Chapter 2

Seize business opportunities

Learning objectives

- The nature of business opportunity.
- Search and identify business opportunities.
- The relationship between entrepreneurial characteristics and seizing business opportunities.

1. The nature of business opportunity

What is the nature of business?

- The nature of a business describes the type of business it is and what its overall goals are.
- It describes its legal structure, industry, products or services, and everything a business does to reach its goals.
- It depicts an enterprise's issue and the main focus of the company's offerings.
- A company's vision and mission statement also provide insight into its nature.

Source: https://www.studysmarter.co.uk/explanations/business-studies/nature-of-business

What is the nature of business? (Cont.)

- ***A mission statement*** provides an overview of the overall purpose of an organization. It is a short statement describing what the company does, who they do it for, and its benefits.

- ***The company vision*** describes what it aims to achieve in the future to fulfill its mission. It should provide guidance and inspiration to employees.

Aspects of business nature

- ***Regular process***: the profit-generating processes that are regularly repeated.
- ***Economic activity***: activities that maximize profit.
- ***Utility creation***: a kind of utility the goods or services create for the consumer, such as time utility, place utility, etc.
- ***Capital requirement***: the amount of funding required for the business.
- ***Goods or Services***: types of goods (tangible or intangible) offered by the business.

Aspects of business nature (Cont.)

- ***Risk**:* the risk factor related to the business.
- ***Profit earning motive***: the businesses' profit-earning motive.
- ***Satisfaction of consumers' needs***: they are based on the consumers' satisfaction.
- ***Buyers and sellers***: the type of buyers and sellers involved in the business.
- ***Social obligations**:* all businesses have corporate social responsibilities to undertake.

Types of business explained

- ***Public sector***: it consists of only the government and companies controlled by the Government, such as The National Health Service (NHS), The British Broadcasting Company (BBC).

- ***Private sector***: it consists of privately (individually or collectively) run businesses that are run for profit, such as Greenergy (fuel), Reed (recruitment).

- ***International sector***: it includes exports from foreign countries, such as McDonald's and Coca-Cola.

Types of business explained (Cont.)

- ***Technological sector***: it relates to the research, development, or distribution of technologically based goods and services, such as Apple Inc. and Microsoft Corporation.
- ***Sole proprietorship***: it includes businesses run by a single person. There is no legal distinction between the owner and the business entity, such as local food joints and grocery stores.
- ***Partnership***: it includes businesses run by two or more people under a legal agreement, such as Microsoft (Bill Gates and Paul Allen) and Apple (Steve Jobs, Ronald Wayne, and Steve Wozniak).

Types of business explained (Cont.)

- ***Corporation***: it includes a large company or a group of companies acting like one, such as Amazon and JP Morgan Chase.

- ***Limited liability company***: it includes a business structure wherein the owners are not personally liable for the debts or liabilities of the business.

- ***Limited liability partnership***: business structure wherein all partners have limited liability towards the business, such as Brake Bros Ltd and Virgin Atlantic.

Types of business explained (Cont.)

- ***Corporation***: it includes a large company or a group of companies acting like one, such as Amazon and JP Morgan Chase.
- ***Limited liability company***: it includes a business structure wherein the owners are not personally liable for the debts or liabilities of the business.
- ***Limited liability partnership***: business structure wherein all partners have limited liability towards the business, such as Brake Bros Ltd and Virgin Atlantic.

Types of business explained (Cont.)

- ***Service business***: it includes businesses that offer intangible products to their customers. Services may be business services (accounting, law, taxation, programming, etc.), personal services (laundry, cleaning, etc.), public services (recreational parks, fitness centres, banks, etc.), and many more.

- ***Merchandising business***: it includes businesses that buy products at wholesale prices and sell them at retail prices. Such businesses earn profit by selling products at a price higher than their cost price. Examples include all retail stores (stores selling clothes, drugs, appliances, etc.).

Types of business explained (Cont.)

- ***Manufacturing business***: it includes businesses that buy products and use them as raw materials to produce their product, such as the purchase of eggs for cake production by a food manufacturer.
- ***Hybrid business***: it includes businesses practicing all three activities, such as a car manufacturer sells cars, buys old cars and sells them for a higher price after repair, and offers repairs for faulty car parts.
- ***For-profit organizations***: it includes businesses that aim to create a profit through their operations.
- ***Non-profit organizations***: such organizations use the money they receive towards the improvement of the organization.

What is a business opportunity?

- A business opportunity, also called “bizopp”, is the chance to take advantage of an occurrence in the market to begin a business.
- A business opportunity is what makes some businesses succeed while others fail.
  - ❖ Leaders are successful because they see opportunities before other people spot them, make plans, and then build business models to capitalize on those opportunities.
  - ❖ A good example of a business opportunity in the market today is e-books *(Amazon was one of the first companies in the online bookselling business).*

Source: https://www.feedough.com/business-opportunity-definition-types-identify/

Importance of a business opportunity

- In business, an opportunity is the key to success. Without it, a business cannot begin, expand, or succeed.
- The main purpose of an opportunity is the basis for any action that results in profit and business growth.
- Opportunities allow businesses to create and implement ideas and innovations and improve their performance.
  - ❖ The chance to build a business.
  - ❖ The chance to avoid failure.
  - ❖ The chance to grow.
  - ❖ The chance to maximize profits.

Characteristics Of A Good Business Opportunity

- Business opportunities are at the core of every successful business. They help in identifying problems and creating solutions that can potentially help businesses grow.
- Here are some characteristics of a good opportunity.

❖ ***Clarity***

➢ Good opportunities are clear, well defined, and straightforward.

➢ They allow businesses to accurately and completely identify problems and create solutions that can maximize their potential.

Characteristics Of A Good Business Opportunity (Cont.)

- Here are some characteristics of a good opportunity.
  - ***Relevance***
    - Good opportunities are relevant to the scenario in which they exist.
    - They provide added value to customers, markets, and industries. This means they do not only represent potential but also relevance for solving existing problems or creating added value for others.
  - ***Feasibility***
    - Good opportunities are realistic and feasible.
    - They help businesses achieve their goals while making them more efficient, productive, and profitable.

Characteristics Of A Good Business Opportunity (Cont.)

- Here are some characteristics of a good opportunity.
  - ***Profitable***
    - A good opportunity can provide returns on investment.
    - It can achieve its objectives while capitalizing on the available resources, strategies, and assets more efficiently.
  - ***Scalable***
    - A good opportunity is scalable. This means it can be expanded to a big or a wide scale.
    - It can extend to various markets and industries while maximizing the results of investments in terms of time, human resources, and money.

Types Of Business Opportunities

- There are different types of business opportunities, and each one serves as the basis for important decisions that help businesses succeed.
  - ❖ ***A new market opportunity***: it involves an untapped market, which gives businesses the chance to create and implement ideas and innovations without facing much competition.
  - ❖ ***An untapped resource opportunity***: it is a type of business opportunity that involves underutilized or unexploited resources that can be used to create added value.
  - ❖ ***Repressed demand opportunity***: it utilizes on existing demands that the current offerings don't cater to.
    - ➢ For example, Uber utilizes on a repressed demand for an on-demand cab system in the existing cab industry.

Types Of Business Opportunities (Cont.)

- There are different types of business opportunities, and each one serves as the basis for important decisions that help businesses succeed.
  - ❖ ***A technology opportunity:*** it is a type of business opportunity that allows businesses to introduce new technologies that can be used in existing markets.
  - ❖ ***A competitive opportunity:*** it allows businesses to introduce new products or services that can provide more value than their competitors while solving the problems of the target market better.
  - ❖ ***A strategic partnership opportunity:*** it involves the chance to collaborate with businesses from complementary industries, allowing them to access new resources, strengthen their product offerings, and increase their competitive advantage.

2. Search and identify business opportunities

How To Identify A Business Opportunity?

- Opportunity identification is an important part of business development and growth. It allows companies to make the right decisions that will help them achieve their goals.
- Here’s the business opportunity identification process.
  - ❖ The Customer Research Stage.
  - ❖ Problem Hypothesis Stage.
  - ❖ Product Hypothesis Stage.
  - ❖ Market Hypothesis Stage.
  - ❖ Product Development Stage.

Source: https://www.feedough.com/business-opportunity-definition-types-identify/

How To Identify A Business Opportunity? (Cont.)

- ***The Customer Research Stage***
  - ❖ Research customers and their problems by asking questions related to the customer’s needs, goals, and expectations.
  - ❖ The past and present trends of the target market must also be identified to help businesses better understand customer preferences.
  - ❖ The objective is to identify potential business opportunities that can help the business create value for its customers.

How To Identify A Business Opportunity? (Cont.)

- ***Problem Hypothesis Stage***
  - ❖ Enterprises search for issues by identifying issues and concerns from customer feedback and other sources of market research.
  - ❖ The first step is to define the problem. Once that has been done, enterprises need to search for the root cause of the problem and explore possible solutions. The goal is to formulate a well-focused hypothesis that can be tested with market research.
- ***Product Hypothesis Stage***
  - ❖ Enterprises should determine what kind of product or service will solve customers' problems or address their needs.
  - ❖ The product or service should target specific customers based on the information gathered during the customer research stage.

How To Identify A Business Opportunity? (Cont.)

- ***Market Hypothesis Stage***
  - ❖ It involves testing certain key assumptions about the business opportunity with customers to determine the demand for a particular product or service in the real world, and how it solves problems in the specified market.
  - ❖ It also involves doing in-depth research to identify existing players in the targeted market and determining customer expectations for the product or service.
- ***Product Development Stage***
  - ❖ Once a business opportunity is confirmed, the next step is to develop a product or service that will solve the problem.
  - ❖ The product or service should be designed and tested using various methods to ensure its viability and effectiveness.
  - ❖ Enterprises must consider target market, competitive threats, business models as they develop a product/service.

Business Opportunity Examples

- ***Airbnb***: Airbnb introduced the concept of a sharing economy by allowing people to rent out their homes as an alternative to hotels or motels. This is a perfect example of a new market opportunity because hotels were the only service providers for this kind of accommodation before Airbnb came along.

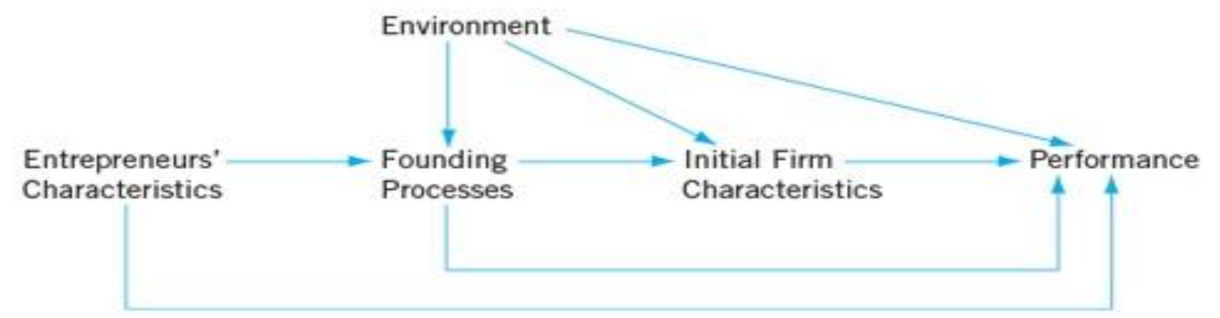
- ***TikTok***: TikTok saw an opportunity in the music and video streaming market by introducing a unique feature that allows users to create short videos set to music. It found a repressed demand for getting recognized and untapped technology for user-generated video content.
- Etc.

3. The relationship between entrepreneurial characteristics and seizing business opportunities.

The Elements Affecting New-Venture Performance

- Challenges to predicting new-firm performance include environmental effects *(the risk of new products or services, narrow markets, and scarce resources)*, the entrepreneur's personal goals and founding processes *(reasons for start-up)*, and the diversity of the ventures themselves *(differing scales and potential)*.

Figure 6.1 The Elements Affecting New-Venture Performance



Source: Arnold C. Cooper, "Challenges in Predicting New Firm Performance," *Journal of Business Venturing* 8, no. 3(1993): 243.

Pitfalls in Selecting New Ventures

- The first key area of analysis is the selection of a new venture. This stage of transition is from an idea to a potential venture that can be the most critical for understanding new venture development.
- Following are six of the most important pitfalls commonly encountered in the process of selecting a new venture.

1. Lack of Objective Evaluation.
2. No Real Insight into the Market.
3. Inadequate Understanding of Technical Requirements.
4. Poor Financial Understanding.
5. Lack of Venture Uniqueness.
6. Ignorance of Legal Issues.

Critical Factors for New-Venture Development

- The major focus in this chapter is on the prestart-up and start-up phases because these are the critical segments for entrepreneurs.
- During these two phases, five factors are critical:

1. the relative ***uniqueness*** of the venture,
2. the relative ***investment*** size at start-up,
3. the ***expected growth of sales and/or profits*** as the venture moves through its start-up phase,
4. the ***availability of products*** during the prestart-up and start-up phases, and
5. the ***availability of customers*** during the prestart-up and start-up phases.

Critical Factors for New-Venture Development (Cont.)

- A New-Venture Idea Checklist

Basic Feasibility of the Venture

1. Can the product or service work?
2. Is it legal?

Competitive Advantages of the Venture

1. What specific competitive advantages will the product or service offer?
2. What are the competitive advantages of the companies already in business?
3. How are the competitors likely to respond?
4. How will the initial competitive advantage be maintained?

Buyer Decisions in the Venture

1. Who are the customers likely to be?
2. How much will each customer buy, and how many customers are there?
3. Where are these customers located, and how will they be serviced?

Marketing of the Goods and Services

1. How much will be spent on advertising and selling?
2. What share of market will the company capture? By when?
3. Who will perform the selling functions?
4. How will prices be set? How will they compare with the competition's prices?
5. How important is location, and how will it be determined?
6. What distribution channels will be used—wholesale, retail, agents, direct mail?
7. What are the sales targets? By when should they be met?
8. Can any orders be obtained before starting the business? How many? For what total amount?

Critical Factors for New-Venture Development (Cont.)

- A New-Venture Idea Checklist

Production of the Goods and Services

1. Will the company make or buy what it sells? Or will it use a combination of these two strategies?
2. Are sources of supplies available at reasonable prices?
3. How long will delivery take?
4. Have adequate lease arrangements for premises been made?
5. Will the needed equipment be available on time?
6. Do any special problems with plant setup, clearances, or insurance exist? How will they be resolved?
7. How will quality be controlled?
8. How will returns and servicing be handled?
9. How will pilferage, waste, spoilage, and scrap be controlled?

Staffing Decisions in the Venture

1. How will competence in each area of the business be ensured?
2. Who will have to be hired? By when? How will they be found and recruited?
3. Will a banker, lawyer, accountant, or other advisers be needed?
4. How will replacements be obtained if key people leave?
5. Will special benefit plans have to be arranged?

Control of the Venture

1. What records will be needed? When?
2. Will any special controls be required? What are they? Who will be responsible for them?

Critical Factors for New-Venture Development (Cont.)

- A New-Venture Idea Checklist

Financing the Venture

1. How much will be needed for development of the product or service?
2. How much will be needed for setting up operations?
3. How much will be needed for working capital?
4. Where will the money come from? What if more is needed?
5. Which assumptions in the financial forecasts are most uncertain?
6. What will be the return on equity, or sales, and how does it compare with the rest of the industry?
7. When and how will investors get their money back?
8. What will be needed from the bank, and what is the bank's response?

Why New Ventures Fail

- There are three major categories of causes for failure, such as product/market problems, financial difficulties, and managerial problems.
  - ***Product/market problems involved the following factors.***
    - Poor timing.
    - Product design problems.
    - Inappropriate distribution strategy.
    - Unclear business definition.
    - Excessive dependence on one customer.

Why New Ventures Fail (Cont.)

- There are three major categories of causes for failure, such as product/market problems, financial difficulties, and managerial problems.
  - ***The financial difficulties category involved the following factors.***
    - Initial undercapitalization.
    - Assuming debt too early.
    - Venture capital relationship problems.

Why New Ventures Fail (Cont.)

- There are three major categories of causes for failure, such as product/market problems, financial difficulties, and managerial problems.
  - ***Managerial problems involved two important factors.***
    - Concept of a team approach.
      - Hirings and promotions based on nepotism rather than qualifications.
      - Poor relationships with parent companies and venture capitalists.
      - Founders who focused on their weaknesses rather than on their strengths.
      - Incompetent support professionals.

Why New Ventures Fail (Cont.)

- There are three major categories of causes for failure, such as product/market problems, financial difficulties, and managerial problems.
  - ❖ Managerial problems involved two important factors.
    - ➢ Human resource problems.
      - ❑ Kickbacks and subsequent firings resulted in an almost total loss of customers.
      - ❑ Deceit on the part of a venture capitalist in one case and on the part of a company president in another.
      - ❑ Verbal agreements between the entrepreneur and the venture capitalists were not honored.
      - ❑ Protracted lawsuits around the time of discontinuance.

Why New Ventures Fail (Cont.)

- Types and Classes of First-Year Problems

1. Obtaining external financing
1. Obtaining financing for growth.
2. Other or general financing problems.

2. Internal financial management
1. Inadequate working capital.
2. Cash-flow problems.
3. Other or general financial management problems.

3. Sales/marketing
1. Low sales.
2. Dependence on one or few clients/customers.
3. Marketing or distribution channels.
4. Promotion/public relations/advertising.
5. Other or general marketing problems.

4. Product development
1. Developing products/services.
2. Other or general product development problems.

5. Production/operations management
1. Establishing or maintaining quality control.
2. Raw materials/resources/supplies.
3. Other or general production/operations management problems.

6. General management
1. Lack of management experience.
2. Only one person/no time.
3. Managing/controlling growth.
4. Administrative problems.
5. Other or general management problems.

7. Human resource management
1. Recruitment/selection.
2. Turnover/retention.
3. Satisfaction/morale.
4. Employee development.
5. Other or general human resource management problems

8. Economic environment
1. Poor economy/recession.
2. Other or general economic environment problems.

9. Regulatory environment
1. Insurance.

Why New Ventures Fail (Cont.)

- The Failure Process of a Newly Founded Firm.
  - ❖ Extremely high indebtedness (poor static solidity) and small size.
  - ❖ Too slow velocity of capital, too fast growth, too poor profitability (as compared to the budget), or some combination of these.
  - ❖ Unexpected lack of revenue financing (poor dynamic liquidity).
  - ❖ Poor static liquidity and debt service ability (dynamic solidity).

Why New Ventures Fail (Cont.)

- The Failure Process of a Newly Founded Firm.

A. Profitability

1. Return on investment ratio $\text{defined on end-of-the-year basis} = \dfrac{\text{Net Profit} + \text{Interest Expenses}}{\text{Total Capital at the End of the Year}} \times 100$

B. Liquidity

Dynamic

2. $\text{Cash flow to net sales} = \dfrac{\text{Net Profit} + \text{Depreciations}}{\text{Net Sales}} \times 100$

Static

3. $\text{Quick ratio} = \dfrac{\text{Financial Assets}}{\text{Current Debt}}$

C. Solidity

Static

4. $\text{Stockholders' capital to total capital} = \dfrac{\text{Total Capital} - \text{Debt Capital}}{\text{Total Capital}} \times 100$

Dynamic

5. $\text{Cash flow to total debt} = \dfrac{\text{Net Profit} + \text{Depreciations}}{\text{Total Debt}} \times 100$

Why New Ventures Fail (Cont.)

- The Failure Process of a Newly Founded Firm.

D. Other Factors

Growth or Dynamic Size

6. $$\text{Rate of annual growth in net sales} = \frac{\text{Net Sales in Year } t}{\text{Net Sales in Year } t-1} \times 100$$

Size

7. $$\text{Logarithmic net sales} = \text{In (Net Sales)}$$

Velocity of Capital

8. $$\text{Net sales to total capital} = \frac{\text{Net Sales}}{\text{Total Capital at the End of the year}} \times 100$$

The Traditional Venture Evaluation Processes

- A critical task in starting a new business is conducting a solid analysis of the feasibility of the product/service before getting it off the ground.

❖ ***Profile Analysis Approach***

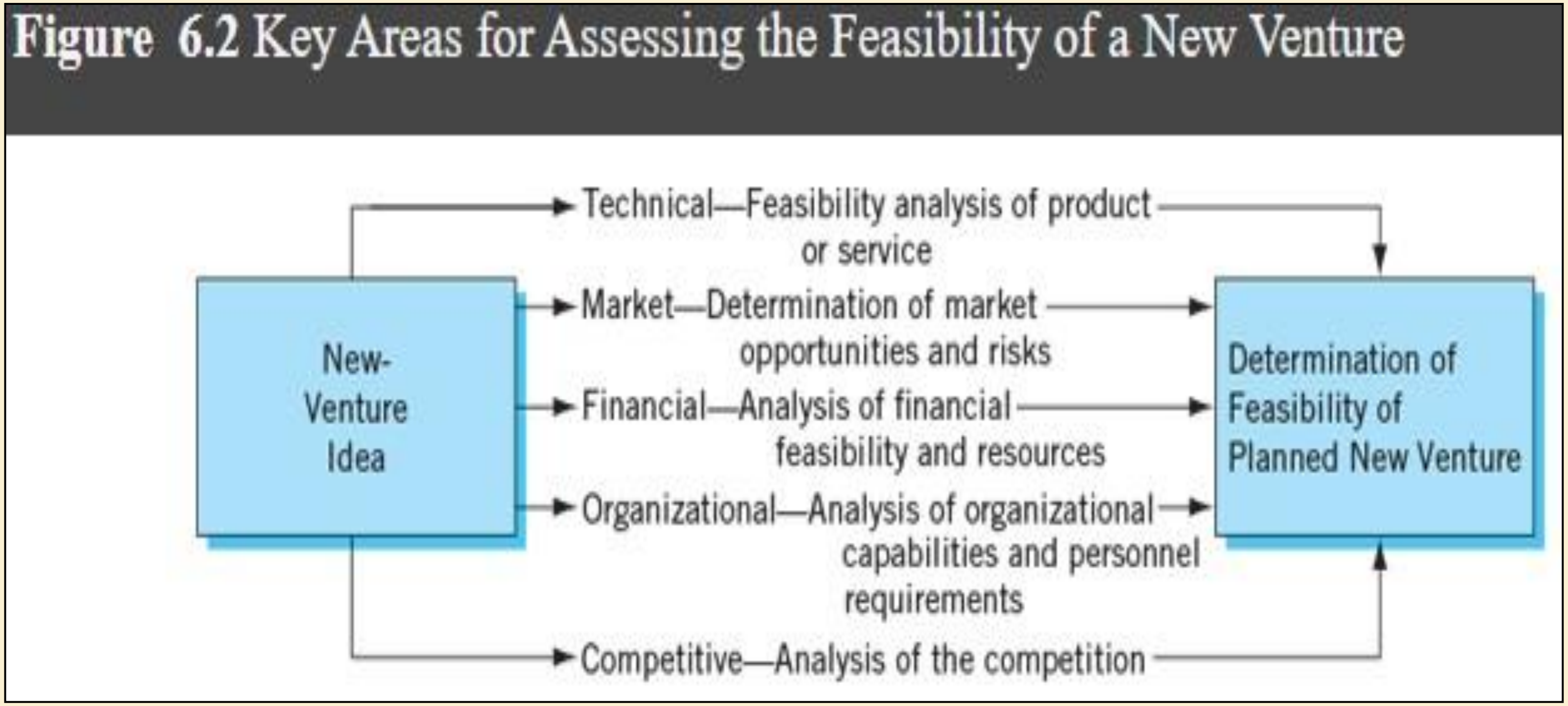
- A profile analysis is a tool that enables entrepreneurs to judge a business venture's potential by sizing up the venture's strengths and weaknesses along several key dimensions or variables.

❖ ***Feasibility Criteria Approach***

- Is it proprietary?
- Are initial production costs realistic?
- Are the initial marketing costs realistic?
- Does the product have potential for very high margins?
- Is the time required to get to market and to reach the break-even point realistic?
- Is the potential market large?
- Is the product the first of a growing family?
- Does an initial customer exist?
- Are the development costs and calendar times realistic?
- Is this a growing industry?
- Can the product—and the need for it—be understood by the financial community?

The Traditional Venture Evaluation Processes (Cont.)

- A critical task in starting a new business is conducting a solid analysis of the feasibility of the product/service before getting it off the ground.
  - ❖ ***Comprehensive Feasibility Approach***



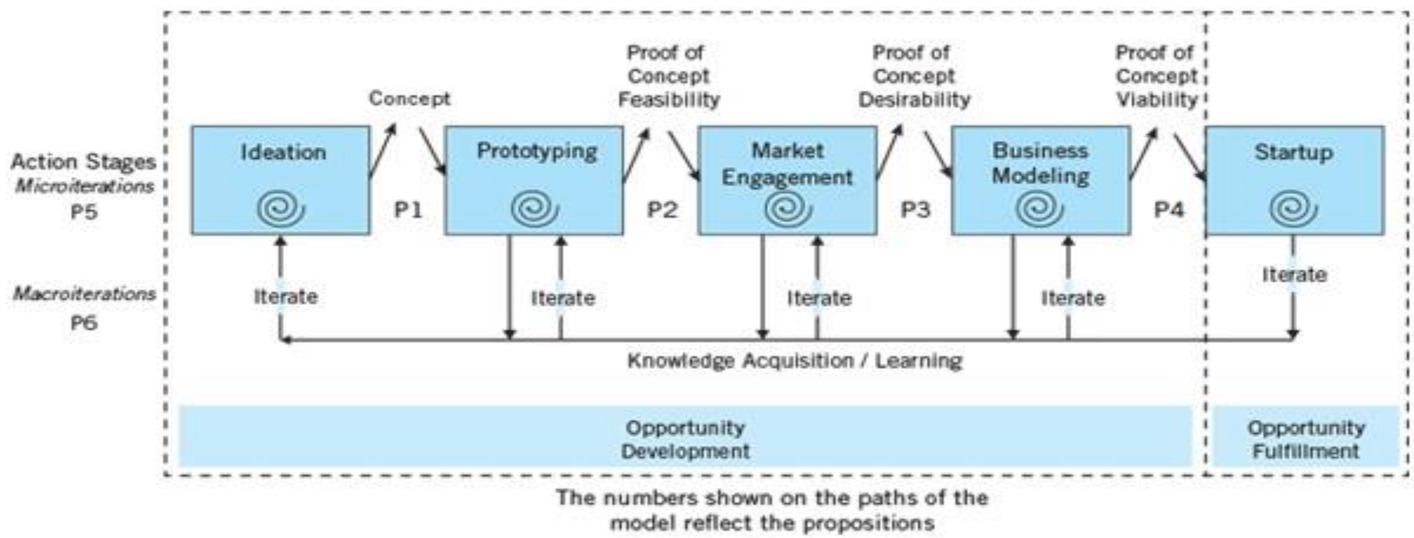
The Contemporary Methodologies for Venture Evaluation

- ***The Design Methodology***
  - ❖ Design is now a hot topic in the business world. This methodology can be a vital source of assessment for entrepreneurs and their early-stage venture concepts.
    - ➢ *Design and Learn*
      - ❑ Design is a learning process that shapes and converts ideas into form, whether that is a plan of action, an experience, or a physical thing (i.e., Learning from qualitative research, prototyping, or feedback).
    - ➢ *Design Development*
      - ❑ Design methodology takes an initial concept idea and develops a proof of concept that elicits feedback from relevant stakeholders.

The Contemporary Methodologies for Venture Evaluation

- ***Design-Centered Entrepreneurship***
  - ❖ Entrepreneurs can apply design methods in four action stages of developing an opportunity.

Figure 6.3 Design-Centered Entrepreneurship

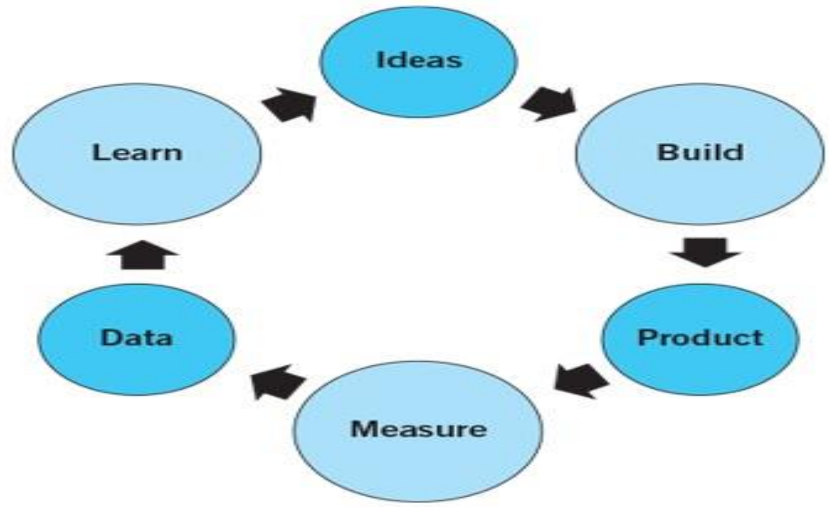


Source: Michael G. Goldsby, Thomas Nelson, & Donald F. Kuratko, "Design-Centered Entrepreneurship: A Process for Developing Opportunities," *Annals of Entrepreneurship Education & Pedagogy* (edited by MichaelH. Morris; Edward Elgar Publishing, 2014: 200–217).

The Contemporary Methodologies for Venture Evaluation

- ***The Lean Start-Up Methodology***
  - ❖ Similar to design methodology, the Lean Start-Up methodology provides a scientific approach to creating early venture concepts and delivers a desired product to customers' hands faster.

Figure 6.4 Build-Measure-Learn Feedback Loop



(Source: Eric Ries, *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses* New York: Crown Business, 2011).

In conclusion

- The nature of business opportunity.
- Search and identify business opportunities.
- The relationship between entrepreneurial characteristics and seizing business opportunities.

THANK YOU
FOR YOUR ATTENTION

Q&A