Chapter 2: Recognizing Opportunities and Generating Ideas

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I. Identifying and Recognizing Opportunities

Opportunity defined

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

2. An opportunity has four essential qualities: these are...
I. Identifying and Recognizing Opportunities

Opportunity defined

3. For an entrepreneur to capitalize on an opportunity, its window of opportunity must be open.
   a) The term “window of opportunity” is a metaphor describing the time period in which a firm can realistically enter a new market.
   b) Once the market for a new product is established, its window of opportunity opens, and new entrants flow in.
   c) At some point, the market matures, and the window of opportunity (for new entrants) closes.

4. It is important to understand that there is a difference between an opportunity and an idea.
   a) An idea is a thought, impression, or notion
   b) May or may not meet the criteria of an opportunity.
   c) Many businesses fail not because the entrepreneurs that started them didn’t work hard, but because there was no real opportunity to begin with.
I. Identifying and Recognizing Opportunities

Opportunity defined

4. It is important to understand that there is a difference between an opportunity and an idea.

   a) An idea is a thought, impression, or notion
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   “Planet Hollywood” example in “What went wrong” section in Ch. 2

Now, let’s look at the three ways to identify an opportunity.
I. Identifying and Recognizing Opportunities

Identifying opportunities

A. Observing Trends

The first approach to identifying opportunities is to observe trends and study how they create opportunities for entrepreneurs to pursue.

- Economic forces
  - State of the economy
  - Level of disposable income
  - Consumer spending patterns
- Social trends
  - Social and cultural trends
  - Changes that people find important
- Technological advances
  - New technologies
  - Emerging technologies
  - New versions of old technologies
- Political and regulatory changes
  - New laws and regulations

Divers, product improvements, or services that create opportunities for entrepreneurs to pursue.
I. Identifying and Recognizing Opportunities

A. Observing Trends

1. Economic Forces

   a. Economic forces affect consumers’ level of disposable income. Individual sectors of the economy have a direct impact on consumer buying patterns.

   b. For example, a drop in interest rates typically leads to an increase in new home construction and furniture sales; large firms source out etc.

   c. Getting a handle on these forces by: (i) studying and observing and (ii) purchasing market forecasts/analyses

2. Social Forces

   a. An understanding of the impact of social forces on trends and how they affect new product, service, and business ideas is a fundamental piece of the opportunity recognition puzzle.

   Example: The persistent proliferation of fast food restaurants isn’t due primarily to people’s love for fast food but rather to the fact that people are busy: the number of households with both parents working remains high.

   Example: Similarly, the Sony Walkman was developed not because consumers wanted smaller radios but because people wanted to listen to music while on the go.
I. Identifying and Recognizing Opportunities

A. Observing Trends

2. Social Forces
   
   b. Some of the recent social trends that allow for new opportunities are the following:

   - Family and work patterns
   - The aging of the population
   - The increasing diversity of the workforce
   - The globalization of industry
   - The increasing focus on health care and fitness
   - The proliferation of computers and the Internet
   - The continual increase in the number of cell phone users
   - New forms of music and other types of entertainment

I. Identifying and Recognizing Opportunities

A. Observing Trends

3. Technological Advances

   a. Given the rapid pace of technological change, it is vital for entrepreneurs to remain on top of how new technologies affect current and future opportunities.

   b. Once a technology is created, products emerge to advance it.  
      Example: RealNetworks created to add video capabilities to the Internet

   c. Advances in technology frequently dovetail with economic and social changes to create opportunities.  
      Example: creation of cell phone is a technological achievement, but was motivated by an increasingly mobile population
I. Identifying and Recognizing Opportunities

A. Observing Trends

   4. Political Action and Regulatory Changes

   Political action and regulatory changes also provide the basis for opportunities

   *Example:* new laws create opportunities for entrepreneurs to start firms to help companies comply with these laws

B. Solving a Problem

   1. Sometimes identifying opportunities simply involves noticing a problem and finding a way to solve it.

   2. These problems can be pinpointed through observing trends and through more simple means, such as intuition, serendipity, or chance.
I. Identifying and Recognizing Opportunities

B. Solving a Problem

Opportunities simply involve noticing a problem and finding a way to solve it.

Pinpointed through observing trends, intuition, serendipity, or chance.

Some business ideas are clearly initiated to solve a problem.

Symantec Corp. example

3. Some business ideas are clearly gleaned from the recognition of problems in emerging trends.

Examples:

a. Symantec Corp. created Norton antivirus software to rid computers of viruses

b. Process is sometimes less deliberate: individual may set out to solve a practical problem and realize that the solution may have broader appeal

c. At still other times, someone may simply notice a problem that others are having and think that the solution might represent an opportunity.

d. A “serendipitous discovery” is a chance discovery made by someone with a prepared mind.
I. Identifying and Recognizing Opportunities

B. Solving a Problem

Businesses Created to Solve a Problem

<table>
<thead>
<tr>
<th>Entrepreneur</th>
<th>Year</th>
<th>Problem</th>
<th>Solution</th>
<th>Name of Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Julie Aigner-Clark</td>
<td>1997</td>
<td>No method for exposing young children (six months to three years old) to arts and sciences</td>
<td>Created a company to produce videos designed to capture the attention and stimulate the minds of young children</td>
<td>Baby Einstein</td>
</tr>
<tr>
<td>Scott Cook</td>
<td>1982</td>
<td>Frustration over traditional process of paying bills and keeping track of personal finances</td>
<td>Developed a software program (Quicken) to make the task easier</td>
<td>Intuit</td>
</tr>
<tr>
<td>Lisa Barman</td>
<td>2002</td>
<td>No fitness routine available to help new mothers stay fit and be with their newborns at the same time</td>
<td>Created a franchise organization that promotes a workout routine (which involves a 45-minute power walk with strollers) that mothers and their newborns can do together</td>
<td>Stroller Smiles</td>
</tr>
<tr>
<td>Rob Glaser</td>
<td>1995</td>
<td>No way to play audio and video on the Internet</td>
<td>Developed software to play audio and video on the &quot;Net&quot;</td>
<td>RealNetworks</td>
</tr>
<tr>
<td>Fred Smith</td>
<td>1973</td>
<td>Inability to get spare parts delivered on a timely basis for his company, a jet aircraft sales firm</td>
<td>Started a new company to help others get packages delivered on a timely manner</td>
<td>Federal Express (now called FedEx)</td>
</tr>
<tr>
<td>Jerry Yang and David Filo</td>
<td>1994</td>
<td>No method to find or organize favorite Web sites</td>
<td>Created online directories to find and store favorites</td>
<td>Yahoo!</td>
</tr>
</tbody>
</table>

C. Finding Gaps in the Marketplace

1. The third approach to identifying opportunities is to recognize a need that consumers have that is not being satisfied—by either large, established firms or entrepreneurial ventures.

Example: Large retailers compete primarily on price by serving large groups of customers with similar needs. They do this by offering the most popular items targeted toward mainstream consumers. While this approach allows the large retailers to achieve economies of scale, it leaves gaps in the marketplace.

This is the reason that small clothing boutiques and specialty shops exist. The small boutiques, which often sell designer clothes or clothes for hard-to-fit people, are willing to carry merchandise that doesn’t sell in large enough quantities for Wal-Mart or JC Penney to carry.
I. Identifying and Recognizing Opportunities
C. Finding Gaps in the Marketplace

2. There are also gaps in the marketplace that represent consumer needs that aren’t being met by anyone (Curves International example).

I. Identifying and Recognizing Opportunities
D. Personal Characteristics of the Entrepreneur

Characteristics that tend to make some people better at recognizing opportunities than others

- Prior Experience
- Social Networks
- Cognitive Factors
- Creativity

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I. Identifying and Recognizing Opportunities
D. Personal Characteristics of the Entrepreneur

Researchers have identified several characteristics that tend to make some people better at recognizing opportunities than others.

1. Prior Experience. Several studies have shown that prior experience in an industry helps an entrepreneur recognize business opportunities. There are several explanations for this:
   a. By working in an industry, an individual may spot a market niche that is underserved.
   b. 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.

2. Cognitive Factors – Opportunity recognition may be an innate skill or a cognitive process.
   a) Studies have shown that opportunity recognition may be an innate skill or cognitive process.
   b) Some people believe that entrepreneurs have a “sixth sense” that allows them to see opportunities that others miss.
   c) This “sixth sense” is called “entrepreneurial alertness”, which is formally defined as the ability to notice things without engaging in deliberate search.
I. Identifying and Recognizing Opportunities

D. Personal Characteristics of the Entrepreneur

3. Social Networks – The extent and depth of an individual’s social network affects opportunity recognition.

   a) People who build a substantial network of social and professional contacts will be exposed to more opportunities and ideas than people with sparse networks. This exposure can lead to new business starts.
   b) The extent and depth of an individual’s social network affects opportunity recognition.
   c) In one survey of 65 start-ups, half the founders reported that they got their business idea through social contacts.

   d) Nature of Strong-Tie Vs. Weak-Tie Relationships
      i. Strong-tie relationship are characterized by frequent interaction between coworkers, friends, and spouses.
      ii. Weak-tie relationships are characterized by infrequent interaction and form between casual acquaintances.
      iii. Result: it is more likely that an entrepreneur will get new business ideas through weak-tie rather than strong-tie relationships.
I. Identifying and Recognizing Opportunities

D. Personal Characteristics of the Entrepreneur

Why weak-tie relationships lead to more new business ideas than strong-tie relationships

<table>
<thead>
<tr>
<th>Strong-Tie Relationships</th>
<th>Weak-Tie Relationships</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between like-minded individuals; tend to reinforce insights and ideas that people already have.</td>
<td>Casual acquaintances; not as apt to be between like-minded individuals; more likely to spark a completely new idea.</td>
</tr>
</tbody>
</table>

"Brain reactions" example from Ch. 2 opener and "Partnering for success example"

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I. Identifying and Recognizing Opportunities

D. Personal Characteristics of the Entrepreneur

4. Creativity – Is the process of generating a novel or useful idea.
   For an individual, the creative process can be broken into five stages:
   a) Preparation – Is the background, experience, and knowledge that an entrepreneur brings to the opportunity recognition process.
   b) Incubation - stage during which a person considers an idea thinks about a problem; it is the “mulling things over” phase.
   c) Insight – Insight is the flash of recognition – when the solution to a problem is seen or an idea is born.
   d) Evaluation –stage of the creative process during which an idea is subjected to scrutiny and analyzed for its viability.
   e) Elaboration –stage during which the creative idea is put into a final form; details are worked out, and idea is transformed into smth. valuable.
I. Identifying and Recognizing Opportunities

D. Personal Characteristics of the Entrepreneur

II. Techniques for Generating New Business Ideas

Opportunity recognition process
The connection between an awareness of emerging trends and the personal characteristics of the entrepreneur:
II. Techniques for Generating New Business Ideas

Technique overview

- Brainstorming
- Focus Groups
- Surveys
- Other Techniques

A. Brainstorming

1. Is used to generate a number of ideas quickly. It is not used for analysis or decision making.

2. A brainstorming “session” is targeted to a specific topic about which a group of people are instructed to come up with ideas.

3. Rules:
   a) No criticism.
   b) Freewheeling is encouraged.
   c) The session should move quickly.
   d) Leap-frogging is encouraged.
II. Techniques for Generating New Business Ideas

A. Brainstorming

4. The number one rule of brainstorming is that no criticism is allowed, including chuckles, raised eyebrows, or facial expressions that express skepticism or doubt. Criticism stymies creativity and inhibits the free flow of ideas.

There are two reasons brainstorming generates ideas that might not arise otherwise.

a) First, because no criticism is allowed, people are more likely to offer ideas than they would in a traditional setting.

b) Second, brainstorming focuses on creativity rather than evaluation.

B. Focus Groups

1. A focus group is a gathering of 5 to 10 people who are selected because of their relationship to the issue being discussed. Although focus groups are used for a variety of purposes, they can be used to help generate new business ideas.

2. The strength of focus groups is that they help companies uncover what’s on their customers’ minds through the give-and-take nature of a group discussion. The weakness is that because the participants do not represent a random sample, the results cannot be generalized to larger groups.
II. Techniques for Generating New Business Ideas

C. Surveys

1. A survey is a method of gathering information from a sample of people. The sample is usually just a fraction of the population being studied.

2. The most effective surveys sample a “random” portion of the population, meaning that the sample is not selected haphazardly or only from people who volunteer to participate.

3. The quality of survey data is determined largely by the purpose of the survey and how it is conducted.

4. Surveys generate new product, service, and business ideas because they ask specific questions and get specific answers.

Example of a suspect survey technique

<table>
<thead>
<tr>
<th>Self-Selected Opinion Poll</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most call-in television surveys or magazine write-in polls are highly suspect because the participants represent what’s called a self-selected opinion poll.</td>
<td>Most people who take the time to participate in a self-selected opinion poll do so because their have either strong positive or strong negative feels about the a particular product or topic.</td>
</tr>
</tbody>
</table>
II. Techniques for Generating New Business Ideas

D. Other Techniques

1. 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.

2. Day-in-the-life research. Other companies conduct varying forms of anthropological research, such as day-in-the-life research.

3. IDEO Method Cards. IDEO Method Cards (which look like a deck of playing cards) show 51 of the methods that IDEO uses to come up with new product and service ideas.

4. Other. Some companies attend trade shows, conferences, and gatherings of industry personnel. They use these events as intelligence missions to learn what their competition is doing and then use the information to stimulate new product or service ideas.
III. Encouraging and Protecting New Ideas

A. Establishing a Focal Point for Ideas

B. Encouraging Creativity at the Firm Level

C. Protecting Ideas from Being Lost and Stolen

1. Some firms meet the challenge of encouraging, collecting, and evaluating ideas by designating a specific person to screen and track them.

2. Another approach is to establish an idea bank, which is a physical or digital repository for storing ideas.

   An example of an idea bank would be a password-protected location on a firm’s intranet that is available only to qualified employees. It may have a file for ideas that are being actively contemplated and a file for inactive ideas.
III. Encouraging and Protecting New Ideas

B. Encouraging Creativity at the Firm Level

1. An employee may exhibit creativity in a number of ways, including solving a problem or taking an opportunity and using it to develop a new product or service idea.

2. Although creativity is typically thought of as an individual attribute, it can be encouraged or discouraged at the firm level.

3. Table 2.3 in the textbook provides a list of actions and behaviors that both encourage and discourage creativity at both the organizational level and the individual supervisor level.

C. Protecting Ideas from Being Lost or Stolen

1. Intellectual property is any product of human intellect that is intangible but has value in the marketplace. It can be protected through tools such as patents, trademarks, copyrights, and trade secrets.

2. As a rule, a mere idea or concept does not qualify for intellectual property protection; that protection comes later when the idea is translated into more concrete form.
III. Encouraging and Protecting New Ideas

C. Protecting Ideas from Being Lost or Stolen

3. At the opportunity recognition stage, however, there are three steps that should be taken when a potentially valuable idea is generated:

   a. Step 1: The idea should be put into tangible form – either entered into a physical idea logbook or saved on a computer disk.

   b. Step 2: The idea, whether it is recorded in a physical idea logbook or saved in a computer file, should be secured.

   c. Step 3: Avoid making an inadvertent or voluntary disclosure of an idea in a way that forfeits your claim to its exclusive rights.