

Recognizing Opportunities and Generating Ideas

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What is An Opportunity? ▶ ▶

• Opportunity Defined

• An opportunity is a *favorable set of circumstances that creates the need for a new product, service, or business idea.* ▶ ▶

• Most entrepreneurial firms are started in one of two ways:

• Some firms are *internally stimulated*. An entrepreneur decides to start a firm, searches for and recognizes an opportunity, then starts a business. ▶

• Other firms are *externally stimulated*. An entrepreneur recognizes a problem or an opportunity gap and creates a business to fill it. ▶

• An opportunity has four essential qualities ▶

Opportunity
Gap or a
Problem
▶

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Innovative and Imitative Opportunities

- Venture opportunities are not confined only to the *innovative ideas* as portrayed by Schumpeter and others.
- They can also take *imitative* forms .
- Aldrich and Martinenz (2001) found that the majority of entrepreneurs introduce imitative venture ideas compared to the innovative ideas.

Window of Opportunity

• Window of Opportunity ▶

• The term “window of opportunity” is a metaphor describing *the time period in which a firm can realistically enter a new market.*

• Once the market for a new product is established, its window of opportunity opens, and new entrants flow in.

• At some point, the market matures, and the window of opportunity (for new entrants) closes.

• Opportunity and Idea !!! ▶

• An approach to identify an opportunity ▶

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First Approach: Observing Trends

• Observing Trends ▶

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

• There are two ways that entrepreneurs can get a handle on changing environmental trends:

• They can carefully *study and observe* them.

• They can purchase customized forecasts and market analyses from *independent research firms.*

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Trend 1: Economic Forces

• Economic Forces ▶

• Economic changes are twofold; *consumer spending patterns* and changes in the *disposable income.*

• When studying how *economic forces affect opportunities*, it is important to evaluate who has money to spend and who is trying to cut costs. ▶

• *An increase in the number of women in the workforce and their related increase in disposable income is largely responsible for the number of boutique clothing stores targeting professional women that have opened in the past several years.*

• *Many large firms are trying to cut costs. Entrepreneurs have taken advantage of this trend by starting firms that help other firms control costs. (e.g. web-based businesses)*

• Existing economic trends can also help to identify areas to avoid.. ▶

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Trend 2: Social & Demographic Forces

- **Social Forces**
 - These forces *alter demand* for products & services, and generate solutions than currently available.
 - *The continual proliferation of fast-food restaurants, for example, isn't happening because people love fast food. It is happening because people are busy, and have disposable income.*
 - *Similarly, the Sony Walkman was developed not because consumers wanted smaller radios but because people wanted to listen to music while on the go.*

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Technological Changes

Technological changes are important sources entrepreneurial opportunity because they make it possible for people to do things in new and more productive ways.

Examples of entire industries that have been created as the results of technological advances

- Computer industry
- Internet
- Mobile phone industry
- On-line learning
- Miniaturization of technologies

Political and Regulatory Changes

Political and regulatory changes are sources of opportunity because they make it possible to develop business ideas to use resources in new ways that are either more productive or that redistribute wealth from one person to another.

Examples

- Private universities
- use of plastic crates in Sri Lanka
- Helmets
- Threat of terrorism

Second Approach: Solving a Problem

Second Approach: Solving a Problem

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

These problems can be pinpointed through *observing trends and through more simple means*, such as intuition, serendipity, or chance.

Some business ideas are clearly initiated to solve a problem.

For example, Symantec Corp. created Norton antivirus software to guard computers against viruses.

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Third Approach: Finding Gaps in the Marketplace

- **Gaps in the Marketplace**
 - A third approach to identifying opportunities is to find a *gap in the marketplace*.
 - A gap in the marketplace is often created when a product or service is needed by a specific group of people but doesn't represent a large enough market to be of interest to mainstream retailers or manufacturers.
 - *No fitness centers that are open 24 hours a day, But companies like Snap Fitness, "24 hour fitness" filled the gap in existence.*
 - *Nowadays, many state universities in Sri Lanka offer courses for non university entrants.*



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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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Prior Industry Experience

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



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Cognitive Factors

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

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Social Networks

- **Social Networks**
 - The extent and depth of an *individual's social network* affects *opportunity recognition*.
 - People who build a substantial network of social and professional contacts will be exposed to more opportunities and ideas than people with sparse networks.
 - In one survey of 65 start-ups, half the founders reported that they got their business idea through social contacts.



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Creativity

- **Creativity**
 - Creativity is the process of generating a novel or useful idea that result in the improved efficiency or effectiveness of a *system*.
 - Opportunity recognition may be, at least in part, a creative process.
 - For an individual, the creative process can be broken down into five stages, (↻)

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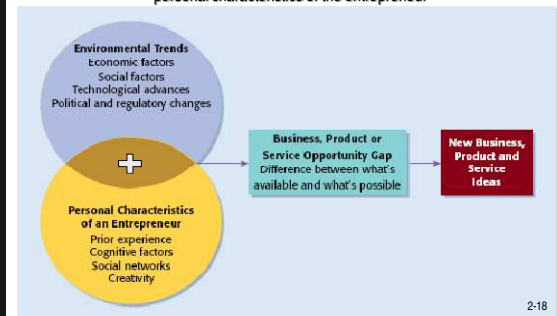
The Nature of the Creative Process

- Creativity is a process that can be developed and improved. Some individuals have a greater aptitude for creativity than others.
- **Typical Creative Process**
 - **Phase 1:** Background or knowledge accumulation (Preparation)
 - **Phase 2:** The incubation process
 - **Phase 3:** The idea experience (Insight)
 - **Phase 4:** Evaluation and Elaboration

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Full View of the Opportunity Recognition Process

Depicts the connection between an awareness of emerging trends and the personal characteristics of the entrepreneur



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Techniques For Generating Ideas

Brainstorming

Focus Groups

Surveys

Other Techniques

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Brainstorming

- **Brainstorming**
 - Is a technique used to *generate a large number of ideas* and solutions to problems quickly.
 - A brainstorming “session” typically involves a group of people, and should be targeted to a specific topic.
 - Rules for a brainstorming session:
 - No criticism.
 - Freewheeling is encouraged.
 - The session should move quickly.
 - Leap-frogging is encouraged.

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Focus Groups

- **Focus Group**
 - A focus group is a gathering of five to ten people, who have been selected based on *their common characteristics relative to the issues being discussed*.
 - These groups are led by a *trained moderator*, who uses the internal dynamics of the group environment to gain insight into why people feel they way they do about a particular issue.
 - Although focus groups are used for a variety of purposes, they can be used to help generate new business ideas.

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Surveys

- **Survey**
 - A survey is a method of gathering information from a sample of individuals. The sample is usually just a fraction of the population being surveyed.
 - The quality of survey data is determined largely by the purpose of the survey and how it is conducted.
 - Surveys generate new product, service, and business ideas because they ask specific questions and get specific answers.
 - Use of internet to spark new ideas!! ▶ ▶

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References

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