

Entrepreneurial Management

Chapter 3

Starting a Small Business

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*After studying this chapter,
you should be able to...*

1. Distinguish among the different types and sources of startup ideas.
2. Use innovative thinking to generate ideas for high-potential startups.
3. Describe external and internal analyses that might shape the selection of venture opportunities.
4. Explain broad-based strategy options and focus strategies.
5. Know how to screen business ideas to identify those with the greatest potential.
6. Assess the feasibility of a startup idea.



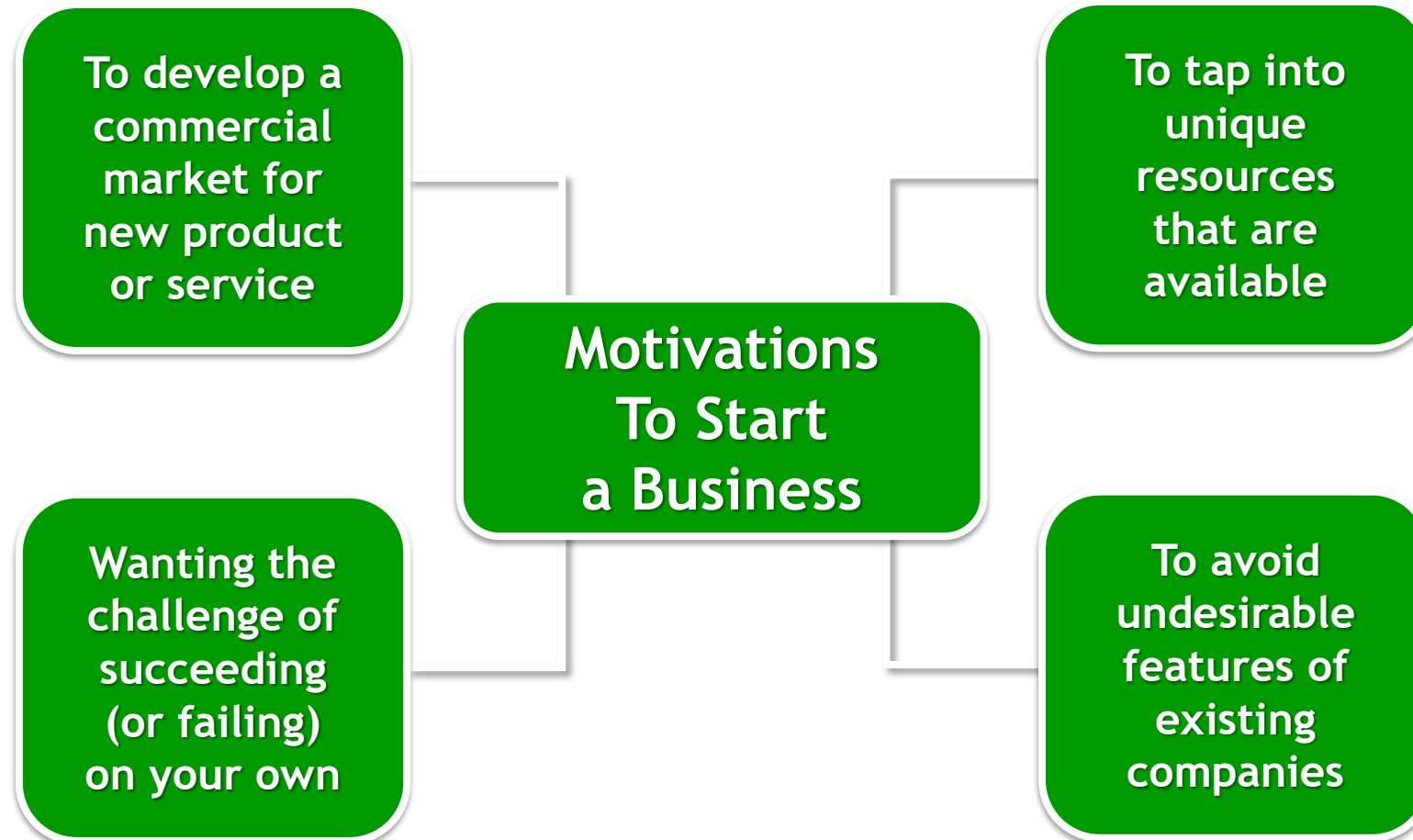
Developing Startup Ideas

- Opportunity Recognition
 - Identification of potential new products or services that may lead to promising businesses
- Entrepreneurial Alertness
 - Readiness to act on unnoticed business opportunities and to pivot quickly away from flawed initial ideas.

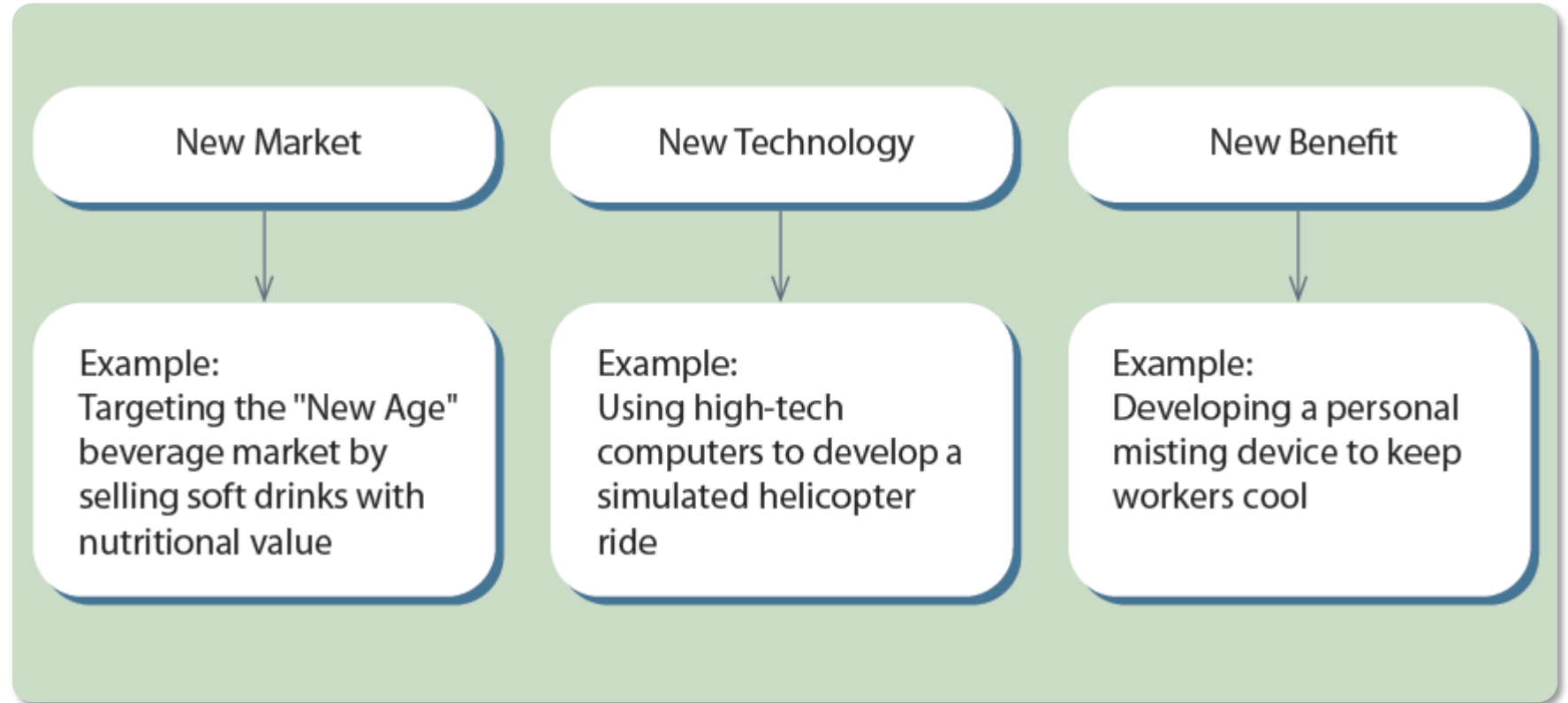
Developing Startup Ideas

- Which Product or Service?
 - Serves important consumer needs
 - Has readily recognized utility and user benefits
 - Is affordable to a large group of potential customers
 - *A good idea is not the same as a good opportunity.*

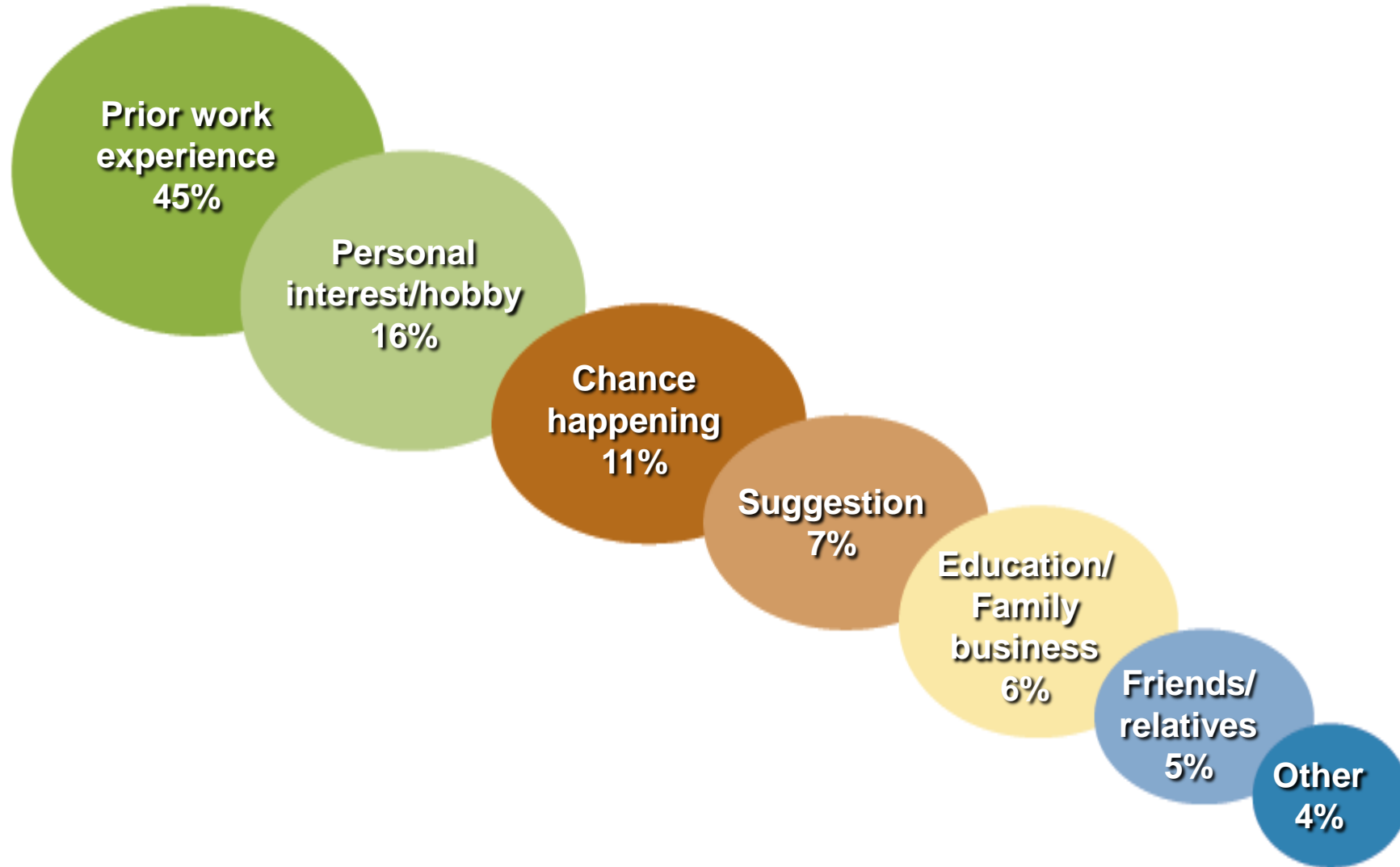
Creating a New Business from Scratch



Types of Ideas That Develop into Startups



Common Sources of Startup Ideas



Change-Based Sources of Entrepreneurial Opportunities

Change Factor Definition

Industry or Enterprise Factors

The unexpected	Unanticipated events lead to either enterprise success or failure.
The incongruous	What is expected is out of line with what will work.
Process needs	Current technology is insufficient to address an emerging challenge.
Structural change	Changes in technology, markets, etc., alter industry dynamics.

Change-Based Sources of Entrepreneurial Opportunities

Change Factor Definition

Human and Economic Factors

Demographics

Shifts in population size, age structure, ethnicity, and income distribution impact product demand.

Changes in perception

Perceptual variations determine product demand.

New knowledge

Learning opens the door to new product opportunities with commercial potential.

Using Innovative Thinking to Generate Business Ideas

1. *Borrow ideas from existing products and services or other industries.*
2. *Combine two businesses into one to create a market opening.*
3. *Begin with a problem in mind.*
4. *Recognize a hot trend and ride the wave.*
5. *Explore ways to improve an existing product or service's function.*
6. *Think of how to streamline a customer's activities.*
7. *Adapt a product or service to meet customer needs in different ways.*
8. *Imagine how market for a product or service could be expanded.*
9. *Study a product or service to see if you can make it "green."*
10. *Keep an eye on new technologies.*

Using Internal and External Analyses to Assess Business Ideas

- **Outside-In Analysis**

- **Studying context of venture to identify and determine business ideas that qualify as opportunities.**

- ❖ **General Environment**

- Encompasses factors influencing business in a society.

- ❖ **Industry Environment**

- Factors that impact a firm and all of its competitors.

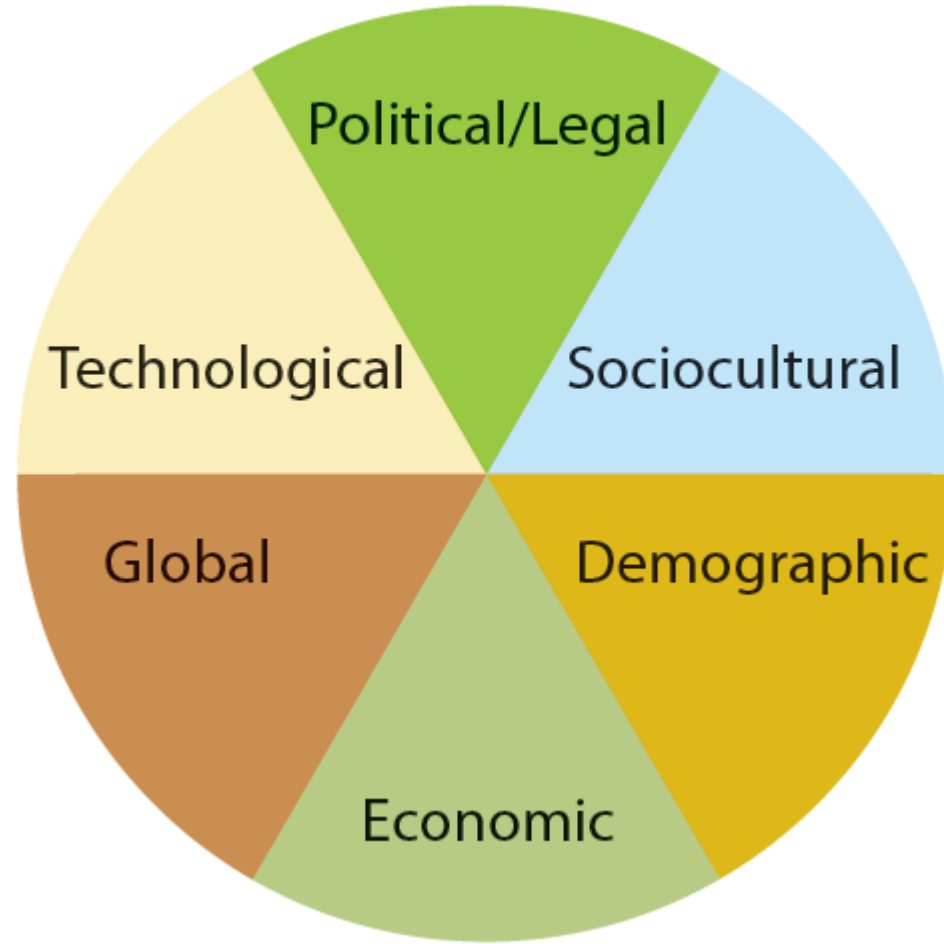
- ❖ **Competitive Environment**

- Focus on the strength, position, and likely moves and countermoves of competitors in an industry.

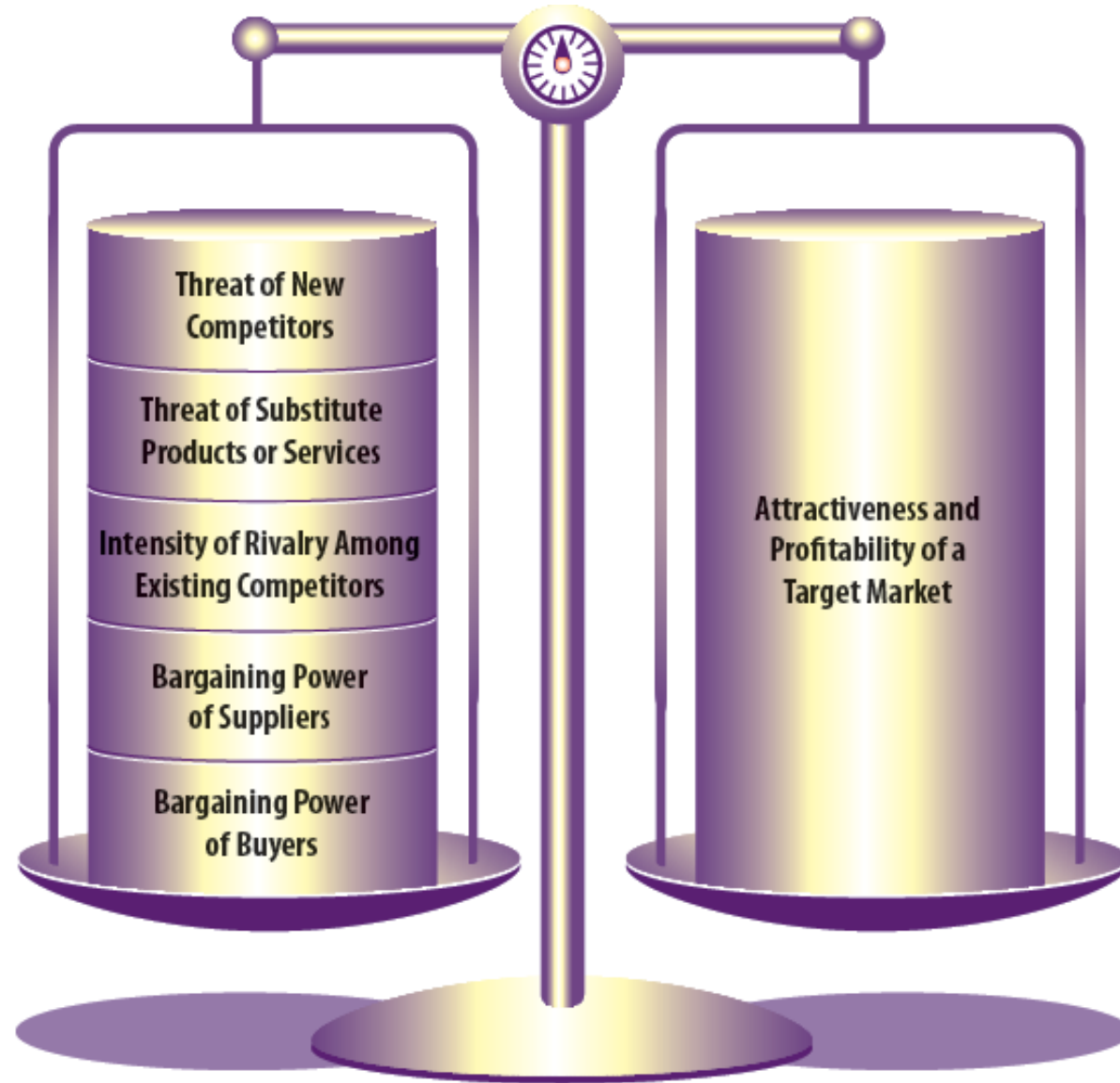


3.3 Trends in the General Environment

General Environment



Major Factors Offsetting Market Attractiveness



The Competitive Environment

- Who would be the new venture's current competitors?
- What unique resources do they control?
- What are their strengths and weaknesses?
- How will they respond to the new venture's decision to enter the industry?
- How can the new venture respond?
- Who else might see and exploit the same opportunity?
- Are there ways to co-opt potential or actual competitors by forming alliances?

Evaluating Market Opportunities

- Inside-Out Analysis

- Assessing the firm's internal competitive potential

- Resources

- Basic inputs that a firm uses to conduct its business

- ❖ Tangible resources: visible and easy to measure.

- ❖ Intangible resources: invisible, difficult to quantify

Evaluating Market Opportunities

- **Capabilities**

- Routines and processes that can coordinate the combined use of productive assets in order to achieve desired outcomes.

- **Core Competencies**

- Capabilities that provide a firm with a competitive advantage over its rivals and reflect its personality.

Integrating Internal and External Analyses

- Strengths, Weaknesses, Opportunities, and Threats (SWOT) Analysis
 - Provides concise overview of firm's strategic situation.
 - Helps identify opportunities that match the venture.

Integrating Internal and External Analyses

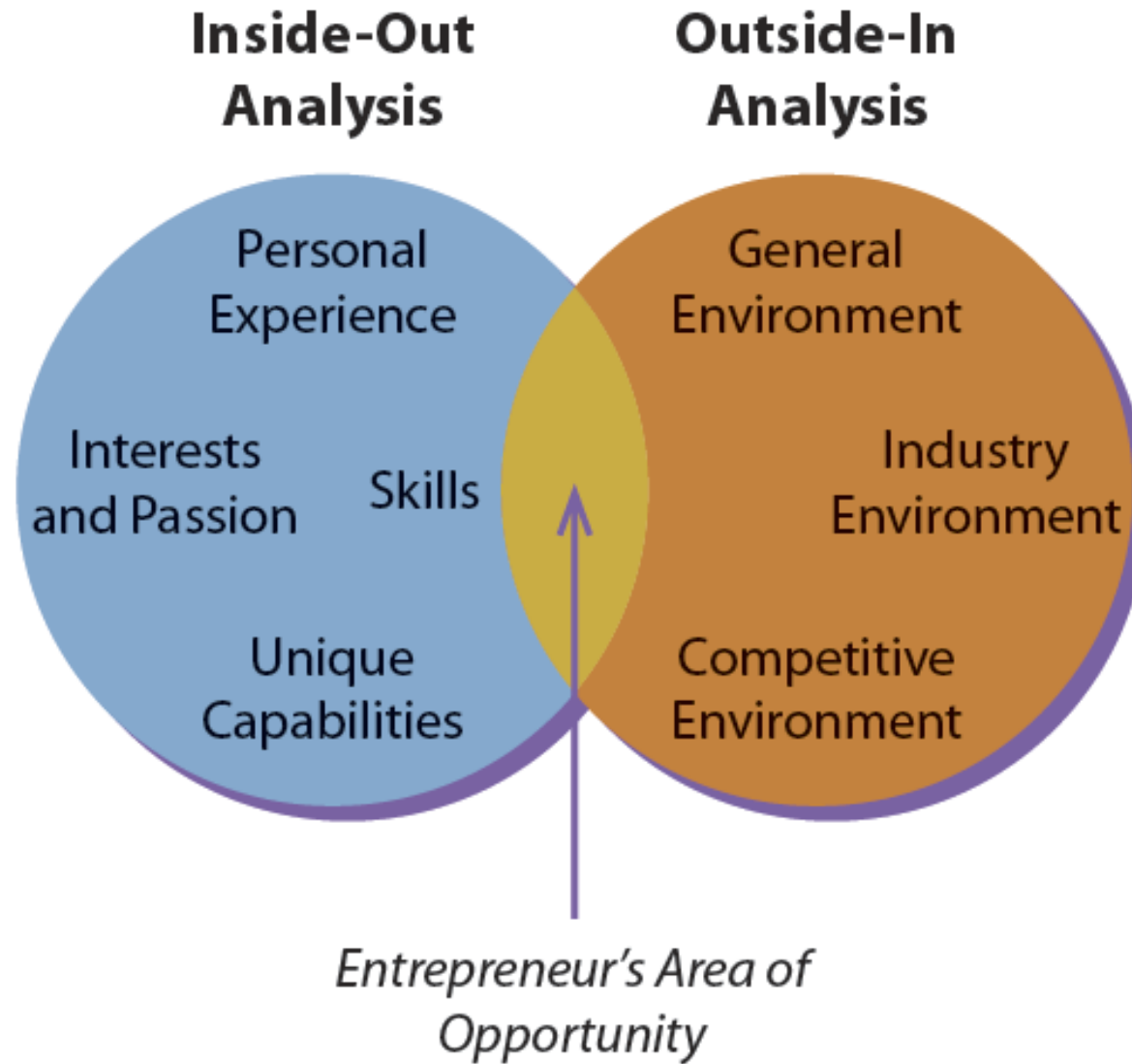
- Seeking Competitive Insight

- Will the opportunity lead to others in the future?
- Will the opportunity build skills that open the door to new opportunities in the future?
- Will pursuit of the opportunity be likely to lead to competitive response by potential rivals?

Examples of SWOT Factors

	POSITIVE FACTORS	NEGATIVE FACTORS
Inside the Company	<i>Strengths</i>	<i>Weaknesses</i>
	<ul style="list-style-type: none"> • Important core competencies • Financial strengths • Innovative capacity • Skilled or experienced management • Well-planned strategy • Effective entry wedge • A strong network of personal contacts • Positive reputation in the marketplace • Proprietary technology 	<ul style="list-style-type: none"> • Inadequate financial resources • Poorly planned strategy • Lack of management skills or experience • Inadequate innovation capacity • Negative reputation in the marketplace • Inadequate facilities • Distribution problems • Limited marketing skills • Production inefficiencies
Outside the Company	<i>Opportunities</i>	<i>Threats</i>
	<ul style="list-style-type: none"> • An untapped market potential • New product or geographic market • Favorable shift in industry dynamics • High potential for market growth • Emerging technologies • Changes allowing overseas expansion • Favorable government deregulation • Increasing market fragmentation 	<ul style="list-style-type: none"> • New competitors • Rising demands of buyers or suppliers • Sales shifting to substitute products • Increased government regulation • Adverse shifts in the business cycle • Slowed market growth • Changing customer preferences • Adverse demographic shifts

The Entrepreneur's Opportunity "Sweet Spot"



Important Strategic Terms

- **Strategy**

- Plan of action that coordinates resources and commitments of an organization to achieve superior performance.

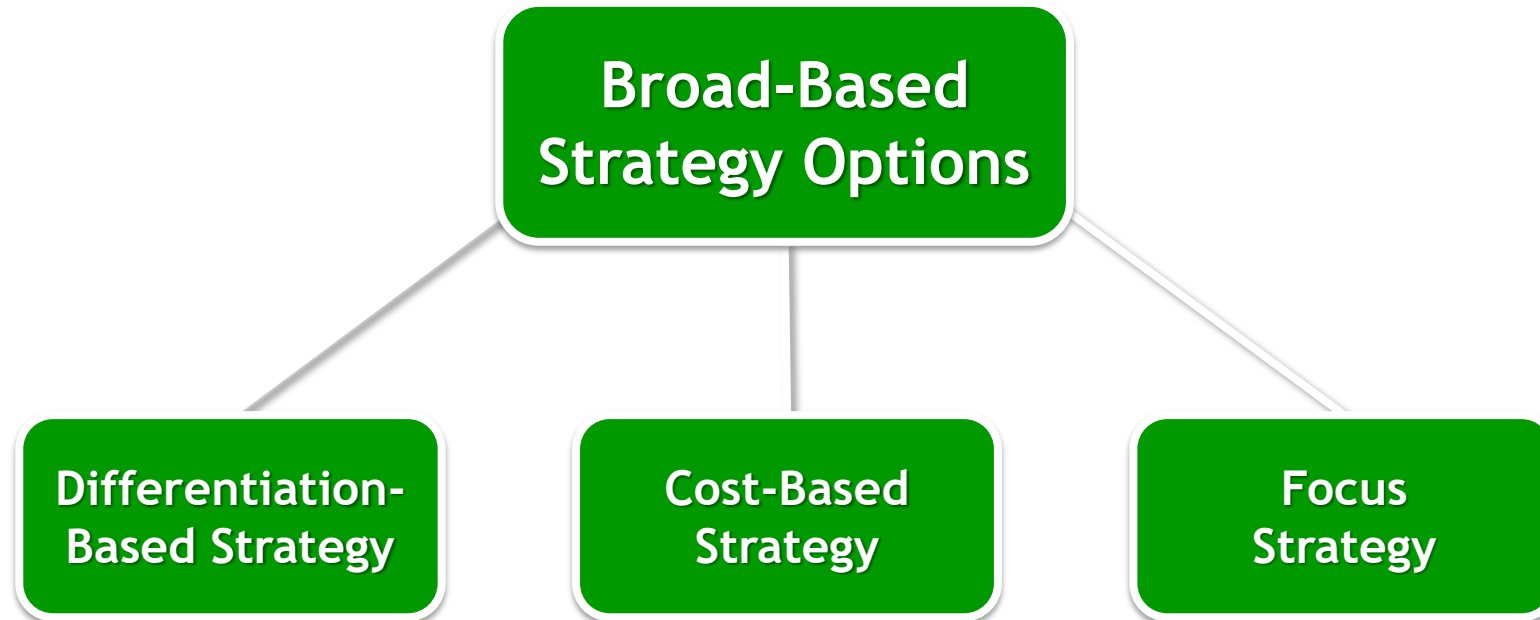
- **Strategic Decision**

- Regards the direction a firm will take in relating to its customers and competitors.

- **Sustainable Competitive Advantage**

- A value-creating industry position likely to endure over time.

Selecting Strategies That Capture Opportunities



Focus Strategies

- Focus Strategy Implementation
 - Restricting focus to a single subset of customers.
 - Emphasizing a single product or service.
 - Limiting the market to a single geographical region.
 - Concentrating on superiority of product or service.

Focus Strategies (cont'd)

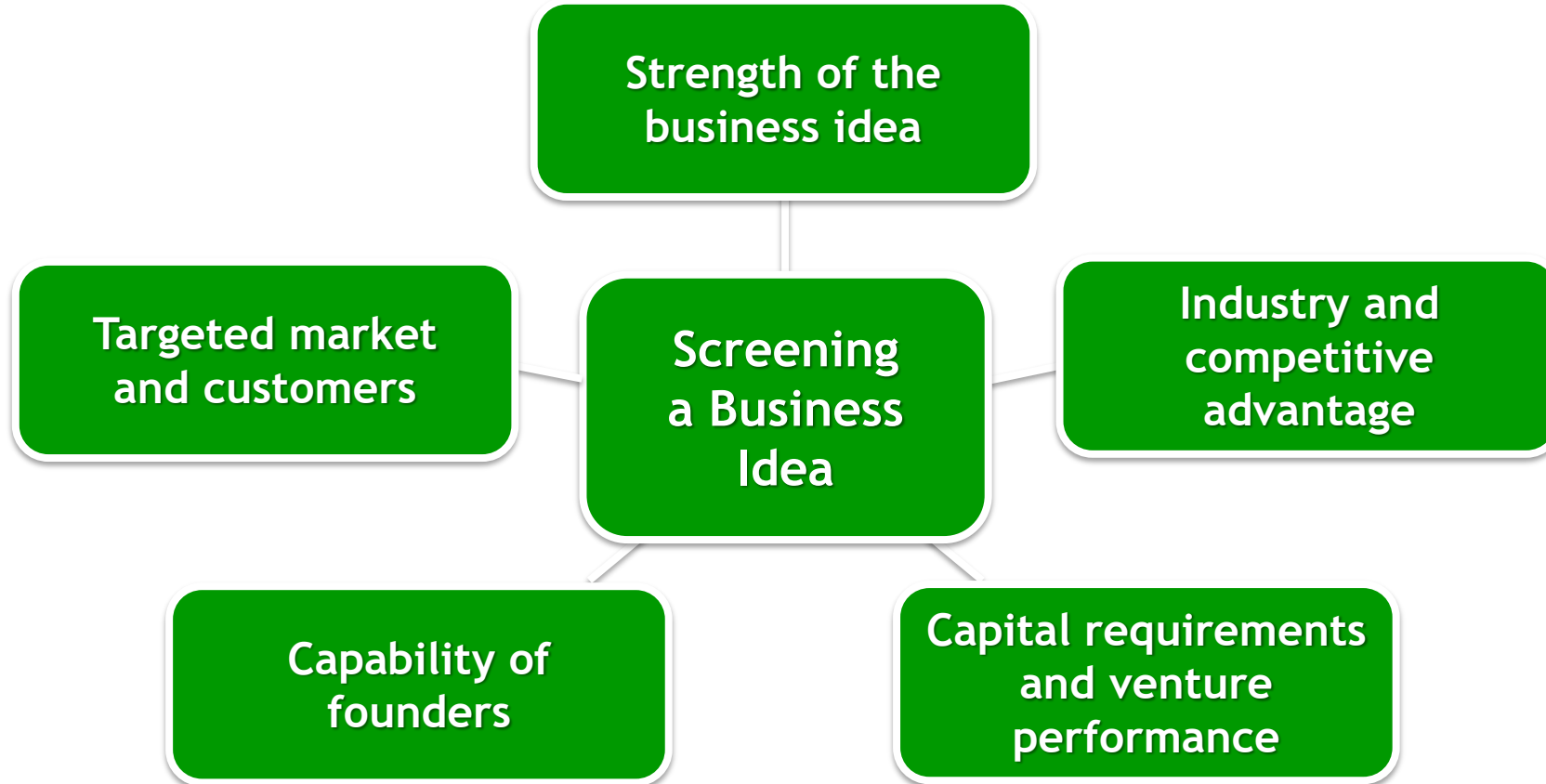
- Advantages

- Niche market shields from direct competition.
- Focus allows development of unique expertise.

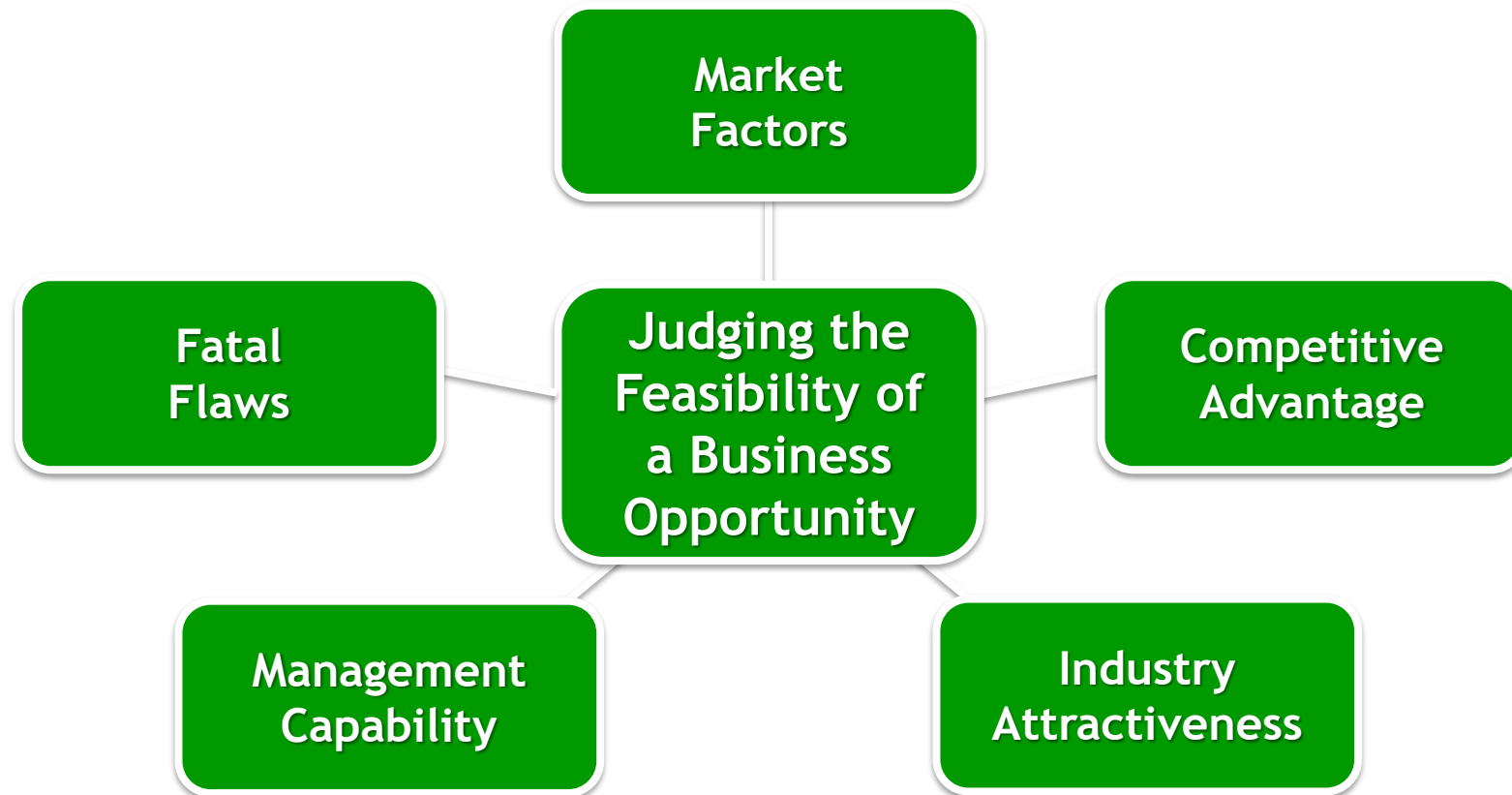
- Disadvantages

- Focus markets can quickly erode if:
 - ❖ Competitors successfully imitate the strategy.
 - ❖ Segment erodes or demand disappears.
 - ❖ Segment loses its uniqueness
 - ❖ New firms subsegment the industry.

Factors in Business Idea Screening



Is Your Startup Idea Feasible?



Is Your Startup Idea Feasible?

- **Feasibility Analysis**

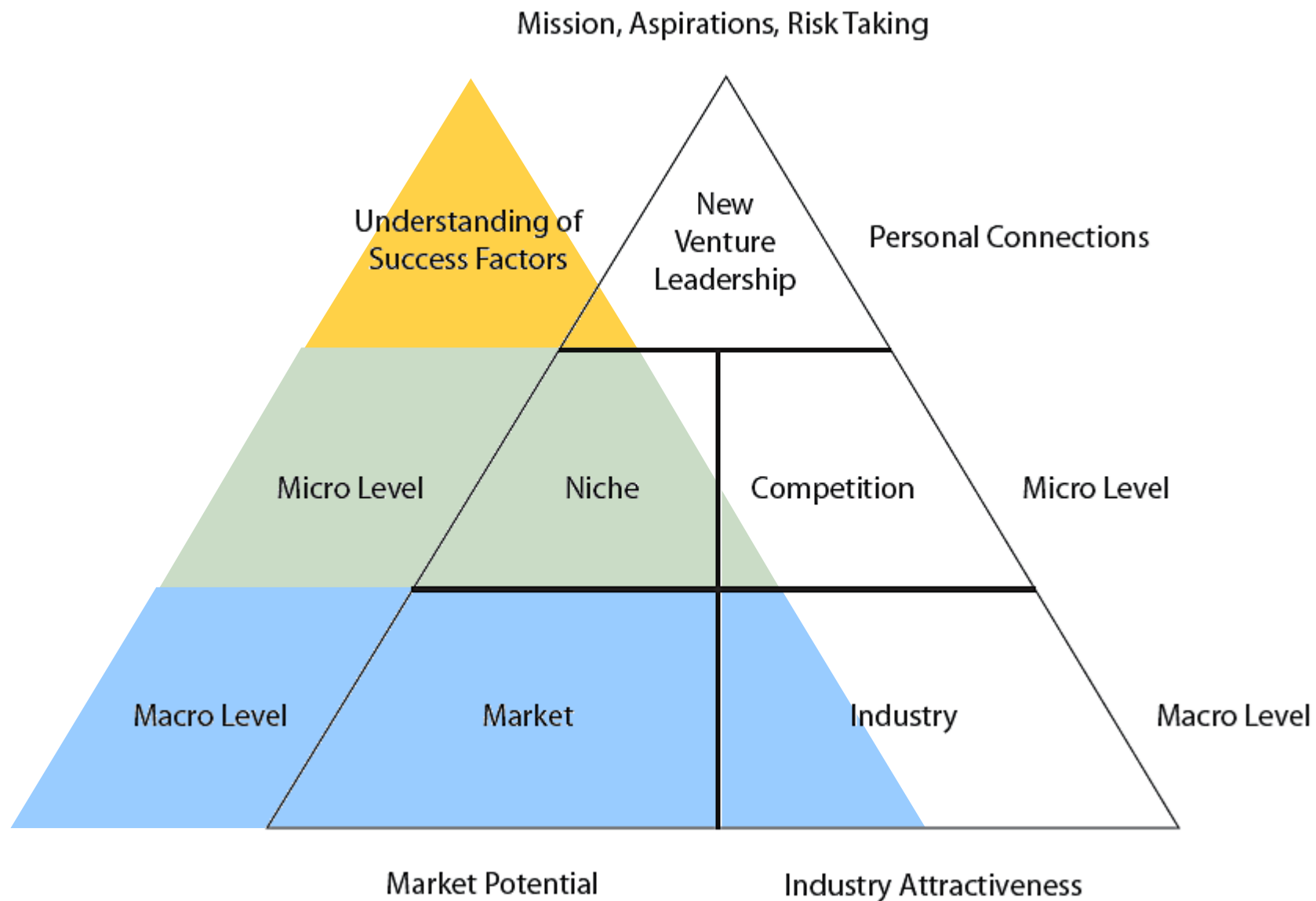
- A preliminary assessment of a business idea that gauges whether or not the venture envisioned is likely to succeed

- **Fatal Flaws**

- A circumstance or development that alone could render a new business unsuccessful
 - Market potential: acceptance, accessibility, growth, and size
 - Power of competitors
 - Strength of competitive advantage
 - Startup costs
 - Management capability



A Feasibility Analysis Framework



Feasibility?... (cont'd)

- New Venture Leadership

- Dimensions of Management Capability

1. Fit of the venture with leader's mission, aspirations, and comfort level with risk involved
2. Leader's grasp of critical enterprise success factors and ability to execute on these factors
3. Leader's connection to others who will be essential to making the venture work.

Key Terms

capabilities

competitive advantage

competitive environment

core competencies

cost-based strategy

differentiation-based strategy

entrepreneurial alertness

fatal flaw

feasibility analysis

focus strategy

general environment

industry environment

intangible resources

new benefit ideas

new market ideas

new technology ideas

opportunity recognition

pivot

resources

serendipity

startups

strategy

SWOT analysis

tangible resources