**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