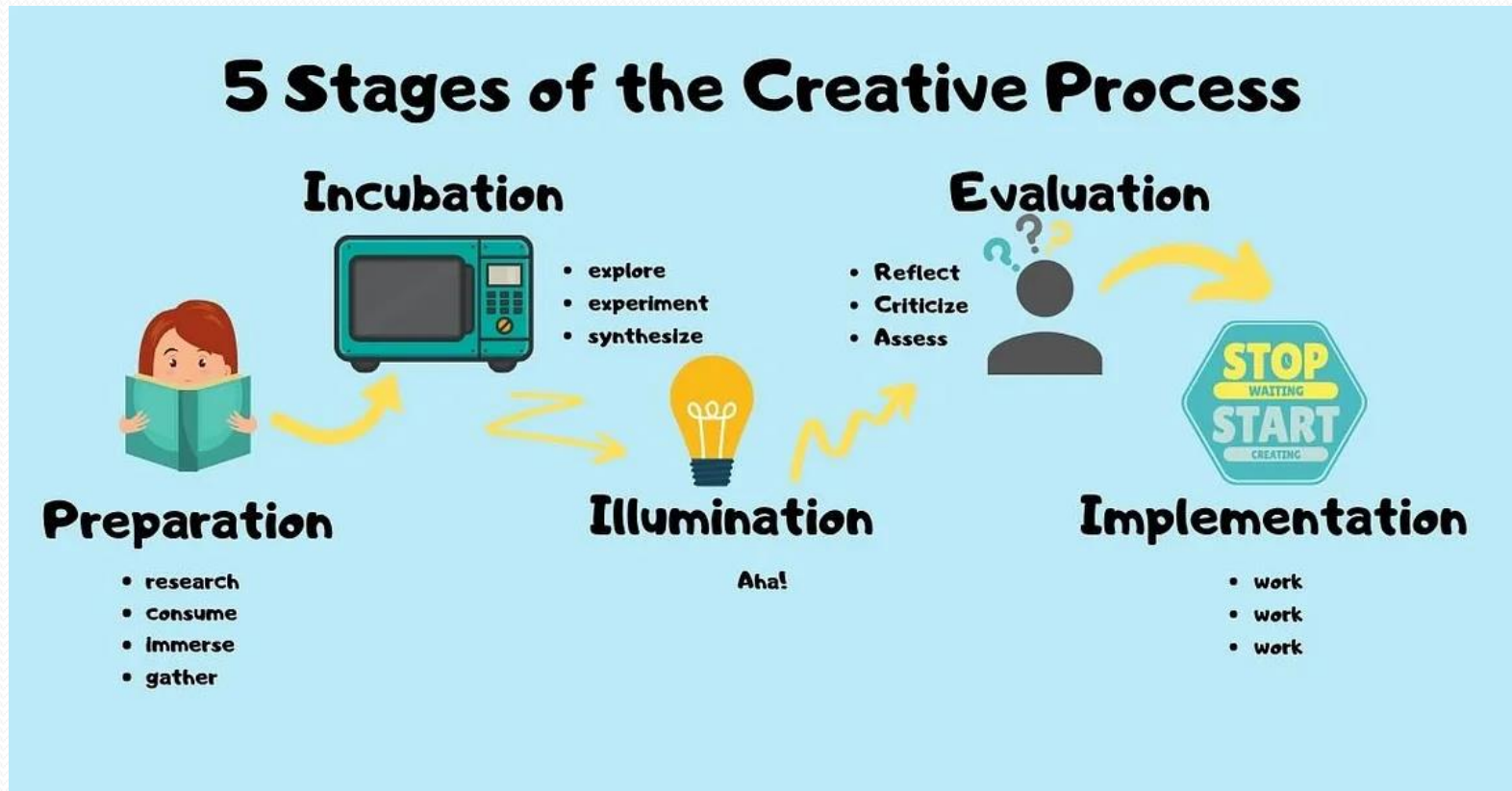
- Nature of Strong-Tie Vs. Weak Tie Relationships
 - Strong-tie relationship are characterized by frequent interaction and form between coworkers, friends, and spouses.
 - Weak-tie relationships are characterized by infrequent interaction and form between casual associations.

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.

Creativity

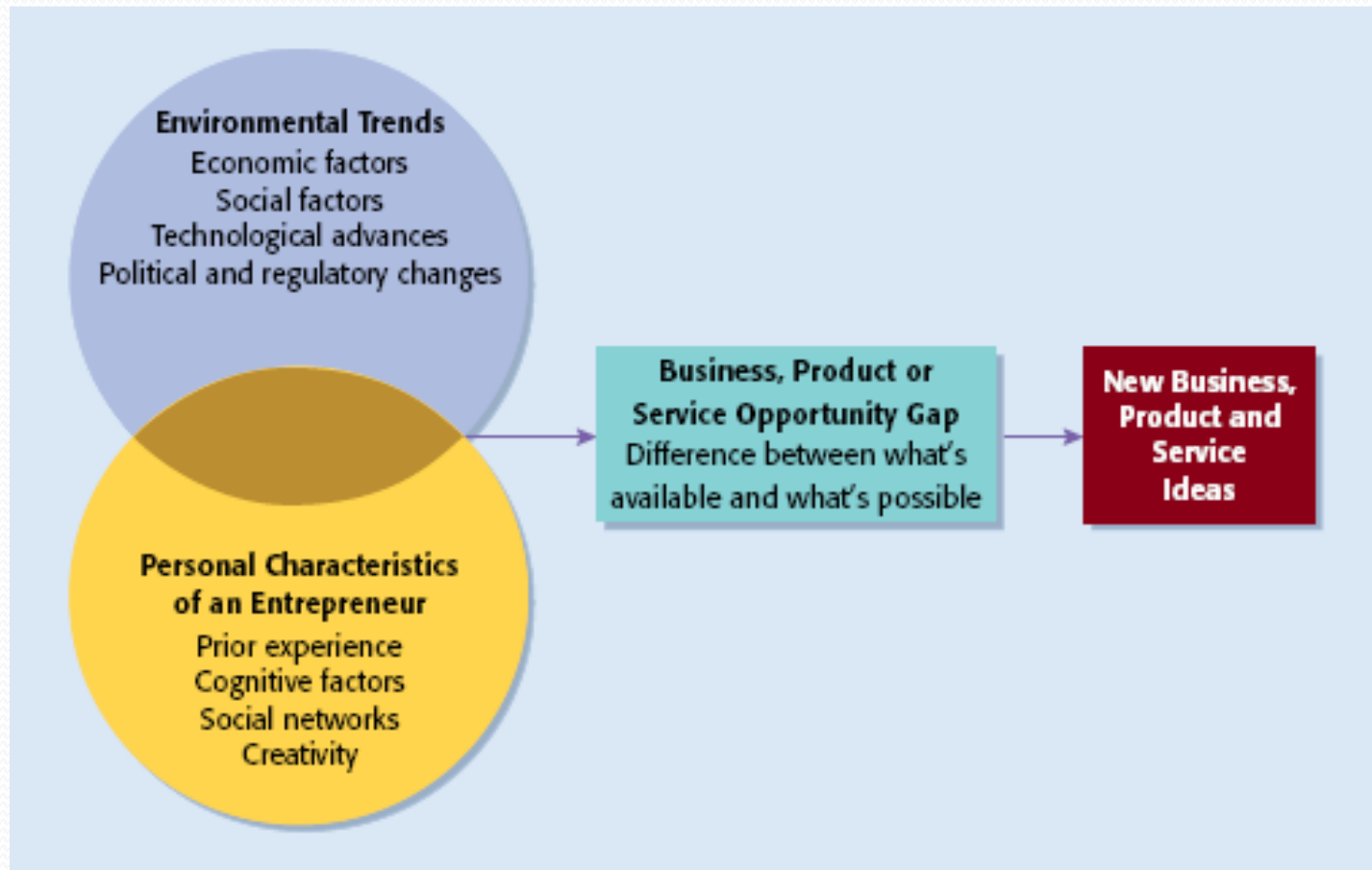
Five-Steps to Generating Creative Ideas



<https://www.youtube.com/watch?v=ybNoYjLmfPA>

Full View of the Opportunity Recognition Process

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.
 - Freewheeling is encouraged.
 - The session should move quickly.

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 the way they do about a particular issue.
 - Although focus groups are used for a variety of purposes, they can be used to help generate new business ideas.

Library and Internet Research

- 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

Library and Internet Research

- 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.
 - Subscriptions to 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.
- Government support
 - National Enterprise Development Authority, Small Enterprises Development, Entrepreneurship Development – NAITA,

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 it's 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.

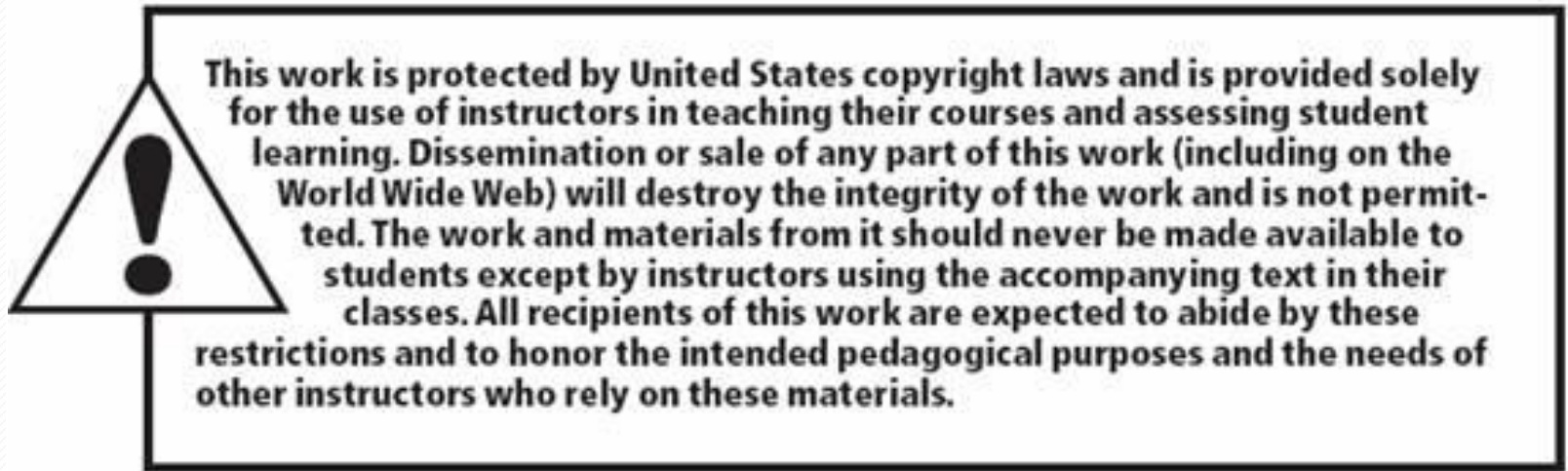
Protecting Ideas From Being Lost or Stolen

- 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 accidental or voluntary disclosure of an idea, in a manner that penalties the right to claim exclusive rights to it.

Risk assessment

		Impact					
		1	2	3	4	5	
Probability	1	1	2	3	4	5	Existing operational controls
	2	2	4	6	8	10	Project management intervention
	3	3	6	9	12	15	Senior management intervention
	4	4	8	12	16	20	
	5	5	10	15	20	25	

Probability		Impact	
1	Remote	1	Insignificant
2	Unlikely	2	Minor
3	Likely	3	Moderate
4	Very likely	4	Major
5	Certain	5	Catastrophic



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The End