
Topic 4 ► Developing Ideas and Business Opportunities

LEARNING OUTCOMES

By the end of this topic, you should be able to:

1. Identify the various sources to generate potential business ideas for new ventures;
2. Discuss methods available for generating new ideas;
3. Utilise the existing need to turn an idea into an opportunity;
4. Describe the concept of idea assessment; and
5. Prepare an opportunity analysis plan.

► INTRODUCTION

Essentially, entrepreneurs need ideas to start and grow their entrepreneurial ventures. Generating ideas is an innovative and creative process. Sometimes, the most difficult aspect of starting a business is coming up with a business idea. Even if you have a general business idea in mind, it usually needs to go through fine-tuning processes. Fruitful ideas often occur at points where your skill set, your hobbies and interests, and your social networks intersect. In other words, *the best ideas for a new business are likely to come from activities and people that you already know well.*

4.1 SOURCE OF NEW IDEAS

As Kaplan, (2003) argued that you may be surprised to hear that not all entrepreneurs come up with unique ideas. According to Timmons and Spinelli, (2007), finding a good idea is the first step in the process of converting an entrepreneur's creativity into an opportunity. Therefore, we might have these questions in mind:



4.1.1 A Good Business Idea

Any good business ideas could be an **invention**, a **new product** or **service**, or an **original idea** or **solution** to an everyday problems. A good business idea does not necessarily have to be a unique products or services. Majority of the entrepreneurs credited their accomplishment to the exceptional execution of ordinary ideas. The chances of success therefore will be far greater if you can market a product that is similar to existing offerings, while providing greater value to customers.

Here are a few ways to build upon the already existing material and would still provide a profit-driven concept:

- (a) Develop ideas as an extension of an existing product (i.e. adding camera and song features to a mobile phone).
- (b) Create an improved service (fast delivery services).
- (c) Market a product at a lower price (via e-commerce e.g. amazon.com).

- (d) Add value to an existing product or service (i.e. reputable brand name or delivery service).
- (e) Altering their quality or quantity.
- (f) Introducing automation, simplification, convenience (i.e. smart product).
- (g) Personal interests or hobbies – many people find ways to turn their hobbies into successful businesses.
- (h) Work experiences, skills, abilities – a business, related to the work you do.
- (i) A familiar or unfamiliar product or service.
- (j) Spot the latest trends.
- (k) Changing the delivery method, packaging, unit size or shape.
- (l) Increasing mobility, access, portability or disposability.
- (m) Simplifying repair, maintenance, replacement or cleaning.
- (n) Changing their colour, material or shape.

A survey of entrepreneurs found that most new start-up companies are involved in industries where they had significant work experience. The personal contacts and domain expertise developed on the job have proven to be valuable to many individuals who contemplated launching a business of their own. Anybody who intends to start a business in a new industry are therefore encouraged to firstly become an "**apprentice**" for a suitable period of time. By doing that, you could avoid costly mistakes and at the same time be able to assess whether you enjoy the work before making a serious financial commitment.



SELF-CHECK 4.1

List three ways to build upon the existing material that will boost profit and provide examples of each ideas that you suggested.

(Hints: You may search from the internet to look up for some extra information)

4.2 TECHNIQUES FOR GENERATING IDEAS

In general, entrepreneurs identify more ideas than opportunities because many ideas are typically generated to find the best way to capitalise on an opportunity. Several techniques can be used to stimulate and facilitate the generation of new ideas for products, services and businesses. Figure 4.1 list the techniques.

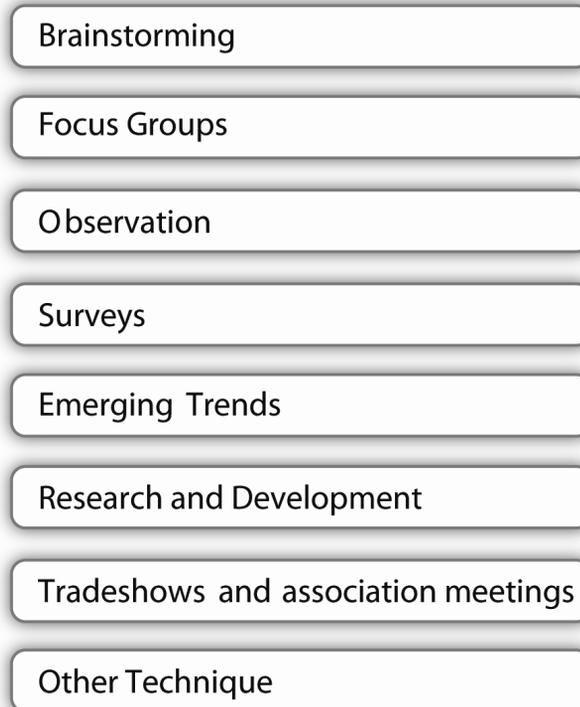


Figure 4.1: Techniques used to stimulate and facilitate the generation of new ideas for products, services and businesses

(a) **Brainstorming**

This is a process in which a small group of people interact with very little structure, with the goal of producing a large quantity of novel and imaginative ideas. The goal is to create an open, uninhibited atmosphere that allows members of the group to “freewheel” ideas. Normally, the leader of the group asks the participants to share their ideas. As group members interact, each idea sparks the thinking of others, and the spawning of ideas becomes contagious.

(b) **Focus Groups**

These are group of individuals who provide information using a structured format. Normally, a moderator will lead a group of people through an open, in depth discussion. The group members will form comments in open-end in-depth discussion for a new product area that can result in market penetration. This technique is an excellent source for screening ideas and concept.

(c) **Observation**

A method that can be used to describe a person or group of people's behaviour by probing:

- (i) What do people/organisations buy?
- (ii) What do they want and cannot buy?
- (iii) What do they buy and don't like?
- (iv) Where do they buy, when and how?
- (v) Why do they buy?
- (vi) What are they buying more of?
- (vii) What else might they need but cannot get?

(d) **Surveys**

This method is proposed by Zikmund (1994). This process involves the gathering of data based on communication with a representative sample of individuals. This research technique requires asking people who are called respondents for information either verbally or by using written questions. Questionnaires or interviews are utilised to collect data on the telephone or face-to-face interview.

(e) **Emerging Trends**

The example is based on the population within your area may be getting older and creating demand for new products and services.

(f) **Research and Development**

Research is a planned activity aimed at discovering new knowledge, with the hope of developing new or improved products and services. Researching new methods, skills and techniques enable entrepreneurs to enhance their performance and ability to deliver better products and services.

(g) **Tradeshows and association meetings**

This can be an excellent way to examine the products of many potential competitors, uncover product trends and identify potential products.

(h) Other Technique

This can be achieved by reading relevant trade magazines and browsing through trade directories. These may include local, national and foreign publications.

**ACTIVITY 4.1**

From the eight methods mentioned in this section, which one do you think values most for small medium enterprise? Explain why do you think so.

4.3 IDEA ASSESSMENT

You may already have a good idea for your business. What is rare, on the other hand, is the ability to **execute** an idea and turn it into a profitable business. The ability to take action is far more important than the idea itself. Is there something that has been overly done? Or has it been executed poorly in the past?

Once your idea has been developed, you will need to start dedicating a substantial time for assessment, research, development planning and implementation.

4.3.1 Tasks in Developing Business Ideas

For a start, you could pursue the following tasks:

(a) Identify the value proposition of your business idea

This is to identify and briefly describe the unique value that you may be able to bring to your customers that your competitors cannot.

(b) Discuss products/services with prospective customers

Would they buy from you, at what price, with what frequency etc.? Why would they prefer your products to the competitors'? Find out what they really think – there is a danger that people will tell you what they think you would like to hear. Listen carefully to what is being said; watch carefully for qualifications, hesitations etc. and don't brow beat respondents with your ideas – you are looking for their views.

- (c) **Assess the market using in-depth market research**
- (i) How is the market segmented (by price, location, quality, channel etc.)?
 - (ii) What segments are you targeting?
 - (iii) How large are these segments (in terms of volume) and how are they changing?
 - (iv) What are the price make up/structures?
 - (v) What market share might be available to you bearing in mind your likely prices, location, breadth of distribution, levels of promotion etc.?
- (d) **Analyse your competitor**
- (i) Who are they and how do they operate?
 - (ii) Are they successful and why?
 - (iii) How would they react to your arrival?
 - (iv) What makes you think that you could beat the competition?
 - (v) At whose expense will you gain sales?
- (e) **Consider possible start-up strategies**
- (i) Will you be able to work from home or part-time?
 - (ii) Will you seek a franchise or set up an in-store concession?
 - (iii) Will you start by buying in finished products for resale as a precursor to manufacturing?
 - (iv) Will you contract out manufacturing?
 - (v) Will you buy an existing business or form an alliance?
 - (vi) Could you lease or hire equipment, premises etc. rather than buy?
 - (vii) How will you stimulate sales?
- (f) **Set approximate targets and prepare first-cut financial projections**
Estimate possible sales and costs to get a feel for orders of magnitude and key components and to establish a rough break-even point (that is when your sales might start covering all your costs).
- (g) **Prepare a simple action plan**
Cover the first year of operations to highlight the critical tasks and likely funding needed before the business starts generating a positive cash flow.

This is critical especially if you have to undertake significant product or market development or need to give credit to customers.

- (h) **Critically examine ideas from all angles**
 - (i) Can I raise enough money?
 - (ii) Can I get a premises/staff etc.?
 - (iii) Will the product work?
 - (iv) How will I promote and sell?

4.3.2 Capital Consideration: Financing and Revising Your Business Idea

The financial elements have to be taken into consideration to help you to start up this new idea.

- How much capital/investment money is needed? Where will you go for this kind of financial support?
- How long will you be able to handle the initial losses using your own resources?
- What other resources can contribute to extend your involvement so that you can turn your initial losses into profit?
- How long it might take to develop and execute the business plan so that it will be profitable?
- What kind of profit margin will the business generate?
- How will you market the realistic but optimistic loss or profit business proposal to investors so that they will want to get involved with your business?

You must remember that whether you generate an idea by yourself or in connection with someone in a shared context environment, the questions you answer should still follow the above suggestions to assist you in assessing your financing capabilities and requirement to support your business plan.

4.3.3 Assessing the Information

Once you have developed your idea, you can move on to assessing the information that will help you in convincing potential investors or bankers (Kaplan, 2003).

Where to look for information? Below are some of the common sources of information on potential markets that can help your business development by Kaplan, (2003).

Table 4.1: Where to Find Information

Source of Information	Description
Experts in field	Contact well-known entrepreneur to get advice.
Internet	Visit the website of companies with new products or technologies.
Library	Use libraries to access references and specialised bibliographies.
Questionnaires surveys	Use mail, telephone, Internet, or professional interviews. Write and prepare questions to give you the right data.
Existing research	Use investment banking firms, advisory services, or consulting firms to gather data. Request them to send you their findings as well.
Trade association	Visit trade shows, and read trade publications.
Market research firm	Hire a firm to prepare a report on market survey for the proposed idea.

Sources: Adapted from Kaplan, J. M. (2003). Patterns of entrepreneurship. Hoboken NJ: John Wiley.

Kaplan, (2003), emphasised that , approximately two million businesses are started each year, and from 50,000 to 100,000 filed for bankruptcy within 10 years. And approximately 85% of these new businesses close within the first 5 years of operations. They are not all bankrupts but the owners have decided to close shop for a numbers of reasons and among the reasons are limited resources, inexperienced management and lack of financial assistant.

No matter how long you want to stick with your business, you need to formulate a plan and a schedule. It will be helpful to analyse the potential of your business idea through an opportunity analysis.



SELF-CHECK 4.2

1. Identify at least five places where you can find information that can help your business development.
2. The _____ elements have to be taken into consideration to help you to start up new idea.

**ACTIVITY 4.2**

Browse the internet and identify various sources where you could find new business opportunities.

Discuss this in MyLMS forum.

4.4 OPPORTUNITY ANALYSIS PLAN

By now, you may have two or three new business ideas to consider more carefully. Successful entrepreneurs know that a good idea is not necessarily a good opportunity.

*Barringer and Ireland (2006) defines an opportunity is a favourable set of circumstances that creates a need for a new product, service or business.. They argued that an opportunity has four essential qualities: it is **attractive, durable, timely and anchored in a product, service or business** that creates or add value for its buyer or end user..*

In most of an entrepreneurial ventures, writing a well developed business plan is essential. Before writing a business plan for a new business venture, an assessment must be made through the opportunity analysis plan. Why? The opportunity analysis will identify which business ideas have real commercial potential. The role of well prepared business plan is to explore this potential in a systematic way. This is one of the challenges that an entrepreneur will face. The purpose of the opportunity analysis is to make sure that the entrepreneur is on the right track.

Two basic questions need to be answered:



Is there sufficient demand for the product or service?

Can the product or service be profitable?

4.4.1 Preparing Opportunity Analysis

The opportunity analysis consists of five different stages. See Figure 4.2.



Figure 4.2: Phases in opportunity analysis

Below are the explanation for Figure 4.2.

(a) **Phase 1: Seize the Opportunities**

In this phase, we need to know what are the underlying factors that creates opportunities. Figure 4.3, illustrates the main factors that may create business opportunities and Figure 4.4 shows where ideas for opportunity originate.

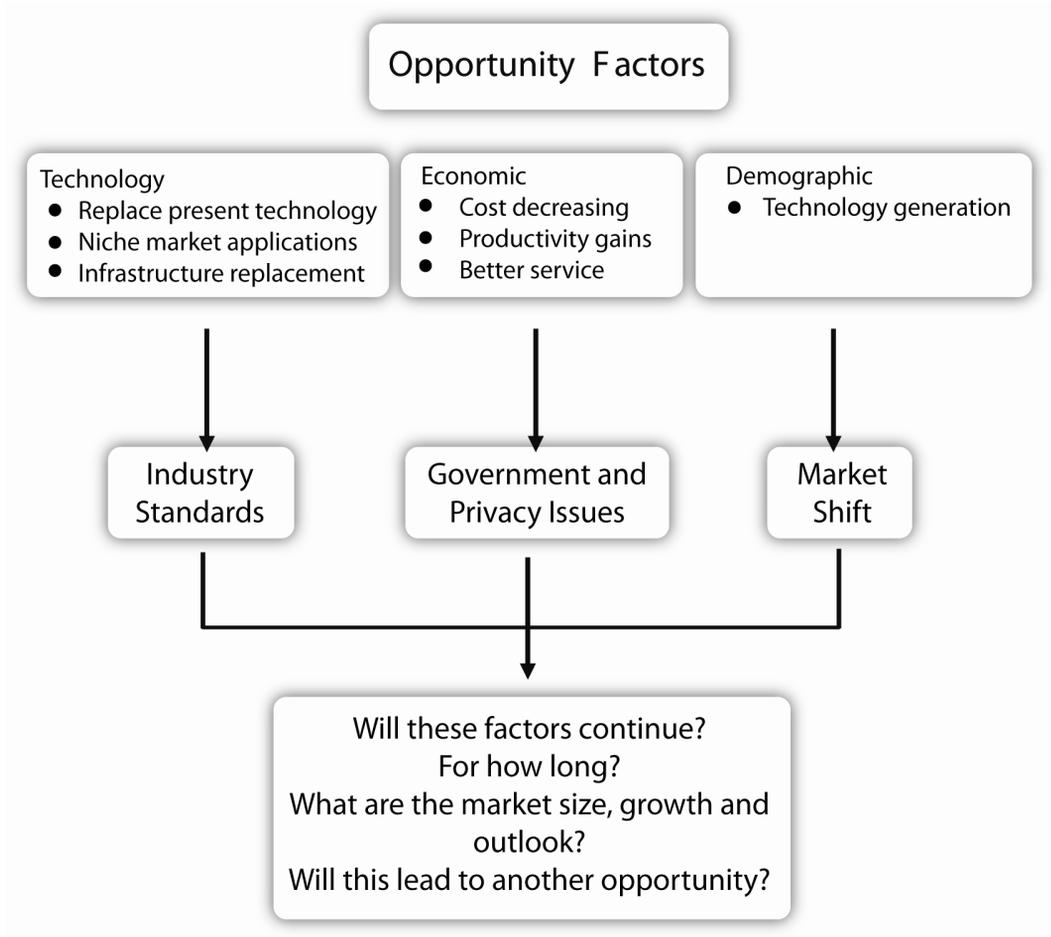


Figure 4.3: Factors that create opportunity

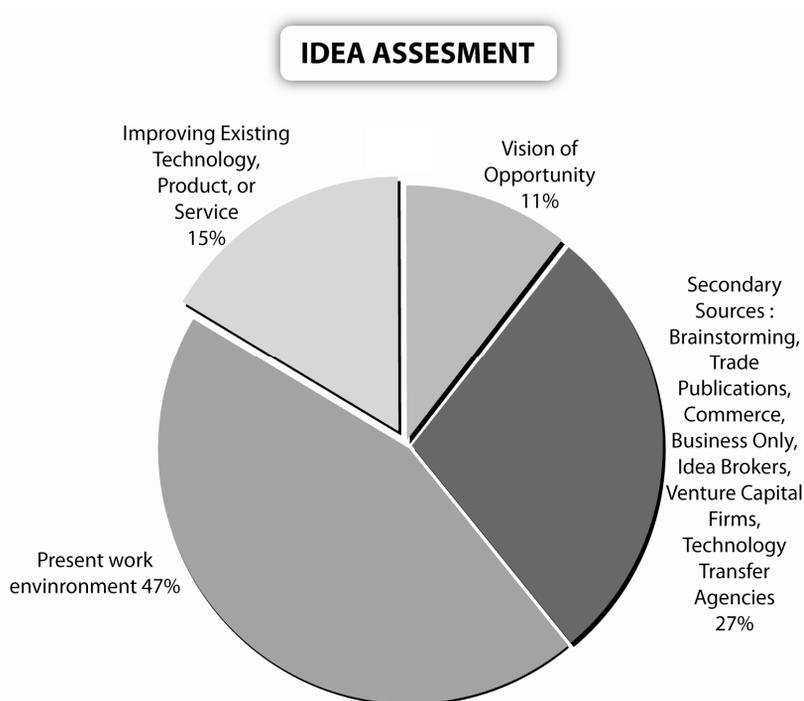


Figure 4.4: Where do ideas for opportunity originate?

(b) **Phase 2: Investigate the Need through Market Research**

It is necessary to identify, measure and document the need for the product or service. This process will identify the steps and questions you will need to customise your personal research and derive certain assumptions on the possible success rate in launching this product or service into the market.

(i) **Preliminary questions**

- Will this product be serving customers' real needs?
- Competition – What is the difference about the product or service that will cause the customer to choose it over the competitors' products or services?
- Proprietary questions – Can the product be patented or copyrighted?
- Advertisement and packaging – What type of advertising and promotional plan will be used to market the product?
- Costs – How much will materials and labour cost? What is the rate of increase in costs for future expansion?
- Sales – What distributions and sales methods will be used?

(ii) **Prepare data collection**

Having established the variables for data collection, your next step is to design the questions. Data collection can come from various sources such as collecting primary data through surveys and observations or using secondary data available from statistical departments, publications, newspapers etc. The data will be more reliable if your sample size is adequate for the investigation you are undertaking.

(iii) **Execute a study to get answer**

To support the preliminary research and to execute your findings, you must look into secondary data. At this step, you can use your personal source to create questions. Then choose a small number of relevant companies who specialises in this industry that will be selected as representation of the whole population. You can pose your questions to the experts of this group. Then you will need to facilitate the participants to answer the questions in a similar manner to establish a consistent trend for analytical purposes.

(iv) **Analyse and interpret the results**

At this stage you already have your primary data. This is the time where you have to do the interpretation based on your findings. Many entrepreneurs do their research with limited funds. You can cut costs with the following recommendations:

- Use search engines, web pages, online database;
- Use the telephone instead of mail surveys and door-to-door interviewing; and
- Avoid collecting unnecessary data.

(c) **Phase 3: Develop the Plan**

Once an opportunity has been identified, you should develop a business plan. Your business plan is an outline or blueprint of how you will create your business. Implementing the plan is a much more difficult task. Many prospective businesses experience problems or failure due to the improper implementation of their business plan. Implementation requires commitment and dedication. As unforeseen problems will emerge, your persistence and perseverance are critical.

Implementing your business plan will include:

- Providing guidance in planning and organising the activities and goal;
- Determining the viability of the business and application in selected market;
- Raising equity and securing financing; and
- Hiring management and staff.

(d) **Phase 4: Determine the Resources Needed**

For a start-up venture that uses new technology for product or service, the financial and resource requirements can be quite substantial. You may not have the capabilities to provide for these using your own resources. Therefore, to ascertain what are the capabilities and resources required, answering the following questions can serve as a guide:

- (i) Do you have business and financial support?**
Can the business operate in a cost-effective manner? How about management capabilities and knowledge of financial gaps?
- (ii) Are you prepared for personal contacts and networking?**
Who will make contacts with the right companies/business partners?
How should the network be set up?
- (iii) Have you considered financing requirement?**
Where will you go for the financial support? Can this business sustain over possibly a year or two?
- (iv) Do you have the right set of technical skills?**
Do you have the technical skills and experience to do this business?

(e) **Phase 5: Manage the Distinguishing Features of the Business**

You have invested your time, money, experiences and energy in setting up the new venture. This is the final step where you need to run your business, applying your management structure and style in handling questions and solving difficult operational issues. Now is the time to follow a path blazed by most successful businesses. How?

- (i) Keep planning**
Planning should account for and accommodate changes in designing, testing and marketing to prepare for business opportunity. You can model after the process used by most successful entrepreneurs which among others including the following:

- Test the business concept;
- Determine the improvement needed;
- Define problem and anticipate barriers;
- Align strategic partners for the process;
- Able to prepare a pricing strategy and anticipate future changes; and
- Be competitive at all times.

(ii) **Deliver a Total Solution**

Nowadays, all companies regardless of whether they are small or big and operating in the same market, try to offer the entire range of products or services to customers. They are trying their best to deliver a total solution to satisfy customer and investor needs.

(iii) **Cultivate Advanced Resources**

The layoffs of highly skilled workers from major corporations are actually creating an important opportunity for your company. These trained and effective personnel are potential candidates craving for an opportunity to apply their business skills and experience to launch a new business. They can provide information about the competitors, market and customers.

4.4.2 Evaluating Opportunities

You have brainstormed half a dozen ideas for a new business and narrowed it down to a couple that seems promising. How do you know if any of these opportunities is worth pursuing?

A complete opportunity analysis is beyond the scope of this discussion, but you can start by asking yourself these questions:

- (a) What are the indicators that lead to this idea and opportunity?
- (b) What are the conditions that permit the opportunity to occur?
- (c) How will the future of this new product or service change the idea?
- (d) How great is the window of opportunity? Window of opportunity is a time horizon during which opportunity exists before something else happens to eliminate them.
- (e) For the next subtopic is a guide tabulated in a matrix format on the framework for evaluating an opportunity. By using the matrix guide, you

will be able to assess whether your opportunity is worth pursuing as a business activity that will earn you profitable gains.

4.4.3 Framework for Evaluating an Opportunity

This framework covers **market analysis**, **financial** and **harvest issues**, **competitive advantage issues** and **finally management team** and **risk issues**. There are several criteria identified but these are not exhaustive. You may want to add or change the criteria basing on your tentative business venture you wish to undertake. However as a rule of thumb, if most of your criteria fall into the weaker opportunity category, it may be an indication that the opportunity may not be a good idea to develop into a business activity. See Table 4.2 to Table 4.5.

Table 4.2: Market Analysis

Criterion	Stronger Opportunity	Weaker Opportunity
Need	Identified	Unclear
Customers	Reachable, receptive	Unreachable or loyalties established
Pay back to user/ customer	Less than one year	Three years or more
Product life cycle	Long: Recover investment	Short: Recover investment
Industry structure	Competition or emerging	Aggressively competitive
Potential market size	RM 100 million sales	< than RM 10 million sales
Market growth rate	Growing at 30% to 50%	Contracting less than 10%
Gross margins	30% to 50%	Less than 20% volatile
Market share attainable (within 5 years)	20% or more	Less than 5 %

Table 4.3: Financial and Harvest Issues

Criterion	Stronger Opportunity	Weaker Opportunity
Profit after tax	10% to 15% or more, durable	Less than 5%, fragile
Time to: Break –even Positive cash flow	Under 2 years Under 2 years	More than 3 years More than 3 years
ROI potential	25% or more per year	Less than 15% - 20% per year
Value Capital requirements	High strategic value Low to moderate; fundable	Low strategic value Very high; not fundable
Exit mechanism	Present or envisioned harvest option	Undefined; illiquid investment

Table 4.4: Competitive Advantage Issues

Criterion	Stronger Opportunity	Weaker Opportunity
Fixed and Variable Costs	Lowest	Highest
Degree of control: Prices, channels of resources/distribution	Moderate to strong	Weak
Barriers to entry: Proprietary protection Response/ lead time	Yes 6 months to one year	None None
Legal contractual advantage	Proprietary of exclusivity	None
Sources of differentiation	Numerous	Few or none
Competitors mind set and strategies	Live and let live; not self destructive	Defensive and strongly reactive

Table 4.5: Management Team and Risk Issues

Criterion	Stronger Opportunity	Weaker Opportunity
Management team	Existing, strong, proven performance	Weak, inexperienced, lacking key skills
Contacts and networks	Well-developed, high quality, accessible	Crude, limited, inaccessible
Risk	Low	High
Fatal Flaws	None	One or more

The above strategic process in evaluating a business idea or an opportunity will lead to one of the following conclusions:

- It is a bad idea;
- It is a good idea; or
- It can be recycled into something else.

As an entrepreneur, try your hand in this process when you want to evaluate the market potential of a new product or service idea. It evinces you how to use your talents, creativity, and resources to identify, research and develop a small business idea through a strategic thinking process. Although the outlined process cannot guarantee success, it is designed to assist entrepreneur a certain degree of discipline in learning about his business, his competitors, his customers and most importantly the chances of survival in a competitive and hostile business environment.



SELF-CHECK 4.3

1. What are the factors that need to be considered in evaluating a business idea?
2. What is the difference between a business idea and an opportunity?
3. Why is opportunity analysis important for a new venture? Discuss.

**ACTIVITY 4.2**

1. Based on your personal, family or friends experiences, what do you think the best possible sources of business financing. Why? Discuss this in MyLMS forum.
2. Work in group and conduct a brainstorming session on a new business opportunity analysis plan. Conduct an opportunity analysis plan and present it in class.

SUMMARY

- The various techniques for generating potential business ideas for new ventures such as **brainstorming, focus group, observation, surveys, merging trends, research and development, attending tradeshow**s and **association meetings**.
- How to evaluate an idea and the ability to execute this idea into a successful business venture. There are various tasks to be undertaken in the process, which includes identifying the value proposition of the **business idea, doing market survey, implementation plan** and **financing requirements**.
- It is important to understand the difference between a business idea and an opportunity. While a **business idea** is the initial momentum to venture into business activity, an **opportunity** is a favourable set of circumstances that creates a need for a new product or service that can fuel that business activity.
- The discussion continued with a process model called the Opportunity Process Plan to assist entrepreneur in evaluating a business idea or opportunity using a structured and disciplined approach.

KEY TERMS

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Brainstorming

Business idea

Focus group

Idea assessment

Observation

Opportunities origination

Opportunity analysis plan

Strategic thinking process