CHAPTER 2

RECOGNIZING OPPORTUNITIES AND GENERATING IDEAS

LEARNING OBJECTIVES

1. Explain why it’s important to start a new firm when its “window of opportunity” is open.
2. Explain the difference between opportunity and an idea.
3. Describe the three general approaches entrepreneurs use to identify opportunities.
4. Identify the four environmental trends that are most instrumental in creating business opportunities.
5. List the personal characteristics that make some people better at recognizing business opportunities than others.
6. Identify the five steps in the creative process.
7. Describe the purpose of brainstorming and its use as an idea generator.
8. Describe how to use library and Internet searches to generate new business ideas.
9. Explain the purpose of maintaining an idea bank.
10. Describe three steps for protecting ideas from being lost or stolen.

CHAPTER OVERVIEW

This chapter begins by describing the difference between an opportunity and an idea. Students’ are reminded that many firms fail, not because the entrepreneurs involved didn’t work hard, but because there was no real opportunity to begin with. The four components of a favorable opportunity (attractive, durable, timely, and anchored in a product, service, or business that adds value) are then discussed.

The middle of the chapter focuses on the three primary ways that entrepreneurs discover opportunities: by studying environmental trends, solving a problem, or finding gaps in the marketplace. This material is followed by a discussion of the personal characteristics of entrepreneurs that heighten their ability to recognize business opportunities. The chapter then transitions to talking about techniques that can help entrepreneurs come up with new business or product ideas. The techniques introduced include brainstorming, focus groups, library and Internet research, and an assortment of other techniques.

The chapter ends by talking about how to build an organization that encourages and protects new ideas. The section on protecting ideas from being lost or stolen is particularly interesting.
CHAPTER OUTLINE

I. Identifying and Recognizing Opportunities
   A. Observing Trends
      1. Economic Forces
      2. Social Forces
      3. Technological Advances
      4. Political Action and Regulatory Changes
   B. Solving a Problem
   C. Finding Gaps in the Marketplace
   D. Personal Characteristics of the Entrepreneur
      1. Prior Experience
      2. Cognitive Factors
      3. Social Networks
      4. Creativity
         a. Preparation
         b. Incubation
         c. Insight
         d. Evaluation
         e. Elaboration

II. Techniques for Generating Ideas
    A. Brainstorming
    B. Focus Groups
    C. Library and Internet Research
    D. Other Techniques

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 or Stolen

CHAPTER NOTES

I. Identifying and Recognizing Opportunities

* Material following the opening feature on Kathryn Kerrigan.

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: it is (1) attractive, (2) durable, (3) timely, and (4) anchored in a product, service or business that creates value for its buyer or end user.
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.

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. It may or may not meet the criteria of an opportunity. This is a critical point because, as we noted in Chapter 1, many businesses fail not because the entrepreneurs that started them didn’t work hard, but because there was no real opportunity to begin with.

* Now, let’s look at the three ways to identify an opportunity

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

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, when the economy is strong, people have more money to spend and are willing to buy discretionary products and services that enhance their lives. In contrast, when the economy is weak, not only do people have less money to spend, but they are typically more reluctant to spend the money they have, fearing the economy may become even worse—and that in turn, they might lose their jobs because of a weakening economy.

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.

   b. The persistent proliferation of fast-food restaurants, for example, 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.
c. Some of the social trends that allow for new opportunities are as follows:

- Retirement of baby boomers
- The increasing diversity of the workforce
- Increasing interest in healthy foods and “green” products
- New forms of music and other types of entertainment
- The increasing focus on health care, fitness, and wellness
- Emphasis on alternative forms of energy
- Increased globalization of business
- Increased availability of inexpensive yet relatively powerful personal computers

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. For example, the creation of the Apple iPod and the Apple iPhone has in turn spawned entire industries that produce iPod and iPhone accessories.

4. Political Action and Regulatory Changes

a. Political action and regulatory changes also provide the basis for opportunities. For example, new laws create opportunities for entrepreneurs to start firms to help companies comply with these laws.

b. Some businesses and industries are so dependent on favorable government regulations that their literal survival is threatened if the regulation changes. An example of a business that fits this profile is Almost Family, a company that provides home health nursing services. Almost Family receives the majority of its income via fixed payments from Medicare based on the level of care that it provides to its clients. As a result, the company’s profitability is highly sensitive to any changes in Medicare reimbursement policies.

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.
3. Some business ideas are clearly gleaned from the recognition of problems in emerging trends. For example, some older people find traditional cell phones hard to use—the buttons are small, the text is hard to read, and it’s often difficult to hear someone on a cell phone in a noisy room. To solve these problems, GreatCall, a recent start-up, is producing a cell phone called the Jitterbug, which is designed specifically for older users.

   a. A serendipitous discovery is a chance discovery made by someone with a prepared mind.

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.

2. 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.

   a. 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.

3. A common way that gaps in the marketplace are recognized is when people become frustrated because they can’t find a product or service that they need and recognize that other people feel the same way.

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 show that prior experience in an industry helps entrepreneurs recognize business opportunities.

   a. Once an entrepreneur starts a firm, new venture opportunities become apparent. This is called the corridor principle, which states that once an entrepreneur starts a firm, he or she begins a journey down a path where “corridors” leading to new venture opportunities become apparent.

2. Cognitive Factors – Opportunity recognition may be an innate skill
or a cognitive process.

a. There are some who think 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.

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.

4. Creativity – Is the process of generating a novel or useful idea.

a. For an individual, the creative process can be broken into five stages, as shown in Figure 2.4 in the textbook. The five steps are:

i. Preparation – Is the background, experience, and knowledge that an entrepreneur brings to the opportunity recognition process.

ii. Incubation - Is the stage during which a person considers an idea or thinks about a problem; it is the “mulling things over” phase.

iii. Insight – Insight is the flash of recognition – when the solution to a problem is seen or an idea is born.

iv. Evaluation – Is the stage of the creative process during which an idea is subjected to scrutiny and analyzed for its viability.

v. Elaboration – Is the stage during which the creative idea is put into a final form. The details are worked out, and the idea is transformed into something of value.

II. Techniques for Generating New Business Ideas

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. 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.

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

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

ii. 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.

C. Library and Internet Research

1. Libraries are often an underutilized source of information for generating business ideas. The best approach to utilizing a library is to discuss your general area of interest with a reference librarian, who can point out useful resources.

2. Internet research is also important.

   a. If you are starting from scratch, simply typing “new business ideas” into Google or Yahoo! will product links to newspaper and magazine articles about the “hottest” and “latest” new business ideas.

   b. If you have a specific idea in mind a useful technique is to set up a Google or Yahoo! “e-mail alert” using keywords that pertain to your topic of interest.

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. 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

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.
   a. 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.

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 2.5 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 tangible 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 a
more concrete form.

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.

BOXED FEATURES: QUESTIONS FOR CRITICAL THINKING

What Went Wrong?
Clearly Canadian: What Happens When You Don’t Deliver on Your Promises

1. Evaluate Clearly Canadian’s initial fruit-flavored bottled water on all four dimensions of an opportunity.

   Answer: The way the product was originally positioned, it staked up favorably on the four dimensions of an opportunity. It was attractive (i.e., provided a healthy alternative to soda and other sugared drinks), was timely (people were looking for this type of product), durable (an increase in health conscientious is not considered to be a short-term fad), and anchored in a product that created value for its user. The problem with Clearly Canadian, as articulated in the case, is that when the ingredients of the drink were scrutinized, it was determined that for its target audience, people looking for an alternative to sugared drinks, it didn’t meet any of criteria for an opportunity.

2. When you pick up a drink that’s clearly marketed as a healthy alternative to soda and sugared drinks, do you read the label to see if the drink is truly healthier than the alternatives? If it isn’t, do you feel deceived by the marketing?

   Answer: Answers to this question will be mixed. Some people are label readers and others aren’t. Some students may also be prompted to read labels more carefully after reading this case.

3. How can a start-up that has good intentions make sure that its product is truly meeting the need that it was designed to meet?

   Answer: By testing the product before it is widely distributed through focus groups, informal tests among friends and relatives, and by putting a product
through a product/service feasibility analysis, which is discussed in Chapter 3.

4. Evaluate Clearly Canadian’s marketing of its products and the ingredients in its products today. Is the marketing and the products themselves in better sync than the products were when the drink was introduced in the early 1990s?

Answer: Clearly Canadian has repositioned and now has a very credible line of bottled water drinks. It’s Clearly Canadian Hydration drink, for example, has the following attributes:

- Certified organic
- Sugar free/unsweetened
- Zero calories per bottle
- Subtle fruit infusions: Organic lemon and organic orange
- Preservative-free
- Non carbonated
- Pristine Canadian artesian water

Similar health ingredients typify other Clearly Canadian products.

**Savvy Entrepreneurial Firm**

Getting High Quality Advice on Emerging Trends

1. Do you think that Christine Ingemi, Laura Udall, and J.J. Matis are extraordinary people (in terms of their observational abilities and business skills) or ordinary people, like most of the people who own this book? What does the feature tell you about your own ability to come up with a promising business idea?

Answer: This is a question that can be answered in either a straightforward or a complex manner. The straightforward answer is that the three women in the feature are largely ordinary people, who saw a problem in their everyday lives and started a company to solve it. The more complex answer is that there is an entire body of research that argues that some people are more alert than others, and have characteristics that predispose them to be more likely to recognize opportunities than others. These characteristics are covered in the Personal Characteristics of the Entrepreneur” section of the chapter. The feature should tell us two things. First, be on the lookout for opportunities, because they can come out of everyday experiences. Second, don’t rule yourself out in regard to your ability to become a successful entrepreneur. Christine Ingemi, Laura Udall, and J.S. Matis would have probably laughed if someone had told them they would start successful firms several years before they launched their ventures.

2. Evaluate each of the ideas mentioned on all four dimensions of an opportunity. Rank each idea on a scale of 1 to 5 (5 is high) regarding how strongly it satisfies the four characteristics.
Answer: Refer to the table below:

<table>
<thead>
<tr>
<th>Product</th>
<th>Attractive</th>
<th>Timely</th>
<th>Durable</th>
<th>Anchored in a product or service that adds value</th>
</tr>
</thead>
<tbody>
<tr>
<td>iHearSafe</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes—solves the problem of possible hearing loss for people who listen to MP3 players</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Yes—solves the problem of possible back injury to kids who wear backpacks to school</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Less Clear—product solves the problem of having a trendy bag to carry personal items to sporting events</td>
</tr>
<tr>
<td>ZUCA</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes—more and more people are listening to MP3 players</td>
</tr>
<tr>
<td>J.J. Creations</td>
<td>Less Clear</td>
<td></td>
<td>Less Clear</td>
<td>people are always looking for trendy products</td>
</tr>
</tbody>
</table>

Answer: iHearSafe is the result of solving a problem, which was created by the rapid spread of MP3 players, a technological trend; ZUCA was the result of solving a problem; J.J. Creations solved a problem by creating an out of the ordinary bag to take to ballgames and similar venues, but also fills a gap in the marketplace for consumers draw to J.J. Creation’s specific type of products.

Was each idea a result of observing trends, solving a problem, filling a gap in the marketplace, a combination of two of these things, or all three?

Answer: This is a good question for an individual or group assignment. When looking for information on companies, urge your students to go beyond Google and Yahoo! searches. Some of the resources included in Appendix 2.2, such as ProQuest and LexisNexis Academic, are very helpful in generating high quality company information.
**Partnering for Success**

Networking: The Importance of Joining Industry Trade Associations

1. What is an industry “trade show?” How do entrepreneurs benefit by attending trade shows?

   Answer: A trade show is an event at which goods and services in a specific industry are exhibited and demonstrated. Entrepreneurs benefit by attending trade shows because they are exposed to all the latest ideas emerging in an industry. By browsing through a trade show and looking at the exhibits and talking to the vendors, an entrepreneur may get a business idea that he/she would have never thought of otherwise.

2. What are the risks associated with networking? For example, are their risks involved with sharing information with other trade association members about how your firm operates?

   Answer: There are two main risks associated with networking. The first is inadvertently telling someone (such as a competitor) something that’s a trade secret, and gives your firm a competitive advantage. If your trade secret is lost, your competitive advantage might be lost with it. The second risk associated with networking is if the networking isn’t effective, it can chew up a considerable amount of an entrepreneurs’ time, with little to show for it.

3. Does participating in a trade association allow an entrepreneur to establish strong-tie relationships, weak-tie relationships, or both? How can an entrepreneur deliberately try to establish more weak-tie relationships through trade association membership?

   Answer: Both. An entrepreneur can deliberately try to establish more weak tie relationships by seeking out trade association members who are unlike themselves.

4. Spend some time looking at the Web site of the Craft & Hobby Association. Make a list of networking opportunities made available via membership in this organization.

   Answer: This is a good individual or group assignment.

**REVIEW QUESTIONS**

1. What is a product opportunity gap? How can an entrepreneur tell if a product opportunity gap exists?

   Answer: A product opportunity gap is the gap between what is currently on the
market and the possibility for a new or significantly improved product, service, or business that results from emerging trends.

2. What is an opportunity? What are the qualities of an opportunity, and why is each quality important?

Answer: An opportunity is a favorable set of circumstances that creates a need for a new product, service, or business. An opportunity has four essential qualities: it is (1) attractive, (2) durable, (3) timely, and (4) is anchored in a product, service, or business that creates or adds value for its buyer or end user.

3. What four environmental trends are most instrumental in creating business opportunities? Provide an example of each environmental trend and the type of business opportunity that it might help create.

Answer: The four environmental trends (or factors) that are most important in creating business opportunities are: economic factors, social factors, technological advances, and political action and regulatory changes.

<table>
<thead>
<tr>
<th>Environmental Factor</th>
<th>Business Opportunity it Might Create</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic factor</td>
<td>An increase in disposable income in the hands of teenagers creates opportunities to create new electronics products that appeal to teenagers.</td>
</tr>
<tr>
<td>Social factors</td>
<td>An increase in the percentage of elderly people in the U.S. creates opportunities to create new products that help elderly people deal with everyday chores.</td>
</tr>
<tr>
<td>Technological factors</td>
<td>An increase in the percentage of people who use cellphones creates opportunities for companies to create products and services that enhance the usefulness of cellphones.</td>
</tr>
<tr>
<td>Political Action and Regulatory Changes</td>
<td>The passage of new environmental protection regulations creates opportunities for companies to create products to help firms comply with the regulations.</td>
</tr>
</tbody>
</table>

4. Explain how “solving a problem” can create a business opportunity. Provide an example that was not mentioned in the chapter of a business opportunity that was created in this way.

Answer: 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. An example of a “problem” is homeowners, who live in coastal areas, who do not have a quick and convenient way to protect their homes when they are threatened by a hurricane or tropical storm. An entrepreneur might see this problem as an opportunity, and start a firm to build custom “hurricane strength” shutters that are easy to put up when a hurricane threatens and are easy to store during clear weather. Most coastal residents currently use plywood to cover their windows when a hurricane threatens. Plywood is neither easy to put up nor is it easy to store during clear weather.

5. Explain how finding a gap in the marketplace can create a business opportunity?

Answer: A gap in the marketplace suggests that a particular clientele, like people who need plus-sized clothing or people who are hard to fit, are not being adequately serviced. Providing products or services for these people represents a business opportunity.

6. What is meant by opportunity recognition?

Answer: Opportunity recognition refers to the process of perceiving the possibility of a profitable new business or a new product or service.

7. In what ways does prior industry experience provide an entrepreneur an advantage in recognizing business opportunities?

Answer: By working in an industry, an individual may spot a market niche that is underserved.

8. What is the corridor principle? How does this corridor principle explain why the majority of business ideas are conceived at work?

Answer: One an entrepreneur starts a firm, new venture opportunities become apparent. This is called the corridor principle, which states that once an entrepreneur starts a firm, he or she begins a journey down a path where “corridors” leading to new venture opportunities become apparent. The insight provided by this principle is simply that once someone starts a firm and becomes immersed in an industry, it’s much easier for that person to see new opportunities in the industry that it is for someone looking in from the outside.

9. What is entrepreneurial alertness?

Answer: Opportunity recognition may be an innate skill or cognitive process. There are some who think 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.
10. In what ways does an extensive social network provide an entrepreneur an advantage in recognizing business opportunities?

Answer: 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 or ideas than people with sparse networks. This exposure can lead to new business starts.

11. Describe the difference between strong-tie relationships and weak-tie relationships. Is an entrepreneur more likely to get new business ideas through strong-tie or weak-tie relationships? Why?

Answer: Strong-tie relationships are characterized by frequent interaction between coworkers, friends, and spouses. Weak-tie relationships are characterized by infrequent interaction between casual acquaintances. According to research in this area, it is more likely that an entrepreneur will get a new business idea through a weak-tie than a strong-tie relationship because strong-tie relationships, which typically from between like-minded individuals, tend to reinforce insights and ideas the individuals already have. Weak-tie relationships, on the other hand, which form between casual acquaintances, are not as apt to be between like-minded individuals, so one person may say something to another that sparks a completely new idea.

12. Define creativity. How does creativity contribute to the opportunity recognition process?

Answer: Creativity is the process of generating a novel or useful idea. Opportunity recognition may be, at least in part, a creative process. It is easy to see the creativity involved in the formation of many products, services, and businesses.

13. Briefly describe the five stages of the creative process.

Answer: The five stages of the creative process are as follows:

Stage 1: Preparation is the background, experience, and knowledge that an entrepreneur brings to the opportunity recognition process.
Stage 2: Incubation is the stage during which a person considers an idea or thinks about a problem; it is the “mulling things over” phase.
Stage 3: Insight is the flash of recognition – when the solution to a problem is seen or an idea is born.
Stage 4: Evaluation is the stage of the creative process during which an idea is subjected to scrutiny and analyzed for its viability.
Stage 5: Elaboration is the stage during which the creative idea is put into a final form.
14. Explain the difference between an opportunity and an idea.

Answer: An opportunity has four essential qualities: it is (1) attractive, (2) durable, (3) timely, and (4) anchored in a product, service, or business that creates or adds value for its buyers or end users. An idea is a thought, impression, or notion. It may or may not meet the criteria of an opportunity.

15. Describe the brainstorming process. Why is “no criticism” the number one rule for brainstorming?

Answer: Brainstorming is used to generate a number of ideas quickly. It is not used for analysis or decision making. No criticism is allowed. Criticism stymies creativity and inhibits the free flow of ideas.

16. Describe how a focus group is set up and how it is used to generate new business ideas.

Answer: 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.

Usually focus groups are conducted by trained moderators. The moderator’s primary goals are to keep the group “focused” and to generate lively discussion.

17. Describe how library and Internet research can be used to generate new business ideas.

Answer: Libraries contain resources such as industry-specific magazines, trade journals, and industry reports. Simply browsing through several issues of a trade journal on a specific topic, for example, can spark new ideas. Very powerful search engines are also available through university and large public libraries. Spending time reading through industry reports on an industry you’re interested in, can spark new ideas and/or help fine-tune ideas you already have. Internet research is also helpful. General Internet searches, utilizing “e-mail alerts,” and reading through blog posts about general areas of interest can spark new business ideas.

18. What is the purpose of day-in-the-life research?

Answer: Day-in-the-life research refers to sending a team of testers to the homes (or businesses) of a company’s users, to see how its products working and gain insights for new product ideas.

19. What is the purpose of an idea bank? Describe how an idea bank can be set up in a firm.
Answer: An idea bank is a physical or digital repository for storing ideas.

20. What are the three main steps to protect ideas from being lost or stolen?

Answer: The three main steps to protect ideas from being lost or stolen are as follows:

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

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

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

APPLICATION QUESTIONS

1. Tammy, a product development specialist at Procter & Gamble, plans to write an e-mail message to her father asking for a loan. The purpose of the loan will be to start a company to sell an environmentally friendly line of home cleaning supplies that Tammy has spent the past two years developing in her spare time. Tammy wants to convince her father that the idea represents an attractive business opportunity. In your opinion, what should Tammy include in the e-mail message?

Answer: Tammy should try to convince her dad that (1) the idea meets the four tests of an opportunity, (2) the idea either takes advantage of an environmental trend, solves a problem, or fills a gap in the marketplace, and (3) she has done sufficient research, either through brainstorming, focus groups, and/or library and Internet research, to ensure herself that the idea is attractive.

2. Jason is very perceptive and believes he has identified an opportunity for a new business in the beverage industry. He wants to make sure, however, that he isn’t just following a hunch—that the opportunity is sound. What criteria can Jason use to determine whether she has identified an attractive opportunity?

Answer: Jason should make sure that, in his own mind, the idea is (1) attractive, (2) durable, (3) timely, and that it is (4) anchored in a product, service, or business that creates value for its buyers or end users. He should also determine whether the idea’s window of opportunity is open, and whether it truly takes advantage of an environmental trend, solves a problem, or fills a gap in the marketplace.

3. Go to DEMO’s web site at www.demo.com. Watch several “Alumni Videos,” which are short videos of start-ups pitching their product ideas to investors and
other DEMO participants. Identify a start-up that is pitching a business idea that “solves a problem.” Write a short description of the idea and your assessment of its potential.

Answer: This is a good question for an individual or group assignment. The DEMO pitches are short, are normally extremely well done, and students seem to enjoy watching them.

4. The “You Be the VC 2.1” feature focuses on Activate Drinks, a company that has developed a new way to place vitamins into bottled water. Does Activate Drinks meet the tests of an opportunity (as opposed to an idea)? Justify your answer.

Answer: Student may vary on their answer to this question. Activate’s concept (placing vitamins in drinks just before they are consumed) is the type of concept that some people may see as very valuable and others may totally dismiss. It boils down to whether you care about vitamin water to begin with and whether you believe Activate’s claims.

5. Identify three start-ups, other than those discussed in the chapter and listed in Table 2.1, which were started to satisfy a changing environmental trend.

Answer: There are countless examples that student’s might suggest. Urge your students to browse through magazines such as *Inc.* and *Entrepreneur* for suggestions if they are having a hard time coming up with ideas. The Business Opportunities blog (www.business-opportunities.biz) also provides fresh examples of new products and services on a near daily basis.

6. Marshall Hanson, the founder of Santa Fe Hitching Rail, a chain of nine steak restaurants in New Mexico, is considering expanding his menu, which is currently restricted to steak, hamburger, potatoes, and fries. He has just read a book about entrepreneurship and learned that entrepreneurs should study social trends to help identify new product opportunities. List the social trends that might help Martin choose items to add to his menu. Given the trends you list, what items do you suggest Martin add?

Answer: This is a good thought questions for students. On the one hand, Marshall’s menu features food that is high in fat and cholesterol, which may prompt one to recommend to Marshall to broaden his menu to include lower fat foods, such as chicken, fish and salads. This recommendation is in sync with social trends that favor health consciousness. On the other hand, Marshall’s food, particularly the steak and hamburger, is high in protein, which is in sync with the Atkins and the South Beach diet plans. This recognition might prompt one to recommend to Marshall to keep his menu fairly intact, but offer alternatives to potatoes and fries that favor low carbohydrate diets.

7. Make a list of the three to five more compelling “technological advances” that have occurred in the United States or the world since you entered college. Think
of at least two new product ideas that have emerged from each of these advances. To what extent do you believe each of these advances will continue to spawn new product ideas?

Answer: This is a good question for a group of individual assignment. Most students will think about advances made in medicine, Internet technologies, Web 2.0 applications, organic foods, cellphone technology, digital photography, and various forms of entertainment.

8. Recognizing a problem and proposing a solution to it is one way entrepreneurs identify opportunities. Think about your current activities as well as others in which you have an interest. Identify a problem with the activity you are considering and recommend a business to solve the problem.

Answer: This is a good thought question for students. Be sure that the opportunity that is identified meets the tests of an opportunity: it is (1) attractive, (2) durable, (3) timely, and (4) anchored in a product, service, or business that creates or adds value for its buyer or end user.

9. Go to Varor.tv’s Web site at www.vator.tv. Watch several of the “Tech Startup” pitches. Describe the most compelling pitch that you watched and identify whether the business idea satisfies a changing environmental trend, solves a problem, or fills a gap in the marketplace.

Answer: This is a good question for an individual or group assignment. Look for the tech startup pitches under the “directory” tab.

10. Megan Jones owns a small chain of fitness centers in Kansas City. In general, her centers are successful, but she feels they are getting “stale” and could benefit from new ideas. Suggest to Megan some ways she could generate new ideas for her centers.

Answer: Brainstorming, focus groups, and Internet and library research.

11. As mentioned in the chapter, “prior experience” in an industry helps entrepreneurs recognize business opportunities. This concept extends to prior experience in any aspect of life—whether it is in sports, music, or a volunteer activity. In what area of areas do you have a good amount of “prior experience”? How could this position you to start a business drawing on your experiences?

Answer: This is a good question for an individual assignment. Make sure your students directly tie their prior experience to a potential business opportunity. Some students will argue that they really don’t have any prior experience that would lend itself to a business opportunity. In these cases, challenge your students to think harder. All of us have unique experiences that might lend themselves to business opportunities. Joseph Keeley, the subject of the opening feature in
Chapter 15, used his prior experience as a babysitter to start a very successful franchise organization, College Nannies & Tutors.

12. Make a list of your strong-tie and weak-tie relationships. (Include at least five names on each list.) Select two names from your list of weak-tie relationships, and speculate on the types of new business ideas that you think these individuals would be uniquely qualified to assist you with.

Answer: This is a good question for an individual assignment.

13. How could FLAVORx and CarePages, the two companies featured in Case 2.2, use brainstorming to generate new ideas for their companies?

Answer: Both companies could bring together a group of their employees, or a mix of employees, advisory board members, and customers, and simply follow the procedure for conducting a brainstorming session laid out in the chapter.

14. How could the founders of iVideosongs, the subject of the “You Be the VC 1.1” feature at the end of Chapter 1, have utilized library and Internet research to flesh out their business idea? What information would have been most helpful to them?

Answer: There is undoubtedly much that the founders of iVideosongs could have learned about the music industry via library and Internet research, regarding whether the industry is growing or shrinking, whether profit margins (among businesses that provide music lessons) are growing or shrinking, and so forth. There is also probably much that could be learned about trends regarding interest specifically in the guitar (the first instrument iVideosongs will provide instruction for). In addition, one of the challenges that iVideosongs had early-on was securing licensing rights from artists, publishers, and labels. Library and Internet research may have led the founders to iVideosongs to information about how to effectively negotiate with music companies.

15. Freedom Electronics is a start-up with about 20 sales representatives. The company has a solid product line but knows that to remain competitive it must continue recognizing opportunities for new products and services. The firm has not developed a systematic way for its sales staff to report new ideas. Suggest some ways that Freedom can record and protect the idea of its sales reps.

Answer: Freedom should set up 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 to qualified employees. To protect its ideas, Freedom should obtain intellectual property protection when possible. When an idea has not reached the point where intellectual property protection is possible or practical, it should implement the following three step procedure:
Step 1: The idea should be put into a tangible form – either entered into a physical idea logbook or saved on a computer disk.

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

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

**YOU BE THE VC 2.1**

**Company:** Activate (www.activatedrinks.com)

**Business Idea:** Produce vitamin-enriched bottle water in a manner in which the vitamins are added just before the water is consumed, rather than when it is bottled, to maximize the potency of the vitamins.

**You Be the VC Scorecard**

<table>
<thead>
<tr>
<th>Item</th>
<th>Score/Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strength of New Venture Team</td>
<td>1 2 3 4 5&lt;br&gt;Activate is led by Andres Eisner, the son of former Disney CEO Michael Eisner.&lt;br&gt;No additional information is available about Activate’s management team.</td>
</tr>
<tr>
<td>Strength of the Opportunity</td>
<td>1 2 3 4 5&lt;br&gt;It’s hard to tell. There are dozens of bottled water products and an increasing number of them are “vitamin enriched.” So it’s hard to know if consumers will see Activate as just one more product, which has a clever gimmick, or will see real value in its claim that vitamins deteriorate sitting in water and its vitamins in the cap approach is the solution to the problem. Our fear is that people who are really concerned about vitamins are already talking them, and don’t rely on getting their vitamins from products like vitamin-enriched water. People who don’t care about vitamins may pass Activate by without a second look.</td>
</tr>
</tbody>
</table>
Chapter 2: Opportunity Recognition

### Strength of the Industry

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

The beverage market is large and still growing, but is also crowded. The bottled market is particularly crowded, although it is admittedly a hot category.

### Strength of Business Model

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

Activate will sell via its Web site and through retail stores. A pair of challenges that Activate has is (1) most consumers aren’t aware that vitamins lose their potency while sitting in water and (2) Activate’s unique vitamins in the cap design is something people haven’t seen before. As a result, for Activate to be successful it will need to create a direct marketing campaign, where it shows people how the product works, and then those people will hopefully show others to the point where the campaign becomes viral. A key to Activate’s success is whether they can make this happen.

### Average Score

3.25/4.0

**Decision:** We would not fund this firm. There are just too many questions marks and too many stronger firms that command our attention. The competitiveness of the beverage industry is also a concern. Activate will have to fight hard to get noticed, and even though it has an innovative approach, it’s a question mark whether its approach will resonate with customers. If it does, it could face more trouble. Although it may have patents on how it stores vitamins in its lid, if the concept catches on, what’s to stop someone from selling small packages of vitamin powder (like Crystal Light to go packets) that can be put in any bottle or glass of water right before its consumed.

### YOU BE THE VC 2.2

**Company:** Mariah Power ([http://mariahpower.com](http://mariahpower.com))

**Business Idea:** Manufacture an efficient, quite, and sleek wind power turbine that both businesses and home owners can use to harness the power of the wind to produce electricity.

You Be the VC Scorecard
Mariah Power
([http://mariahpower.com](http://mariahpower.com))

<table>
<thead>
<tr>
<th>Item</th>
<th>Score/Comments</th>
</tr>
</thead>
</table>
## Strength of New Venture Team

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mariah</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Mike Hess</strong></td>
<td>co-founder</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cofounder Chris Gabrys</strong></td>
<td>serial entrepreneur</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Bob Holland</strong></td>
<td>VP Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Strength of the Opportunity**

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mariah’s vision</strong></td>
<td>build wind product</td>
<td>accessible masses</td>
<td>attractive</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Product Mariah has built</strong></td>
<td>fulfills vision</td>
<td>at least in part</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Price-point</strong></td>
<td>palatable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Windspire</strong></td>
<td>unsuitable</td>
<td>home residential setting</td>
<td>appeal small businesses</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Obama Administration and local communities</strong></td>
<td>provide tax incentives</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Strength of the Industry**

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>According to Mariah</strong></td>
<td>wind-power generation</td>
<td>a potentially $10-$15 billion market</td>
<td>largely untapped</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Department of Energy</strong></td>
<td>43 million lots</td>
<td>U.S. greater than ½ acre</td>
<td>class 3 wind areas</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average wind speeds</strong></td>
<td>6-7 mph</td>
<td>adequate for power generation</td>
<td>recharge batteries</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Grid-connected power generation</strong></td>
<td>requires high wind speeds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Strength of Business Model**

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mariah will make money by selling the Windspire in a “kit” form</strong></td>
<td>affordable, attractive, easy to install</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Proprietary</strong></td>
<td>patents in place</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**The Windspire**
Chapter 2: Opportunity Recognition

<table>
<thead>
<tr>
<th>kits will be produced by a contract manufacturer. A Windspire turbine was prominent at President Obama’s Inauguration festivities on Capitol Hill in January 2009.</th>
</tr>
</thead>
</table>

**Decision:** We would fund this firm. While there’s always the possibility that the price of crude oil will remain low and alternative forms on energy will fall out of favor, we believe that in the long haul our nation’s energy future lies in the hands of companies like Mariah Power. There are many positives associated with wind-power in general and Mariah specifically. Mariah has strong leadership, an attractive product, and an appealing business model. We’re enthusiastic supporters.

**CASES**

Case 2.1

**23andMe: Is This an Opportunity or Just an Interesting Idea?**

**DISCUSSION QUESTIONS**

1. What environmental trends are working in 23andMe’s favor? If 23andMe has uncovered a promising business opportunity, what environmental trends have made 23andMe’s system possible and potentially attractive to consumers?

   **Answer:** Refer to the bulleted lists shown below

   Environmental trends working in 23andMe’s favor:

   - The aging of the population. As people get older, they tend to focus more on health-related issues.
   - People are living longer. The fact that people are living longer subjects them to an increased incidence of disease. As all of us see loved ones and people we know suffer from diseases like Parkinson’s, and we’re more likely to wonder if we’ll get the disease ourselves.
   - A focus on prevention. There is an increased focus on “preventing” rather than “treating” disease, that’s reflected in popular magazines, books, and is talked about by doctors to their patients.
   - Improved genetic testing technology that makes genetic testing affordable and non-intrusive.

   All four of these trends are instrumental in making 23andMe a potentially attractive business opportunity.

2. Of the two separate sets of information 23andMe provides its clients (ancestry and
health risks), which set do you think will prove to be of the most interest to the people who use the service?

Answer: Students will vary in terms of their answer to this question. While there is considerable interest in health-related issues, there is also a strong interest in ancestry-related information in the U.S. and elsewhere. Note the interest in Web sites like Ancestry.com. According to Wikipedia, Ancestry.com is a subscription based Web site that has more than 5 billion records online and more being added daily.

3. Which of the “points of contention” is the biggest threat to 23andMe’s business idea? How can 23andMe overcome this threat?

Answer: Most people will argue that the first point of contention, whether genetic tests truly provide useful information, is the biggest threat to 23andMe. If negative articles are published in highly visible magazines, and are posted on popular Web sites, and if doctors start “talking down” 23andMe’s service, it could be devastating to the company.

4. So what do you think? Is 23andMe a legitimate business opportunity or just an idea?

Answer: This is a good question for an individual or group assignment. Make sure your students ground their opinions in the techniques for identifying opportunities provided in the chapter.

APPLICATION QUESTIONS

1. Do you think 23andMe will be able to sustain credibility with the medical community (i.e., doctors, hospital administrators, health insurance providers) or do you think it’s going to be an uphill battle for the company? What steps can 23andMe take to assure the medical community and the general public that it’s providing a valuable service?

Answer: Most students will see 23andMe’s ability to gain legitimacy as an uphill battle. The medical community is in general skeptical. (Think of the time it takes for a new drug to be approved.) In addition, the physician’s creed, “Do no harm,” is normally of upmost concern to physicians. One challenge that 23andMe has is that it won’t convince the medical community of the value of its service on its own. Observers are likely to see research results generated by 23andMe as self-servicing—fair or not. What 23andMe needs more than anything else if for independent parties to validate the value of genetic testing (in the manner in which 23andMe does it), and for high profile people in the medical community to speak out on behalf of its service.
2. Think about a challenge in your own life that might represent a business opportunity. If you don’t think of something right away, don’t give up. Think about the challenges and problems that you have. All of us encounter problems and challenges in our everyday lives that might represent the basis of a promising business opportunity. Be prepared to describe to others the challenge and the business opportunity it presents.

Answer: This is a good question for an individual assignment.

Case 2.2
FLAVORx and CarePages: How Solving a Personal Problem Can Trigger the Recognition of a Promising Business Opportunity

DISCUSSION QUESTIONS

1. In this chapter, an opportunity is defined as being (1) attractive, (2) durable, (3) timely, and (4) anchored in a product or service that creates value for its buyer or end user. To what extent do FLAVORx and CarePages meet each of these tests of an opportunity?

Answer: Most students will argue that both FLAVORx and CarePages meet the tests of an opportunity, and do so in convincingly.

2. Why do you think the idea for FLAVORx wasn’t developed by a large pharmaceutical company long before Kenny Kramm came along, and the idea for CarePages wasn’t developed by a hospital long before Eric Langshur came up with the idea?

Answer: Large companies, although they can practice corporate entrepreneurship as explained in Chapter 1, normally focus on their core competencies and the customers they serve, which typically leaves them little time or resources for innovation. This phenomenon provides openings for entrepreneurs like Kenny Kramm and Eric Langshur to innovate and create companies like FLAVORx and Care Pages.

3. Why do you think CarePages markets its product to hospitals rather than directly to consumers, like MySpace and Facebook do?

Answer: The most likely reason that CarePages markets its product to hospitals rather than directly to consumers is because they want the hospitals to advocate for and have a stake in the product. If the product was marketed directly to consumers, and a consumer tried to use it in a hospital, the hospital personnel wouldn’t know how to answer questions about how to use the product, and might see it as a distraction or as “getting in the way” of helping a family deal with a loved one’s need for hospitalization. In contrast, since it’s the hospital that
suggests to a patient that CarePages be used, the hospital is totally on board regarding its use.

4. What similarities do you see between FLAVORx and CarePages? What does each company teach you about the opportunity recognition process?

Answer: This is a good question for an individual or group assignment.

APPLICATION QUESTIONS

1. How could FLAVORx and CarePages effectively use focus groups to strengthen their existing products and solicit suggestions for related product ideas?

Answer: Both companies could benefit from using focus groups, in the manner described in the chapter.

2. Think about the service that CarePages offers. Brainstorm other situations that people are in where it might make sense to set up a Web site or blog that allows a person to provide frequent updates and receive notes of encouragement and support from friends. Pick your best idea. Could a business be set up to facilitate the process for others?

Answer: A service like CarePages makes the most sense when an individual is going through a watershed event in their lives, and people around them would be interested in frequent updates about how things are going. Examples of when this might apply include:

- Preparing for a wedding.
- Having a baby.
- Participating in an interesting activity with an uncertain outcome. Examples of this include climbing Mt. Everest, sailing across the ocean, and participating in the Olympics or another high profile sporting event.