



In case you didn't notice how the world is changing ..



⌘ November 6, 2010

⌘ MUMBAI, India -- President Obama hasn't been able to drive down unemployment in America, so he's going to India in search of U.S. jobs.

⌘ Four days after his party suffered heavy, economy-influenced losses in Congress, the president will arrive today in Mumbai, India's booming financial center, where he will meet with local business leaders and with American executives who have traveled to India in search of billions of dollars in trade deals.

Today's sayings



⌘ Show up on time with a plan, a commitment to carry it out, and then execute it – you will beat the competition 100% of the time.

–Harvey Mackay

⌘ Small opportunities are often the beginning of great enterprises.

– Demosthenes


⌘ You say you can't create something original? Don't worry about it. Make a cup of clay so your brother can drink.

– Rumi

Today's sayings



- ⌘ "California is still one of the best places in America to build a successful small business. All you have to do is to start with a large one."
-- 7/2/03 Wall Street Journal
- ⌘ Opportunity exists in tandem with clear and compelling reasons not to get out of bed in the morning,"
— Jim Grant
- ⌘ If you are sending someone some styrofoam, what do you pack it in?
- ⌘ If all those psychics know the winning lottery numbers, why are they still working?

- 
- ⌘ The early bird may get the worm, but the second mouse gets the cheese.
 - ⌘ The more beer it takes to come up with an idea, the less likely it is to be a bonafide opportunity.

Observations



- ⌘ Last week many of you wrote about having to make very difficult decisions, and nobody mentioned a devastating outcome.

More Observations



- ⌘ In the decision making process, many of you focus much more heavily on downside issues, even some that do not appear relevant to the decision (for example, many decisions involve relocation away from family and girl / boy friends as the key decision point, but just can't help throwing in "what if I fail").
- ⌘ Last week when we discussed my decision issues, you were totally focused on the upsides, and kept missing the downsides.
- ⌘ There seems to be a lot of surprise at how well your decisions turned out, clearly showing how much you underestimated both the upside and yourself.
- ⌘ Keep these observations in mind as we discuss opportunities.

Other thoughts



- ⌘ Comfort Zones are a myth
- ⌘ Comfort Zones can be a prison

- ⌘ Some people find dozens of opportunities every week.
- ⌘ Feeling secure in your comfort zone can be a major impediment to finding opportunities

Recognizing Venture Opportunities



- ⌘ The difference between ideas and opportunities
- ⌘ Ways to screen opportunities
- ⌘ How to assess markets and risks of new ventures
- ⌘ Differences between start-ups, franchises, acquisitions, and mergers



The passion myth?



- ⌘ After comfort zones, the next most common reason you have for not being an entrepreneur is that you do not have an idea that you are passionate about.
- ⌘ Crime Scene Clean-up.

Passion



"The nurses and technicians did all they could— I just wasn't into it."

Excellent Opportunity Assessments in History



⌘ I think there is a world market for maybe five computers

- Thomas Watson, IBM Chairman, 1943

⌘ We have reached the limits of what is possible with computers

- John van Neuman, 1949

⌘ 640,000 bytes of memory ought to be enough for anybody.

- Bill Gates, Microsoft Chairman, 1981

More great assessments

- ⌘ "Man will never reach the moon regardless of all future scientific advances."
-Dr. Lee DeForest, "Father of Radio & Grandfather of Television."
- ⌘ "The Atomic bomb will never go off. I speak as an expert in explosives."
-Admiral William Leahy, US Atomic Bomb Project
- ⌘ "There is no likelihood man can ever tap the power of the atom."
-Robert Millikan, Nobel Prize in Physics, 1923
- ⌘ "Computers in the future may weigh no more than 1.5 tons."
-Popular Mechanics, forecasting the relentless march of science, 1949
- ⌘ "I have traveled the length and breadth of this country and talked with the best people, and I can assure you that data processing is a fad that won't last out the year."
-The editor in charge of business books for Prentice Hall, 1957

More Great Assessments

- ⌘ "But what is it good for?"
-Engineer at the Advanced Computing Systems Division of IBM, 1968, commenting on the microchip.
- ⌘ "This 'telephone' has too many shortcomings to be seriously considered as a means of communication. The device is inherently of no value to us,"
-Western Union internal memo, 1876
- ⌘ "The wireless music box has no imaginable commercial value. Who would pay for a message sent to nobody in particular?"
-David Sarnoff's associates in response to his urgings for investment in the radio in the 1920s.
- ⌘ "The concept is interesting and well-formed, but in order to earn better than a 'C,' the idea must be feasible,"
-A Yale University management professor in response to Fred Smith's paper proposing reliable overnight delivery service. (Smith went on to found Federal Express Corp.)

Still more

- ⌘ "A cookie store is a bad idea. Besides, the market research reports say America likes crispy cookies, not soft and chewy cookies like you make,"
-Response to Debbi Fields' idea of starting Mrs. Fields' Cookies.
- ⌘ "We don't like their sound, and guitar music is on the way out,"
-Decca Recording Co. rejecting the Beatles, 1962.
- ⌘ "Heavier-than-air flying machines are impossible,"
-Lord Kelvin, president, Royal Society, 1895.
- ⌘ "If I had thought about it, I wouldn't have done the experiment. The literature was full of examples that said you can't do this,"
-Spencer Silver on the work that led to the unique adhesives for 3-M "Post-It" Notepads.
- ⌘ "Drill for oil? You mean drill into the ground to try and find oil? You're crazy,"
-Drillers who Edwin L. Drake tried to enlist to his project to drill for oil in 1859.

And more

- ⌘ "Airplanes are interesting toys but of no military value,"
-Marechal Ferdinand Foch, Professor of Strategy, Ecole Superieure de Guerre, France.
- ⌘ "Everything that can be invented has been invented,"
-Charles H. Duell, Commissioner, US Office of Patents, 1899.
- ⌘ "The super computer is technologically impossible. It would take all of the water that flows over Niagara Falls to cool the heat generated by the number of vacuum tubes required."
-Professor of Electrical Engineering, New York University
- ⌘ "I don't know what use any one could find for a machine that would make copies of documents. It certainly couldn't be a feasible business by itself."
-the head of IBM, refusing to back the idea, forcing the inventor to found Xerox.
- ⌘ "Louis Pasteur's theory of germs is ridiculous fiction."
-Pierre Pacht, Professor of Physiology at Toulouse, 1872

One of the all-time great misjudgments of opportunity

⌘ "I've got this thing [the power to appoint Barack Obama's Senate replacement] and it's [expletive] golden, and, uh, uh, I'm just not giving it up for [expletive] nothing. I'm not gonna do it. "

⊗ -Illinois Governor Rod Blagojevich on FBI wiretap

Pre-cursor to dot.com fever



⌘ The internet will catastrophically collapse in 1996

- Robert Metcalfe, the real inventor of the Internet, published in the early 1990's.

⌘ I Invented the internet

- Al Gore
- Not germane to this lecture, but I felt like throwing it in with the other infamous and silly statements.

Getting Started



- ⌘ The first rule of entrepreneurship is to train yourself to see vacuums or gaps in the market, and to fill them.
- ⌘ Keep looking around you.

Veronica's game



- ⌘ Large, color TV's
- ⌘ VCR, Cassette tapes, CD's, DVD, etc.
- ⌘ Microwave ovens
- ⌘ Credit cards
- ⌘ Personal computers
- ⌘ Cordless phones, smart phones
- ⌘ ATM machines
- ⌘ Home exercise equipment, obesity
- ⌘ Hand-held calculators
- ⌘ Contact lenses
- ⌘ Federal Express
- ⌘ Fax machines
- ⌘ The internet
- ⌘ Cordless power tools
- ⌘ Garage door openers
- ⌘ Radar detectors
- ⌘ Full-time 4-wheel drive
- ⌘ Fast food, ethnic food
- ⌘ GPS
- ⌘ 911 emergency calls
- ⌘ Remote control anything
- ⌘ Homeland Security, TSA

Recognizing Opportunity



⌘ In the early 1980s AT&T asked McKinsey to estimate how many cellular phones would be in use in the world at the turn of the century. McKinsey noted that the handsets were absurdly heavy, the batteries kept running out, the coverage was spotty, and the cost per minute was exorbitant.

Cellular Opportunity (cont)



- ⌘ Mckinsey concluded that the total world market for cellular phones in the year 2000 would be 900,000.
- ⌘ In 1999, 900,000 new subscribers joined the world's mobile phone services every three days.

Cellular Opportunity (cont)



- ⌘ NTT DoCoMo estimated (in 2000) that by 2010 only a third of its 360 million customers will be people: the rest will be cars (100m), bicycles (60m), portable PCs (50m), motorcycles, boats, vending machines, and even pets.
- ⌘ Note – in 2001, people were confused by this slide, could not imagine it

More Telephone Stories




⌘ Elisha Grey may have invented the telephone before Alexander Bell, and may have filed a better patent on it, but never contested Bell's patent because he thought the invention had no commercial value.

Sources of Invention



⌘ Study by Richard Stillerman

Of the 61 most revolutionary inventions in the 20th century, including jet engines, insulin, power steering in automobiles, xerography, and catalytic cracking of petroleum, 40 of them came from the hands and inspiration of either private inventors or small companies.

- 
- ⌘ An idea is only an opportunity if you can make money on it.
 - ⌘ Opportunities are created using ideas and entrepreneurial creativity.
 - ⌘ The decision to do something entrepreneurial normally precedes identification of idea and evaluation of commercial value.



Be nimble



- ⌘ The Kellogg brothers' invention of breakfast cereal was a complete accident and intended as a replacement for the bread served to inmates at the Battle Creek (Mich.) Sanatorium. First created as a health food, the Kellogg brothers then added sugar to the mix, and the rest is history.
- ⌘ Cold cereals are an invention of vegetarians and the health-food industry, first through Kellogg's and then through C.W. Post, which steals all of Kellogg's ideas ... These companies realized early on that people like sugar, and kids really like sugar -- so they shifted their sales target from adults concerned about health to kids who love sugar. It's a thoroughly American invention.

Opportunity or not?



- ⌘ Bob Rans
- ⌘ Archipelago / 4 guys
- ⌘ Serving coffee
- ⌘ Selling CD's at flea markets
- ⌘ Importing exotic foods and beverages
- ⌘ Concierge service
- ⌘ Section 8 housing

Every Opportunity has a Window



⌘ The “Window of Opportunity” is finite

- Markets grow at different rates over time, and as a market quickly becomes larger, more and more opportunities are possible. But when the market becomes even larger-and established -conditions are not as favorable. Therefore the window of opportunity is when the market is still growing but before the big boys have come to totally dominate it.

⌘ A narrow window = higher risk


An illustration of windows of opportunity

⌘ Economist study – start with \$1 in 1900:

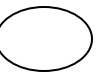
☑ Every year, invest your entire wealth in the market that will perform best during the coming year. Wealth at 12/31/99 = \$9,600,000,000,000,000,000


☑ Every year, invest your entire wealth in the market that performed the best during the previous year. Wealth at 12/31/99 = \$786

Failure is usually faster than success

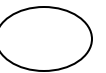


- ⌘ VC winners take an average of 7 - 8 years to ripen and be harvested
- ⌘ VC losers take an average of 2 - 3 years to rot





⌘ Opportunities are attractive, durable, and timely. They are anchored in a product or service which creates or adds value for its buyer or end user.





"There's a thin line between thinking outside the box and a caffeine-induced wacko idea."

Failed / Ruined Opportunities I've Seen



⌘ Flooring distributor

⌘ Telecom reseller

⌘ Factory-built buildings

⌘ Government supplier

⌘ What is the difference between mis-identification of opportunity and ruining the opportunity by not executing? How do you minimize these risks?

Key Question to Answer



Are you focused on what the customer / market wants, or on what you want to do?

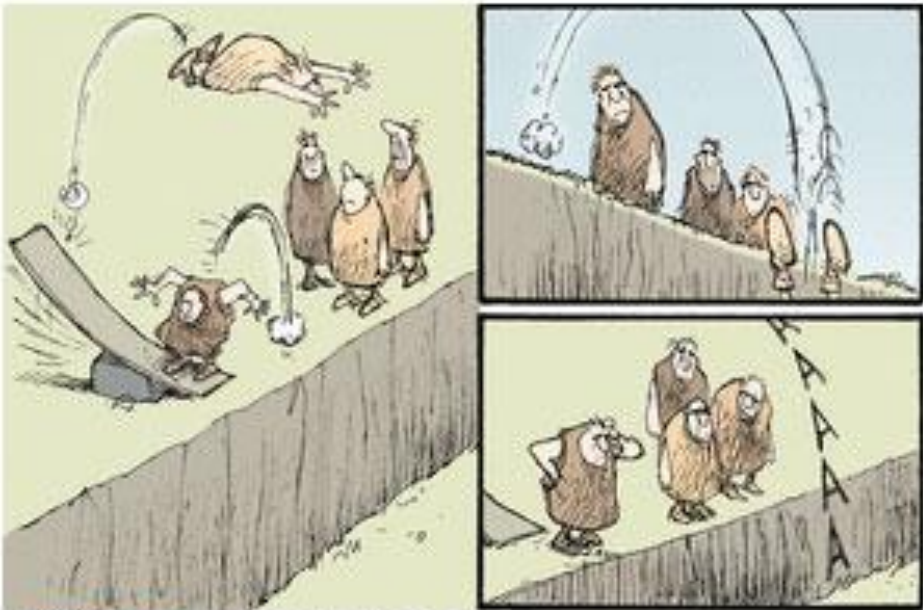
Efficient manufacturing

Best Buy cashiering

Brico vs Handy Andy

Government in action – building state-of-the-art sidewalk ramps in abandoned Detroit neighborhoods





THE FIRST ECONOMIST

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Definitions



- An entrepreneur is someone who perceives an **opportunity** and **creates** an organization to pursue it
- The entrepreneurial process involves all of the functions, activities, and actions associated with **perceiving opportunities and creating** organizations to pursue them
- An Opportunity is an **economically viable idea**



Opportunities can occur in any industry at any time

⌘ What factors give rise to opportunity?

- ☑ **Significant change** deregulation of airlines, telecommunications, air conditioning in the south, etc.
- ☑ **Lags - leads** computer hardware outpacing software
- ☑ **Chaos, confusion, dissatisfaction** Japanese auto industry overtaking US manufacturers
- ☑ **Inconsistencies** labor cost differences - north / south, etc.
- ☑ **Vacuums, gaps** knowledge gap in computers created an industry of consultants and trainers

Finding Opportunities



- ⌘ Keep abreast of demographic changes
- ⌘ Look for the unexpected
- ⌘ Study Problems
- ⌘ Be a people watcher. Identify people's needs.
- ⌘ Monitor society, industry, and the market.
Watch for new trends.
- ⌘ Read, read, read
- ⌘ Talk, talk, talk

Good rule of thumb



⌘ If something makes you angry, you have uncovered a gap in the market.

The most successful venture opportunities exploit change.



- ⌘ Bio-tech
- ⌘ Internet
- ⌘ Training and professional development
- ⌘ Child care, elder care, pet care, home health care
- ⌘ Indulgence goods
- ⌘ Ethnic products
- ⌘ Home office services and products, entrepreneurial assistance
- ⌘ Smart appliances
- ⌘ Personal services

Thoughts



- In entrepreneurship, as in any other profession, luck is where preparation and opportunity meet
- The idea itself is not what is important. Developing the idea, implementing, and building a successful business are the important things
- Would-be entrepreneurs who are unable to name customers are not ready to start a business
- Many new ventures fail because they do not address an economically viable opportunity

What makes an opportunity attractive?



?



“Now I've got to come up with three wishes,
as if I'm not already under enough pressure.”

An attractive opportunity?



- ⌘ I will auction off a dollar to the class under the following terms:
 - ☑ Only the highest bidder gets to keep the dollar.
 - ☑ The two highest bidders each have to pay me their bid.
 - ☑ Any student caught colluding or bid-rigging with any other student gets marked absent for this session

Venture Screening Guide



- The guide in Timmons is excellent
- The guide is only helpful if you are intellectually honest with yourself.



Factors in evaluating the market:



- Need for the product
- Customers
- Pay back to the user
- Value added or created
- Product life
- Market structure (the competition)
- Market's size
- Market growth rate
- Gross margins
- Attainable market share
- Cost structure

High vs. Low Potential Opportunities



- ⌘ Reachable customers
- ⌘ High value added to customer
- ⌘ Durable product
- ⌘ Fragmented market

- ⌘ Large market size
- ⌘ Growth rate > 30%
- ⌘ Low-cost provider
- ⌘ Recurring purchases

- ⌘ Unreachable
- ⌘ Low Value added – long payback time
- ⌘ Perishable
- ⌘ Concentrated or mature market

- ⌘ Small or unknown size
- ⌘ Growth rate < 10%
- ⌘ Declining cost structure
- ⌘ One-time purchases

High vs. Low Potential Opportunities (cont.)

⌘ Positive cash flow within 2 years

⌘ ROI > 25%

⌘ Low capital requirements

⌘ Low assets / sales \$

⌘ Gross margins > 40%

⌘ After tax profit > 10%

⌘ Barriers to entry

⌘ More than 4 years for positive cash flow

⌘ ROI < 20%

⌘ Unfundable capital requirements

⌘ High assets / sales \$

⌘ Gross margins < 20%

⌘ Low profitability

⌘ No Barriers to entry

Five steps to analyzing market opportunity



- Identify the business environmental forces
- Describe the industry and its outlook
- Analyze the key competitors
- Create a Target Market profile
- Sales projections

A different way of evaluating opportunities

- ⌘ All opportunities are defined by risk
 - ☑ People get rich by getting paid risk premiums
 - ☑ No two people feel the same about risk. These differences give rise to opportunity.
 - ☑ The biggest risk in any business venture can be the way that you feel about risk.
 - ☑ The only excessive risk is risk that you don't get paid for.
 - ☑ An opportunity with a guaranteed return is not always a low risk opportunity



More on Risk



⌘ Much of the value you can provide can be in the form of bearing risk.

⌘ Union Carbide options

⌘ Tax returns

⌘ Financial Audits - Sears

How do YOU assess risk?



?

Indian Poker

**What is riskier - buying a
business or starting one?**



?

Tips for buyers



- ⌘ Find an owner with a reason to sell
- ⌘ Do not rush to close on a mismanaged business
- ⌘ Pay only for what is there today
- ⌘ Whoever keeps the risk should get paid a risk premium for it
- ⌘ Keep the seller locked in for as long as possible

What is a franchise?



⌘ Why is it attractive?

⌘ Why is it ugly?

Sources of marketing information:




- Published sources
- Interviews with experts
- Personal observation
- Primary marketing research

Other thoughts about opportunities



- ⌘ Pick your customers carefully
- ⌘ Having a good concept is essential
- ⌘ Listen to legitimate criticism and concerns before moving ahead
- ⌘ Most existing businesses do not want to deal with start-ups
- ⌘ Do not expect to be paid professional rates for undeveloped expertise
- ⌘ Know something about what you are doing



⌘ The Entrepreneur has tuned his or her radar to a frequency that specifically looks and listens for opportunity. Opportunities are everywhere when you are tuned to this frequency.

Be flexible and open-minded




⌘ The first product Motorola started to develop was a record player (phonograph) for automobiles. At that time, the most known player on the market was Victrola, so they called themselves Motorola.

Opportunities found:



- ⌘ L. Gerstenzang – Q Tips – wife cleaning daughter's ears
- ⌘ L.L. Bean (an orphan) – designed new boots while feet hurt on a hiking trip.
- ⌘ K. Gillette – safety razors – thinking about disposable pop bottle caps while shaving
- ⌘ O. Evenrude – outboard motor – ice cream melted while he rowed to a picnic
- ⌘ R. Schneider – Dinners Club – lost his wallet in a NY Restaurant



⌘ The longer you are stuck in an analysis of any opportunity or situation, the more reasons you will find to hold back, delay, and inadvertently risk the loss of the opportunity itself.

Typical student opportunities



- ⌘ Self-storage
- ⌘ Garden Center, landscape business
- ⌘ Bicycle Shop, men's clothing stores
- ⌘ Home theater / alarm systems
- ⌘ Drive-thru espresso
- ⌘ Bread franchise, pizza franchise
- ⌘ Childcare, senior care
- ⌘ Contract Research Organization
- ⌘ Kitchen Store, home rehab
- ⌘ Investment advisor
- ⌘ Automotive performance shop
- ⌘ Office Products Dealership
- ⌘ Radio station
- ⌘ Specialty Grocer, wellness products
- ⌘ Tour Guide
- ⌘ Restaurant
- ⌘ Consulting – environmentally friendly products
- ⌘ On-line retail

More Student Opportunities



- ⌘ Research lab – biotech
- ⌘ Bar / lounge
- ⌘ Interior Design Consultant
- ⌘ Concrete construction supplies and accessories business
- ⌘ Restaurant serving Mediterranean cuisine
- ⌘ Patient advocacy business
- ⌘ Tele-personal training
- ⌘ A technology company
- ⌘ Self storage
- ⌘ Kumon tutoring franchise
- ⌘ Custom purse and handbag company

Differences between papers



- ⌘ Some were very specific (patient advocacy, custom purses, concrete construction) while some were very vague (“a technology company”)
- ⌘ Some were tried and true (self-storage), some were totally untried (tele-physical training)
- ⌘ Some demonstrated passion for the product (a cure for cancer) but lacked passion for the process. Some demonstrated passion for the process (interior design) but not the product.

Go back and look at your papers



- ⌘ Passion for either the process or the product is an opportunity
- ⌘ Specifics (anticipated revenues, number of employees, what the process will be, target customers, etc.) are the beginning of a plan to capture the opportunity
- ⌘ Lack of both specificity and passion is a daydream.

Common factors



- ⌘ Most of you are willing to start-up – usually students want something already successful
- ⌘ Most will have employees – usually students don't want them
- ⌘ Many are competing based on your own service or expertise rather than price
- ⌘ Most are looking to buy a job rather than a potential capital gain

What you liked about your opportunities



- ⌘ Scalability, low fixed costs
- ⌘ Good growth opportunity
- ⌘ Unmet demand due to changing environment
- ⌘ I like that type of customer
- ⌘ Too many specialists in the market, no one-stop shops
- ⌘ I would enjoy it
- ⌘ Matches my personality
- ⌘ Might not be a good opportunity, but it would be fun

Ideal sizes



⌘ Usually very few are willing to do to a start-up. In this group, most are.

⌘ Most usually want something that is well established, good employees, good systems, stable customers, has expert knowledge, not time consuming. Now, most want to start their own.

More indication of loss of trust in corporate environment?

Types of owners to buy from



- ⌘ Maxed out, cannot grow
- ⌘ Family start-up
- ⌘ Retiring or dieing
- ⌘ Took pride in their co.
- ⌘ Has not generated personal goodwill
- ⌘ Franchisor
- ⌘ Knowledgeable
- ⌘ Ethical
- ⌘ Passionate
- ⌘ Competent
- ⌘ A small corporation

Characteristics



- ⌘ Products at all stages of life-cycle
- ⌘ Direct sales
- ⌘ Non-cyclical
- ⌘ Has lots of goodwill
- ⌘ High quality product
- ⌘ Good location
- ⌘ Good equipment
- ⌘ Good name
- ⌘ Doing poorly -> good price
- ⌘ Financially stable
- ⌘ Trendy
- ⌘ Straight forward, simple
- ⌘ Specialized product, good brand name
- ⌘ Allows independence
- ⌘ Success based on own performance
- ⌘ Talented employees
- ⌘ Customer-focus
- ⌘ Not government regulated

Life cycle



⌘ Intermediate

⌘ Intermediate to
mature

⌘ Start-up

⌘ Already peaked and
beginning to decline.

Exit plan



- ⌘ Sell to bigger chain
- ⌘ Grow it and pass it on to heirs
- ⌘ Keep expanding
- ⌘ Go public
- ⌘ Sell to competitor
- ⌘ Keep as retirement activity
- ⌘ Let it keep running and generate cash while we do something else
- ⌘ Sell to someone younger when I retire
- ⌘ Employee ownership

Market



- ⌘ Slow, steady growth driven by trends
- ⌘ High quality, premium
- ⌘ Fragmented suppliers
- ⌘ Fragmented competitors
- ⌘ Driven by product innovation
- ⌘ Affluent customers with high discretionary income

How to add value



⌘ Improve customer service

⌘ Motivating employees

⌘ Save customers time

⌘ Use the assets in more productive setting.

⌘ Just keep it as a job

Converting Opportunities to Wealth



⌘ Throughout history, the people who have become very wealthy have had two things in common: Each had a great gift or idea, and each lived in a society where that gift was highly valued.

- Cynthia Crossen [The Rich and How They Got That Way](#)



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