Opportunity Recognition & Creation

- Drucker’s article talks about sources of opportunity: (1) Industry/Market changes (2) Serendipity—Unexpected occurrences (opening up of GPS technology by military to public) (3) Lifestyle/Perception changes (4) Demographic changes (5) Process innovation needs (6) Regulatory changes.
- A “technological discontinuity” leads to an “era of ferment” typically. This creates a lot of opportunity for market entry. Next phase is the “establishment of a dominant design”, and finally an “era of incremental change”.
- As soon as you recognize an idea, try to estimate the magnitude of the opportunity—guess the size of the market.
- Always identify the assumptions behind your market size and sales estimates. As time goes on, refine the assumptions by gathering more information and refine market size. Also, plan key milestones in business plan around testing the assumptions.

When is an idea an opportunity? A business opportunity is attractive, durable, and timely and is anchored in a product or service which creates or adds value for its buyer or end user. An opportunity has to be attractive, sustainable, and, and value creating.

Questions that help uncover pitfalls in venture concepts:
- Are we predicting the future by extrapolating the past?
- Is the buyer’s need different from the end user’s?
- Are there advantages to the user’s current solution versus ours?
- Does our solution require users to change their behavior, or learn something new?
- Are we comparing our cost vs. the competitor’s price?
- Do we understand the reason no one has offered our solution before?

Assessing Opportunities

- Develop the 8 components of a business model: (1) Value being offered (2) Scope—are there economies of scope? (3) Pricing—how much control do you have over your margins? (4) Revenue sources—identify them (5) connected activities—operations, sales, marketing, etc., should be consistent with the firm’s products. (6) Implementation—are your organizational structure, people policies, culture, etc., consistent with your firm’s objectives? (7) Capabilities—how good are you at the things you do?
- Are your capabilities, rare/unique, inimitable and valuable (properties of a sustainable competitive advantage)? (8) Sustainability—how hard is it to imitate you?
- Identify and develop a program for sustainability in place: Block—intellectual property protection, Run—a stream of continuous innovation, and Team Up—form alliances to erect barriers, build market share, etc.

Complementary Assets

- Everything needed to commercialize a technology besides the technology itself. E.g. Marketing, Sales, Brand, Manufacturing.

Criteria for determining relevance of a resource

<table>
<thead>
<tr>
<th>Important</th>
<th>Freely available</th>
<th>Tightly Held</th>
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<tbody>
<tr>
<td>vs. Unimportant</td>
<td></td>
<td>Relevant quadrant</td>
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Tightly held means resource is controlled by 1 or small # of firms. If the resource is important and is tightly held, that is what matters most to a firm. Other quadrants not so relevant.

Complementary assets framework

<table>
<thead>
<tr>
<th>Imitability High</th>
<th>Customers benefit</th>
<th>Run strategy: innovate</th>
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<tbody>
<tr>
<td>Imitability Low</td>
<td>Inventor profits</td>
<td>Block Strategy</td>
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<td></td>
<td>80% of time CA holder, 20% of time inventor</td>
<td>Bargaining outcome:</td>
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<tr>
<td></td>
<td>Run and / or team up</td>
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Judo Strategies: how to tackle large opponents (MSFT) in an industry when you are the small player (Real Networks, say):
- Market entry: try to cater to a niche, which the large player will ignore and let you take the small, niche market. Expand later.
- Issue 1: Grip your opponent—Alliances, teaming up might prevent/forestall your opponent from entering your business. Reduces competitors’ incentives to develop their own abilities. Also called “Co-operation”: collaborate with your competitors and win.
- Entrant gains credibility by association meanwhile (especially valuable when entrant is small player and does not have brand).
- Issue 2: Do not play tit for tat—Do not go head to head with big company; they’ll win if you play their game. Try to stay one step ahead by innovating (run).
- Issue 3: Push when pulled and Pull when pushed—Run strategy: Microsoft’s ‘embrace and extend’ strategy. Take the wind out of your competitor’s strategy by building on top of their products, services, and technology.

Miscellaneous tips/points from articles assigned for class
- “Emathic design” is a set of techniques to undertake market research: (1) Instead of inquiry, techniques are based on observation of consumer behavior (2) Instead of lab-based testing, do it in actual environment that the user will use the product.
- Success is getting what you want. Happiness is wanting what you get.
- Data available on market characteristics, competitors, and so on, is frequently inversely related to the real potential of an opportunity. If market data are readily available and if the data clearly show significant potential, then a large number of competitors will enter the market and the opportunity will diminish.
- A firm’s capabilities are core when they meet three criteria:
  - Customer value: the core competence must make an unusually high contribution to the value customers perceive
  - Competitor differentiating: if competence is uniquely held or is much better than competitors
  - Extendable: competence must be all-pervasive across all products of firm (Sony’s miniaturization ability)

Five Fatal flaws of business concepts
- No one wants it in the first place
- It does not deliver
- It flies in the face of human nature
- No one knows what it is or what it does. No one can even pronounce it.
- Using the product bestows an unfortunate
- (Amar Bhide) 3 Questions every entrepreneur must ask him/herself: (1) Are my goals well defined? (personal aspirations, risk tolerance, business sustainability and size) (2) Do I have the right strategy? (clear definition, profitability and potential for growth) (3) Can I execute the strategy? (organizational systems, resources, culture, norms, etc.)

- (Sahlman) Ask these questions along 4 dimensions to compose a good business plan: (1) People: Are they the right people? How well are they known in their industry? Whom do they know? (2) Opportunity: Size of market? Is it large? Is it growing? Is the venture structurally attractive? (3) Context: favorable and unfavorable macro-economic, demographics, sociographic factors that affect the venture. (4) Risk and reward: what can go right and what can go wrong with the venture.

- (Bhide) Where do entrepreneurs get their ideas? Research shows 71% of them modified or rectified an idea from their previous employment.

- (Arthur Rock): Strategy is easy, tactics—or day-to-day management—are hard. Good ideas and good products are dime a dozen. But good execution and good management—in a word, good people are hard to find.