



2 Recognizing Opportunities

2.1 Researching Opportunities

2.1.1 Introduction

Entrepreneurs discover ideas for businesses in numerous ways. This chapter will explain what entrepreneurs can do to find inspiration.

Tip

"I don't try to jump over seven-foot bars. I look around for one-foot bars that I can step over."
—Warren Buffett

Entrepreneurs identify opportunities for business concepts by using the following tactics:

Reality



"Great ideas need landing gear as well as wings."

—C.D. Jackson

- Studying markets, industries, and competition.
- Researching demographics, lifestyles, and habits.
- Identifying problems and needs.
- Watching trends.
- Establishing a personal network.

More Info

Video, Opportunity Recognition—Scott Kriens, 55 seconds, ecorner, Stanford University's Entrepreneurship Corner—Scott Kriens describes how Juniper was able to compete and take advantage of the rapidly growing internet router space by solving unique problems. ecorner.stanford.edu/authorMaterialInfo.html?mid=1629

Link, How to Conduct Fundamental Market Research, Bill Warner, Managing Partner, Paladin and Associates. entrepreneurship.org/en/resource-center/how-to-conduct-fundamental-market-research.aspx

2.1.2 Study Markets, Industries and Competition

By studying markets, industries and competitors, an entrepreneur can identify opportunities and develop a potential advantage. The successful entrepreneur will gain an edge over the competition by developing the following habits.

- **Monitor society, industry, and the marketplace**—Changes in consumer tastes, lifestyles, and habits are constant and volatile. Changes in government regulations and laws also present opportunities to businesses quick to identify their implications. Entrepreneurs anticipating and responding to such changes greatly increase their chances of success.

Tip

Make it a practice to keep on the lookout for novel and interesting ideas that others have used successfully. Your idea must be original only in its adaptation to the problem you are working on.

—Thomas Edison



- **Examine new knowledge**—Entrepreneurs scan trade journals, browse libraries and bookstores, and talk to people in their industries to discover what is new and exciting. They ask questions about markets, products, services, and challenges. They scan magazines and trade journals from their own and other industries.
- **Study the competition**—Entrepreneurs need to know what the competition is doing. This careful gathering and analyzing of data is known as market intelligence. Before launching a new business, an entrepreneur must scour the marketplace to see who is already there and ask industry people, customers, and suppliers about the competition's strengths and weaknesses.
- **Read constantly**—Successful entrepreneurs spend a significant amount of time reading and scanning newspapers, magazines, journals, and other publications for trends and connections between seemingly unrelated events. They read intuitively, looking for what is different, new, and exciting. They read publications outside of their own industry as well as major metropolitan newspapers and local business journals, which cover community developments and trends in local markets.
- **Make use of commercial research**—Business reference librarians can provide assistance in finding research resources. Leading sources include Dun & Bradstreet and Robert Morris & Associates. Many commercial research companies charge a fee for services.

Reality

One study revealed that innovators often spend as much as a third of their business day just reading.

More Info

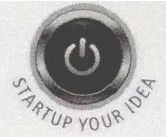
Market Research.com—The world's largest collection of market research. Reports are fee based. Some reports can be accessed at some university libraries without a fee.

County Business Patterns—Annual series that provides state, county, and ZIP economic data by industry. census.gov/epcd/cbp/view/cbpview.html

2.1.3 Research Demographics, Lifestyles and Habits

The entrepreneur can examine consumer demographics, lifestyles, and habits to discover business opportunities.

- **Keep abreast of demographic changes**—Demographic changes are continual, but often their consequences are not readily apparent. Many opportunities relate to demographic changes surrounding births and deaths, age distribution, education, occupations, and geographic locations. Population statistics change more rapidly today than in the past. For example, Peter Francese of American Demographics, Inc., points out that the fastest growing age group in America is people 85 years or older. For this market, assisted living centers, recreational activities, and delivery services are fertile ground for new opportunities.
- **Engage in people watching**—Observing people can bring meaningful insights for new opportunities. Watching people's behavior and listening to conversations can provide meaningful insights and ideas on needs and desires.



2.1.4 Identify Problems and Needs

By identifying problems and needs, the entrepreneur can potentially become inspired by a gap in the current market.

Tip

Make a list of daily nuisances that people experience. Then brainstorm creative solutions to these irritations and inefficiencies people face. This thought process will help you uncover hidden opportunities.

- **Look for the unexpected**—One can find a wealth of opportunities by observing others' experiences in the marketplace, capitalizing on their successes and improving on their mistakes.
- **Study problems**—Problems present many entrepreneurial opportunities. Can something be done better, more quickly, or more cheaply? People are perpetually looking for cost-effective solutions to their problems. Entrepreneurs are solution-oriented and good listeners. They are troubleshooters, uncovering ideas that make people's lives easier, more economical, or more pleasurable. In business to business sales, problems such as the late deliveries of goods or the poor quality of merchandise present an opportunity to fulfill a marketplace need by the discerning entrepreneur.
- **Examine position within the industry**—One way entrepreneurs identify market needs is by examining the industry and their position within it. Reading, researching, networking, and listening to managers and coworkers discuss problems can bring important unsatisfied needs to light.
- **Identify a growth industry**—Frequently in the early stages of a growth market, customers' needs are not being adequately addressed. Sufficient time has not elapsed for there to be an adequate number of suppliers in the marketplace. Entrepreneur can become one of a few providers for specific products/services in their particular growth segments. Industries offering services to the aging Baby Boomer population are seeing the demand for services such as health care and home services grow as this massive demographic age group begins turning 65.

Reality



Before settling on a specific growth industry, it is important to thoroughly research every aspect of the industry. Some ideas that appear promising may be subject to complex forces, which could hinder long-term success or profitability. Cable television services, for example, experienced rapid growth in 2000 – 2010. Entrepreneurs and investors committed large resources to it. Today these companies are grappling with how to prevent the growing trend of online TV viewing from undermining its business.

- **Identify people's needs**—What is important to people today? What are their priorities? Is there a niche market whose needs have not been addressed? Entrepreneurs know their current and potential customers well and find out what these customers need. They ask open-ended questions to discover customers' dissatisfactions with current products and services. A focus group provides a simple but effective way to gain consumer information. Another simple technique is to ask questions of and listen to prospective customers. This method of informal surveying can provide a wealth of information on consumer preferences.



More Info

Trendwatching.com—A leading consumer trends firm, relying on a global network of hundreds of spotters.
trendwatching.com/briefing/

Trends Which Impact Your Life & Your Business—The Ewing Marion Kauffman Foundation Takes A Look at Trends. View this resource using the More Info Link in the online course.

Tip

A big difference lies between spotting a trend and developing a profitable long-term business based on some aspect of the trend.

Vendors and suppliers—Due to frequent interaction with customers, vendors and suppliers are a valuable resource for information about new products/services, as well as customers' unmet needs.

Entrepreneur's infrastructure (accountants, lawyers, bankers, etc.)—Professionals who work closely with small business can provide valuable information about changes or the latest trends affecting their industries and the marketplace.

Teachers and instructors—These professionals stay current in their specific fields and are a helpful source of information about related trends.

Various government agencies—The government has a host of agencies that collect and report information on the economy and society. Others provide valuable assistance to entrepreneurs launching and growing businesses.

Internet—Query your favorite search engine for trends in your area of interest.

Tip

Success as an entrepreneur is related to the ability to spot trends, which have long term staying power, and distinguish them from fads, which are of much shorter durations.

from real entrepreneurs

Jane Winter visited a local breakfast meeting for entrepreneurs interested in doing business with the local and federal government. To her amazement, the government agencies provided lists of products and services that they needed. At this particular meeting, they were seeking minority and women-owned businesses to provide some of the products and services on the list. Jane walked out of the breakfast with a list of viable ideas for doing business with the government.

More Info

Entrepreneur.com—In the search box type in "trends" for links to articles and websites on the latest trends.

Small Business Administration—Search for "trends" to identify many links to articles and websites about today's trends. sba.gov

Trends and Business Opportunities, Kauffman Foundation—Identify trends and related business opportunities using newspapers, periodicals, and the Internet. View this resource using the More Info link in the online course.

Trends on the Horizon, Michael Moe, a founding partner at ThinkEquity, discusses the importance of looking at what will permeate culture five or more years into the future rather than what's hot and trendy now. Ecorner, Stanford University's Entrepreneurship Center. ecorner.stanford.edu/authorMaterialInfo.html?mid=2194



2 Recognizing Opportunities

Exercise 2.1.5 Identify Venture Opportunities

Learning Objective

- Uncover possible business opportunities by identifying and analyzing trends in the environment.

Overview

Trends are a rich source of opportunities for the alert entrepreneur. Trends may be demographic, cultural, technological or economic. In this exercise, you will search your environment for trends and identify related business opportunities. You will then evaluate which business idea presents the greatest market opportunity.

Tools

Newspapers, periodicals, Internet access

Step 1

Collect information concerning trends in the environment. By talking with others, using the Internet, and scanning newspapers and periodicals, identify three trends in the environment.

Step 2

Brainstorm business ideas related to trends. For each trend identified, brainstorm until you identify three related ideas for possible business ventures. At this point, do not limit ideas to your industry. Be open and creative.

Step 3

Identify which business idea presents the greatest opportunity. From your list of business ideas based on trends, choose the idea you feel has the most potential to become a successful business and explain why.

Example

Step 1 Trend	Step 2 Business Ideas
Trend Trends show people wanting to be unique and looking for ways to show that individuality. They want to make themselves known to others.	Idea 1 Consult with individuals and companies on effectively developing and communicating their image/brand through social media.
	Idea 2 Sell accessories to individualize cell phones and other electronic devices.
	Idea 3 Provide interior decorating services that build upon the customer's taste.



Exercise 2.1.5 Identify Venture Opportunities

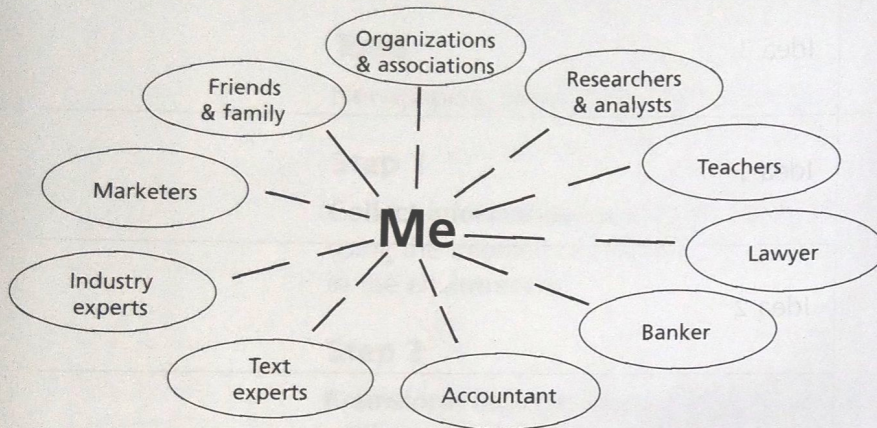
Step 1 Trend	Step 2 Business Ideas
Trend A	Idea 1
	Idea 2
	Idea 3
Trend B	Idea 1
	Idea 2
	Idea 3
Trend C	Idea 1
	Idea 2
	Idea 3

Step 3 Business idea which presents the greatest venture opportunity and why

2.1.6 Establish a Personal Network

Successful entrepreneurs build a network or team of people to serve as mentors and advisors throughout the life of their business. This network provides insights and information concerning the entrepreneur's market and industry.

Entrepreneurs often work so intently on the intricacies of their business that they lack a broader perspective of the business environment. A network of mentors, advisors and professionals can provide this more general and objective point of view. Such a network provides state-of the art information, helps the entrepreneur scan the environment for opportunities, and provides helpful feedback concerning the development of an opportunity.



Building a network of people to provide information and feedback is a great way to identify trends. Understand that it takes persistence to build this network.

Tip

When you need a mentor, search professional associations and civic groups for people whose skills and expertise you respect. A mentor can take on the following responsibilities:

- Provide objective advice.
- Open doors to new opportunities.
- Introduce you to people and necessary resources.
- Assess business performance and provide guidance.

The process of networking begins at the first introduction. From there, the initial contact can be developed into a business relationship. An entrepreneur can find mentors through industry and trade associations; professional and business organizations; accountants, attorneys, and bankers who work closely with small business; teachers and professors; and vendors and suppliers.

Reality

It will take numerous meetings to become thoroughly acquainted with potential mentors or advisors. Even when others know you well, transitioning to a mentoring relationship is challenging. The best way to encourage people to help you is to help them first.

One saying in entrepreneurship claims a person is not in business until a sale is made. With a customer who wants to buy, the entrepreneur creates a business to make that sale. The customer is indeed the focal point for the business.

Customers must be evaluated. There are some whose word is no good, or their credit is less than bankable. Just because a business has a firm contract with a company does not mean that other parties will place much value on it. How enforceable is the contract? What bailout clauses are in the contract? What seems to be a firm contract may not be if there are provisions in it by which the customer can bail out at any time.

Reality

Don't mistake customer interest for customer orders. Until a contract is signed or dollars are exchanged, a sale is not assured.

Reality

A word of warning. There are some customers that businesses do not want. A business may be better off without customers that require excessive staff time or make unrealistic demands.

from real entrepreneurs



Two women wanted to start a catering business for corporate functions. Because of their limited finances, the women needed customers before they could actually launch their business. They began their customer search by visiting individual offices and giving the receptionists a plastic-wrapped chocolate brownie with boxed-lunch menus attached. They explained to the receptionists that they were starting a new corporate catering business and would appreciate their business. For the next two weeks, they stopped by the same offices and gave away more brownies. By the third week, they started taking orders. Many firms ordered box lunches because of their loyalty to the "brownie girls."

2.2.3 Transition a Hobby/Interest into a Business

Turning a hobby into a business can provide an excellent entry strategy. A key ingredient of success is the entrepreneur's dedication to a business and willingness to spend time on it. A hobby can provide entrepreneurs with a viable business doing something they enjoy.

clown



2.2.6 Become a Franchisee or Licensee

Franchise

Many entrepreneurs have successfully invested in a profitable franchise. Equally true, many people have lost a lot of money by joining the wrong franchise. Picking the right franchise to buy into is not an easy decision. Highly successful franchise systems require large sums of money to join, while low-cost franchises are typically high-risk propositions that may offer the franchisee little in return.

A good franchise should offer the franchisee the following:

- Experience and know-how. Above all, the franchisor should provide management training to the franchisee. This key ingredient and major justification for franchising is a big advantage for untrained people starting a business.
- Proven operating procedures. Some franchise organizations will build the operation and mentor the entrepreneur in the early stages of the business.
- Customers. Strong franchise systems have created a demand for their products/services that will immediately benefit the franchisee. The franchisee steps right into a ready-to-buy market.

Frequent concerns expressed about becoming a franchisee include the following:

- A percentage of the revenue is paid to the franchisor, thus lowering the franchisee's profit.
- Supplies often must be purchased from the franchisor, often at costs higher than would be paid elsewhere.
- Franchisees are not free to manage the business as they would like.
- The franchisor's policies and procedures must be followed.
- The business cannot be sold to just anyone.
- The franchisor may sell another franchise within the same operating area, which could negatively affect the original franchisee's sales. Some franchising agreements, however, define franchisee's operating territories, thus protecting against this risks.

Reality

The front-end cost of a franchise is often higher than what an entrepreneur would pay if he or she started the business from scratch. This needs to be evaluated against what benefits the franchise affords the entrepreneur.

Entering into a franchise agreement is an entry strategy that appeals largely to people who do not want to start a business from scratch and feel a franchise will improve their chances of success.



Licensing

Another entry strategy is to buy the licensing rights to manufacture and/or market a well-known product/service. Some companies license both the marketing and the manufacturing for the property, while others license one or the other.

Licensing gives the entrepreneur a unique selling advantage over competitors with unlicensed products. In many cases, perceived value of a licensed product allows entrepreneurs to generate profit margins above industry averages.

The apparel industry is a natural for licensing, since purchases are often made based on perceived value and reputation. Goods that have been licensed successfully include logos and products representing universities, sport teams, Disney and cartoon characters, toys, television shows, movies, and artists.

Obtaining a license can be challenging, since many licensors prefer to do business with companies that have strong financial backgrounds, manufacturing capabilities, and established marketing departments.

A good source of licensing ideas comes from trade shows and association meetings where entrepreneurs can meet distributors and sales representatives. Other resources for licensing information are:

- Colleges and universities, corporations, and nonprofit research institutes.
- Information services, such as the National Technical Information Service.
- The International Licensing Industry Merchandiser's Association (LIMA), which sponsors an annual show in New York City.
- The Licensing Resource Directory, published annually by Expocon Management Associates, which lists alphabetically more than 3,000 owners and categories of products/services as well as tips, support organizations, consultants, designers, and other professionals specializing in licensing.
- The Licensing Letter and The Licensing Letter Resource Sourcebook from EPM Communications, which lists the top 4,000 executives involved in the licensing industry.
- Licensing Report, a weekly newsletter, and The Licensing Book, a monthly magazine, from Adventure Publishing.

More Info

Link—Global licensing information.

licensemag.com/licensemag/Cover+Story/TOP-100-Licensors/ArticleStandard/Article/detail/508354

Franchise Opportunities—Online resource for franchise business opportunities and information. **franchiseopportunities.com**

Book, *The Licensing Business Handbook*, Karen Raugust—All the tools needed to create and implement a successful and profitable licensing program

Reality



Licensing a product/service does not mean instant success. The same due diligence should be performed on licensing that is required to start any kind of business. It takes detailed planning, effective selling, and marketing to succeed.

Tip

The key to successful licensing is to find a market niche and fill it with a unique product/service that has wide consumer appeal and will be profitable for both the entrepreneur and the licensor.



2 Recognizing Opportunities

Exercise 2.3.3 Personal Vision Evaluation

Learning Objective

- Analyze three business opportunities to see how well they match your personal vision.

Overview

There is no guaranteed, statistically accurate way to calculate the probability that a business opportunity that matches your personal vision exists. Much of this evaluation must be done subjectively. There are some helpful tools to guide you through the process. These tools help you identify the personal vision criteria that are most important to you and give you a mechanism to judge how well a business idea meets your personal vision. You can further use this tool to compare the ability of one business idea against another.

With your personal vision in hand you can eliminate opportunities that do not come close to matching your criteria. Using the tool below you will sift through the opportunities as if you were panning for gold to identify three that deserve your continued investigation. Resist the urge to hang onto an opportunity that does not meet your personal vision. In the long run, you will be happier for letting someone else start a business to meet that opportunity.

Tools

Internet access; copies of Personal Vision Evaluation Grid.

Step 1

Review your personal vision from Assignment 1. Take a minute to review the personal vision you created in Assignment 1. Make any changes you feel are necessary to adequately define what success means to you.

Step 2

On the Personal Vision Evaluation Grid, enter an "*" in the Priority column to identify essential criteria. This asterisk applies a higher importance to the criteria that are essential to your personal success. For example, maybe the number of hours you are willing to work per week is a critical number. An "*" indicates that this criterion cannot be compromised.

Step 3

Identify three business opportunities that are of interest to you and that you consider viable business opportunities for you to start.

1. _____
2. _____
3. _____



Step 4

Using the Personal Vision Evaluation Grid, rate how well each business opportunity meets your personal vision. Using a scale of 1 to 10 (1 meaning that the business opportunity does not at all meet your personal vision and 10 meaning that the opportunity perfectly meets your personal vision), identify the level that each of your personal vision criterion is met by the business opportunity. Note: You will need a separate copy of this grid to evaluate each business opportunity.

Personal Vision Evaluation Grid

Criteria — Step 1 and Step 2	Step 3	Rating — Step 4									
	Priority*	How well does the business concept meet your personal vision? Not at all ----- Perfectly									
Lifestyle Criteria											
Hours of work per week		1	2	3	4	5	6	7	8	9	10
Flexible work hours		1	2	3	4	5	6	7	8	9	10
Desired business location		1	2	3	4	5	6	7	8	9	10
Business travel		1	2	3	4	5	6	7	8	9	10
Morals, beliefs, or standards		1	2	3	4	5	6	7	8	9	10
Family support		1	2	3	4	5	6	7	8	9	10
Professional Criteria											
Level of power or status		1	2	3	4	5	6	7	8	9	10
Involvement in daily operations		1	2	3	4	5	6	7	8	9	10
Match with skills and abilities		1	2	3	4	5	6	7	8	9	10
Job security		1	2	3	4	5	6	7	8	9	10
Lifestyle business		1	2	3	4	5	6	7	8	9	10
Growth business		1	2	3	4	5	6	7	8	9	10
Financial Criteria											
Personal financial obligations		1	2	3	4	5	6	7	8	9	10
Future income level		1	2	3	4	5	6	7	8	9	10
Business profits		1	2	3	4	5	6	7	8	9	10
Personal investment		1	2	3	4	5	6	7	8	9	10
Money from outside sources		1	2	3	4	5	6	7	8	9	10

* Add asterisk (*) for essential

Total Score _____

Step 5

Total the score for each business opportunity and then summarize how well each business opportunity matched your personal vision. In addition to total score, consider the score for your essential criteria. Summarize here:
