

LECTURE 4

OPPORTUNITY EVALUATION

OPPORTUNITY EVALUATION:

- **What:** Is a process of determining if our idea is offering any valuable opportunity to me and whether it is worth pursuing or not
- **Why:** Our assumptions might be incorrect and the opportunity might not be profitable or may not offer value to the users
- **When:** After we have an idea, we need to do this analysis and determine if our idea is worth it. Also, after it has come to the market

BUSINESS ENVIRONMENT: Organization-> internal-> micro-> macro

- **Internal Environment**
 - Factors within the organization
 - Includes controllable factors
 - E.g.: Vision and objective, Value system, hiring policies, Human Resources etc
- **Micro Environment**
 - Immediate environment of a business
 - May or may not include controllable factors
 - E.g.: Suppliers, Customers, Competitors, Financiers, Stakeholders etc
- **Macro Environment**
 - Represents overall environment
 - Includes uncontrollable factors
 - E.g.: Socio-cultural, economic, political, legal, technological factors

SWOT MODEL: Strength, Weakness, Opportunity, Threat

- **Strength** (Positive and internal)- Characteristics that give advantage over others.
- **Weakness**(Negative and Internal)- Characteristics that give disadvantage over others.
- **Opportunity**(Positive and External)- Elements that can be exploited for benefit.
- **Threat**(Negative and External)- Elements that can cause trouble.

PEST MODEL: Political, Economic, Socio-cultural, Technological Factors

- **Political Factors**
 - Political stability, Tax policy, tax rates etc
 - Identifying to what degree a government can intervene in overall working of a unit
- **Economic Factors**
 - Labour costs, currency exchange rates, trade agreements etc
 - Guiding the financial issues/parameters such as interest rates that can affect the cost of production
- **Socio Cultural Factors**
 - Population growth, life-style changes, consumer attitudes etc
 - Helping in understanding the customers and finding out what can drive them

- **Technological Factors**
 - R&D activity, emerging technologies etc
 - Identifying how the goods can be produced and distributed

PORTER'S FIVE FORCE MODEL

- The model is named after Harvard Business School professor- Michael E. Porter
- **Objective**
 - Determine competitive intensity of a firm
 - Considers five forces for analysis and find their role in shaping the strategy for profitability
- **Analysis:**
 - Competitive forces are classified into 3 categories:
 - Weak
 - Medium
 - Strong
- **Keywords:**
 - Economies of scale
 - Product differentiation
 - Switching cost
 - Barriers of Entry
 - Exit Barriers
- **The five forces:**
 - Threat of new entrants
 - Considers how easy or difficult it is for competitors to join the marketplace
 - Entry barrier
 - Customer loyalty
 - Capital Cost
 - Economies of scale
 - Threat of substitutes
 - This studies how easy it is for consumers to switch from a business product or service to that of a competitor
 - No. of substitutes
 - Switching cost
 - Bargaining power of suppliers
 - Analyses power a company's supplier can have to reduce the quality of purchased goods or services
 - Concentration of suppliers
 - Switching cost
 - Bargaining power of customers
 - Examines the power of consumers to put the company under pressure
 - Switching cost
 - Loyalty programs
 - Brand Recognition
 - Rivalry amongst existing competitors
 - No. and size of competitors

- Barriers to exit
- Product differentiation
- Customer Loyalty

CONCLUSION

Opportunity evaluation:

- Is a key stage in an entrepreneurial journey
- Framework consists of consideration of factors having direct or indirect impact
- Is performed using various analysis tools also called models:
 - There is no single model that can be considered to be all inclusive
 - Combination of model use is considered overall beneficial