Entrepreneurship Successfully Launching New Ventures 5th edition Barringer Solutions Manual

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CHAPTER 2

RECOGNIZING OPPORTUNITIES AND GENERATING IDEAS

LEARNING OBJECTIVES

1. Explain the difference between opportunities and ideas.
2. Describe the three general approaches entrepreneurs use to identify opportunities.
3. Discuss the personal characteristics of entrepreneurs that contribute to their ability to recognize business opportunities.
4. Identify and describe techniques entrepreneurs use to generate ideas.
5. Discuss actions to take to encourage continuous development of new ideas in entrepreneurial firms.

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.

CHAPTER OUTLINE

I. The Difference Between Opportunities and Ideas
II. Three Ways to Identify Opportunities
    A. Observing Trends
    B. Solving a Problem
    C. Finding Gaps in the Marketplace
III. Personal Characteristics of Entrepreneurs
    A. Prior Experience
    B. Cognitive Factors
    C. Social Networks
    D. Creativity
IV. Techniques for Generating Ideas
    A. Brainstorming

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B. Focus Groups
C. Library and Internet Research
D. Other Techniques

V. Encouraging the Development of New Ideas
A. Establishing a Focal Point for Ideas
B. Encouraging Creativity at the Firm Level

CHAPTER NOTES

I. The Difference Between Opportunities and Ideas

A. An opportunity is a favorable set of circumstances that creates a need for a new product, service, or business.

B. 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.

C. For an entrepreneur to capitalize on an opportunity, its window of opportunity must be open.

2. The term "window of opportunity" is a metaphor describing the time period in which a firm can realistically enter a new market.

D. It is important to understand that there is a difference between an opportunity and an idea.

1. 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.

II. The Difference Between Opportunities and Ideas

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.

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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:

- Aging of the population
- The increasing diversity of the workforce
- Increased participation in social networks
- Growth in the use of mobile devices
- The increasing focus on health and wellness
- Emphasis on clean forms of energy including wind, solar, biofuels, and others
- Continual migration of people from small towns and rural areas to cities
- Desire for personalization (which creates a need for products and services that people can tailor to their own tastes and needs)

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 iPhone, iPad, and similar devices has in turn spawned entire industries that produce compatible devices.

4. Political Action and Regulatory Changes

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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. This is currently happening as a result of the passage of the Affordable Care Act.

b. Political change also engenders new businesses and product opportunities. For example, global political instability and the threat of terrorism have resulted in many firms becoming more security conscious. These companies need new products and services to protect their physical assets and intellectual property, as well as to protect their customers and employees.

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. Although 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

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for hard-to-fit people, are willing to carry merchandise that doesn't sell in large enough quantities for Wal-Mart or Costco 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.

III. Personal Characteristics of the Entrepreneur

Researchers have identified several characteristics that tend to make some people better at recognizing opportunities than others. These characteristics are as follows.

A. Prior Experience—Several studies show that prior experience in an industry helps entrepreneurs recognize business opportunities.

1. By working in an industry, an individual may spot a market niche that is underserved. It is also possible that while working in a particular area, an individual builds a network of social contacts in that industry that may provide insights that lead to opportunities.

B. Cognitive Factors—Opportunity recognition may be an innate skill or a cognitive process.

1. 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.

2. Entrepreneurial alertness is formally defined as the ability to notice things without engaging in deliberate search.

C. Social Networks—The extent and depth of an individual's social network affects opportunity recognition.

1. In one study, the differences between solo entrepreneurs (those who identified their business ideas on their own) and network entrepreneurs (those who identified their business ideas through social contacts) were examined. The researchers found that network entrepreneurs identified significantly more opportunities than solo entrepreneurs, but were less likely to describe themselves as being particularly alert or creative.

2. An important concept that sheds light on the importance of social networks to opportunity recognition is the differential impact of strong-tie versus weak-tie relationships. Relationships with other people are called ties.

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3. Strong-tie relationships are characterized by frequent interactions, such as ties between coworkers, friends, and spouses. Weak-tie relationships are characterized by infrequent interaction, such as ties between casual acquaintances. It is more likely that entrepreneurs will get business ideas via weak-tie versus strong-tie relationships.

D. Creativity—Is the process of generating novel or useful ideas. Opportunity recognition may be, at least in part, a creative process. It is easy to see the creativity involved in forming many products, services, and businesses.

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

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

b. Incubation—Is the stage during which a person considers an idea or thinks about a problem; it is the "mulling things over" phase.

c. Insight—Insight is the flash of recognition, when the solution to a problem is seen or an idea is born.

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

e. 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.

IV. Techniques for Generating 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.

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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 produce 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 "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.

V. Encouraging the Development of New Ideas

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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 facilitate and inhibit creativity at both the organizational level and the individual supervisor level.

BOXED FEATURES: QUESTIONS FOR CRITICAL THINKING

What Went Wrong?

Why a Company that Solved a Problem with a Great Product Went Out of Business

1. In the context of this chapter, make a list of three "takeaways" from this feature that you can learn from and try to avoid if you set out to solve a problem by launching a business.

   Answer: This is a good question for a group or individual assignment. Three potential takeaways are as follows: (1) When building a business, it is important to focus on both the quality of the product and business that needs to be built to bring the product to market. Everpix spent too much time on the quality of the product at the expense of the business; (2) Web-based apps are much more compelling if they are viral. If a user can share with friends and family what he or she is doing on an app, then the app is more likely to grow; (3) Marketing matters—you may build the best product or service in the world, but if no one knows about it, it will ultimately fail.

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2. To what degree is there a difference between pursuing an opportunity to solve a problem and building a business? In what ways did Everpix fail to do both?

   Answer: There is a big difference. An entrepreneur can pursue an opportunity and build a very elegant solution to a problem. But a profitable "business" must ultimately be built to take the solution to market. Everpix built an elegant solution in part, but it wasn't viral, which was a big handicap. Everpix failed in terms of building a profitable business.

3. According to the feature, Everpix spent almost nothing on advertising and promotions. How large of a role do you think that decision played in Everpix's failure?

   Answer: Most students will say that the decision to spend almost nothing on advertising or promotions played a large role in Everpix's failure. There has to be a way for a company to "get the word out" about its business for people to know about it. Everpix's shortcoming in this area was compounded by the fact that the service wasn't viral, so they weren't getting as many customers as they might have via word of mouth.

4. Venture capitalists are often accused of swinging for the fences—in other words, they don't invest in firms that are hitting singles, doubles, or triples. They want home runs. In hindsight, do you think Everpix was building a business that had the potential to hit singles, doubles, or triples, or a business that had the potential to be a home run? Explain your answer.

   Answer: Most students will say that Everpix wasn't thinking big enough—and ultimately was building a business that was akin to a single or a double rather than a homerun. Although they were trying to solve a compelling problem (i.e., helping people store and organize photos in a manner that would encourage people to go back and look at them), they built a site that wasn't viral and wasn't marketed sufficiently to attract a large number of users.

Savvy Entrepreneurial Firm
How to Learn About Emerging Trends Through the Effective Use of Social Media

There are no questions associated with this feature.

Partnering for Success
Want Help Fine-Tuning a Business Idea? Find a Mentor

1. If you were working on fine-tuning a business idea, would you check out one of these online options or an association in your area that provides mentoring and advice for business founders? Why or why not?

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Answer: Students will vary in their answers to this question.

2. To what degree do you believe that having a mentor can make the difference between an entrepreneur succeeding or failing? In what areas of the entrepreneurial process do you believe that mentors are called upon the most?

   Answer: Most students will say that having a mentor could make a substantial difference between an entrepreneur succeeding or failing. An inclination in this direction results from the fact that most students have had a coach, a teacher, or an older relative or friend who has "mentored" them in some way, so they see mentoring as a useful process. Students will vary in terms of what areas of the entrepreneurial process that they believe mentors are called upon the most. It's been our experience that mentoring is particularly helpful in the areas of manufacturing and production (for start-ups with a physical product) and in raising financing or funding.

3. Make a list of the organizations in your area that provide mentorship and advice for business founders. Which organizations make the most sense to reach out to for someone who is still in the opportunity recognition stage of the start-up process?

   Answer: Students will vary in their answers to this question. Challenge your students to be as exhaustive as possible in the list they complete for their area.

4. How do you know what to do with a mentor's advice? If you get advice from several mentors or counselors at organizations such as SCORE and local Small Business Development Centers, how can you best sort through the advice and know which advice to take and which advice to set aside?

   Answer: Students will vary in their answers to this question. A reasonable answer is to listen to advice, and then pursue the advice that resonates with you. Another way of thinking about this is to record the advice from different people, and then pursue the advice that seems to represent the consensus of the people that you talk to.

REVIEW QUESTIONS

2-1. What is a product opportunity gap?

   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.

2-2. How can an entrepreneur tell if a product opportunity gap exists?

   Answer: Via careful observation and then via (1) emphasizing or enhancing

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personal characteristics that contribute to opportunity recognition, such as prior experience, cognitive factors, social networks, and creativity and (2) utilizing the techniques highlighted in the chapters for improving opportunity recognition, such as brainstorming, focus groups, and library and Internet research.

2-3. What is an opportunity?

Answer: An opportunity is a favorable set of circumstances that creates a need for a new product, service, or business.

2-4. What are the qualities of an opportunity, and why is each quality important?

Answer: 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. An opportunity would not be attractive if any of the qualities were missing.

2-5. 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.

Environmental Factor	Business Opportunity it Might Create
Economic factor	An increase in disposable income in the hands of teenagers creates opportunities to create new electronics products that appeal to teenagers.
Social factors	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.
Technological factors	An increase in the percentage of people who use smartphones creates opportunities for companies to create products and services that enhance the usefulness of smartphones.
Political Action and Regulatory Changes	The passage of new environmental protection regulations creates opportunities for companies to create products to help firms comply with the regulations.

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2-6. How can "solving a problem" create a business opportunity for an entrepreneur to pursue?

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.

2-7. How can finding a gap in the marketplace create a business opportunity?

Answer: A gap in the marketplace suggests that particular clientele, such as 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. The trick is whether there is a large enough critical mass of people in a particular area to support a business that fills a gap in their marketplace for a specific clientele.

2-8. What is meant by the term opportunity recognition?

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

2-9. 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.

2-10. What is entrepreneurial alertness and why is it important to entrepreneurs?

Answer: 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. Entrepreneurial alertness is important, because individuals with higher levels of entrepreneurial alertness will presumably identify more business opportunities.

2-11. How does an extensive social network provide an entrepreneur an advantage in

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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.

2-12. What is the difference between a weak-tie and a strong-tie relationship? Which type of tie is most likely to help an entrepreneur find an idea and 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 form 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.

2-13. What is creativity?

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.

2-14. How does creativity contribute to the opportunity recognition process?

Answer: Opportunity recognition may be, at least in part, a creative process. On an anecdotal basis, it is easy to see the creativity involved in forming many products, services, and businesses.

2-15. What are the five stages of the creative process for an individual?

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.

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Stage 5: Elaboration is the stage during which the creative idea is put into a final form.

2-16. What are the differences between an opportunity and an idea and why are those differences important for entrepreneurs?

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.

2-17. 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.

2-18. How is a focus group 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.

2-19. 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 are working and gain insights for new product ideas.

2-20. 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.

2-21. How do businesses encourage creativity at the firm level?

Answer: Through the techniques articulated in Table 2.5, which include (1) supporting an highlighting creativity's importance in all parts of the firm, (2) overtly rewarding those demonstrating creativity in their work, (3) investing in resources for the purpose of helping employees become more creative, and (4) hiring people with different skills and viewpoints compared to current employees.

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APPLICATION QUESTIONS

2-22. Justin plans to write an e-mail message to his dad asking for a loan. The purpose of the loan will be to start a company to sell an environmentally friendly line of cleaning supplies that are suitable for light manufacturing facilities. Justin has spent the past two years developing the products in his spare time, and wants to convince his dad that the idea represents an attractive business opportunity. In your opinion, what information and insights about the company he wants to start should Justin include in the e-mail message?

Answer: Justin should try to convince his 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) he has done sufficient research, either through brainstorming, focus groups, and/or library and Internet research, to assure himself that the idea is attractive.

2-23. Identify three start-ups, other than those discussed in the chapter and listed in Table 2.2, which were started to solve a problem. Briefly describe the problems the three start-ups are solving and how they are going about doing so.

Answer: There are countless examples that students 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 Springwise blog (www.springwise.com) also provides fresh examples of new products and services on a near daily basis.

2-24. 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. What are some current social trends that might help Marshall choose items to add to his menu? Given the trends you list, what items do you suggest Marshall add to expand his restaurant's menu?

Answer: This is a good thought question for students. The obvious social trend that Marshall should pay attention to is the increasing emphasis that American's are paying to health and fitness. Marshall's menu features food that is high in fat and cholesterol. Although that menu may appeal to a certain clientele, Marshall might think about broadening his menu to include lower fat foods, such as chicken, fish, and salads.

2-25. Tiffany Jones owns a small chain of fast-casual restaurants in Denver that sell sandwiches, soups, wraps, and desserts. In general, her restaurants are successful, but she feels they are getting "stale" and could benefit from new

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ideas. Suggest to Tiffany some ways she could generate new ideas for her restaurants?

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

2-26. As mentioned in the chapter, "prior experience" in an industry helps entrepreneurs recognize business opportunities. This concept of "help" extends to prior experience in any aspect of life—whether it is sports, music, or a volunteer activity. In what areas do you have a good amount of prior experience? How could this prior experience position you to start a business?

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. Alice Brooks and Bettina Chen, the student entrepreneurs featured at the beginning of Chapter 11, used their prior experience of enjoying building things as children to start a very successful company, Roominate, which makes toys that encourage girls and young women to become interested in engineering.

2-27. 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.

2-28. Imagine that you've been hired by Fitbit, the wearable activity tracker, to conduct focus groups on your campus to get a better sense of how Fitbit can be as relevant and useful to college students as possible. How would you go about setting up the focus groups? What are the primary issues on which you would concentrate with the focus groups?

Answer: Most students will repeat the material in the chapter in regard to how to set up a focus group to get a better sense of how Fitbit can be as relevant and useful to college students as possible. Challenge your students to be as thoughtful and creative as possible in regard to the primary issues they'd zero in on in the focus group.

2-29. How could AJ Forsythe and Anthony Martin, the co-founders of iCracked, the subject of the opening feature for this chapter, have utilized library and Internet research to flesh out their business idea?

Answer: There is undoubtedly much that AJ Forsythe and Anthony Martin could

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have learned about the smartphone industry via library and Internet research, regarding whether the industry is growing or shrinking, the percentage of people who buy high-end smartphones vs low-end smartphones, how often smartphones need repair, and so forth.

YOU BE THE VC 2.1

Company: NatureBox (www.naturebox.com)

Business Idea: Launch a monthly subscription service that delivers healthy snacks to subscribers at their doorsteps for a low monthly fee.

You Be the VC Scorecard
NatureBox
(www.naturebox.com)

Item	**Score/Comments**
Strength of New-Venture Team	1 2 3 4 **5** NatureBox was founded by Gautam Gupta (CEO) and Kenneth Chen (CMO). The two met when they were students at Babson College. Gupta worked previously for Proctor and Gamble and has a background in brand strategy and consumer knowledge. He is also a former partner at General Catalyst Partners, a VC firm. Chen is a serial entrepreneur. He launched two successful businesses prior to launching NatureBox. VP for Engineering is David Lee. Lee has a background in software design and development and worked formally for Facebook and HP.
Strength of the Opportunity	1 2 **3** 4 5 Societal trends are working in favor of NatureBox. People are looking for healthier foods, and are increasingly busy. So the fact that NatureBox offers a curated selection of snacks that are delivered directly to the customer's door sounds appealing. On the other hand, it's hard for us to see that NatureBox is solving a problem. Plentiful selections of healthy snacks are available in all grocery stores—let alone health conscious stores such as Whole Foods. Although people are busy, they still have to shop. It's not hard to find health snacks in stores.

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Strength of the Industry	1 2 **3** 4 5 Although the industry for health snacks may be growing, it is a crowded market with new competitors entering continually. As a result, it's hard for us to see the industry as a strength.
Strength of Business Model	1 2 **3** 4 5 This is a tough one. The subscription business model is attractive in that it encourages repeat purchases. Once NatureBox enrolls a customer, its product goes out and the customer is billed monthly until the customer tells NatureBox to stop. We also like that fact that NatureBox sells full-sized versions of the snacks that are in its boxes. On the other hand, NatureBox is asking people to change the way they buy snacks. Virtually all consumers shop in stores where plentiful selections of healthy snacks are available, so it's hard for us to see how NatureBox is offering something unique. Our guess is that churn will become an issue. Eventually, NatureBox will see attrition in the number of subscribers it has and will have to continually advertise to win new subscribers just to stay even.
Average Score	3.5/5.0

Decision: We would not fund this firm. A big plus in NatureBox's favor is the strength of its management team. We have no quibbles there. In fact, the fact that Gupta and Chen are at NatureBox's helm makes us wonder what they see about the potential of NatureBox that we're not seeing. The negatives for NatureBox are the crowded nature of its industry, the lukewarm opportunity, and uncertainties regarding its business model. These are just too big of negatives for us to overcome. As a result, as the individual sharks on Shark Tank often say, "we're out."

YOU BE THE VC 2.2

Company: Parking Panda (www.parkingpanda.com)

Business Idea: Create a service that allows motorists to find parking spots on a regular basis or for special events, and allow parking space owners (both individuals and commercial lots) a way of connecting with drivers to rent underutilized parking spaces.

You Be the VC Scorecard

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Parking Panda
(www.parkingpanda.com)

Item	Score/Comments
Strength of New-Venture Team	1 2 3 **4** 5 Parking Panda was founded at a Startup Weekend in Maryland in 2011. Following the Startup Weekend, co-founders Nick Miller and Adam Zilberbaum entered the ER Accelerator program in New York City. Prior to Parking Panda, Miller spent a year working in product management for Living Social. He also spent time at New York City start-ups Crowdtap and Group Commerce. Zilberbaum started programming when he was in the 5th grade. His previous stints include lead engineer at GAAP Software where he built enterprise software solutions for Fortune 500 companies and running and owning his own IT consulting firm.
Strength of the Opportunity	1 2 3 4 **5** This strikes us as a large opportunity. The parking problem is pervasive in mid-sized and large cities (not to mention college campuses) and will only get worse as a result of the continual migration of people from rural areas and small towns to cities. Someone will solve the parking problem, and the company that provides an attractive solution to the problem will reap rich rewards. We like what we see in terms of how Parking Panda is approaching the parking problem. The company's future hinges on whether they will be able to execute and scale the business
Strength of the Industry	1 2 3 4 **5** According to the International Parking Institute (www.parking.org), the parking industry generates between $25 billion and $30 billion in gross revenue each year in the United States alone. The potential of the industry is larger. Parking Panda hopes to convert private driveways in parking places that can be used when their owners are away and hopes to better fill empty parking spaces in commercial lots. Demand for parking spaces is likely to continue to go up. Cheap gas prices are putting more cars on the road. A risk for

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	Parking Panda is regulation. If they are successful converting private driveways into paid parking spaces, they might experience resistance from neighborhood homeowners associations and community groups. The parking problem is so big, however, it's hard to see how a solution to a pervasive problem can be held back.
Strength of Business Model	1 2 3 **4** 5 Parking Panda's business model is straightforward. It collects a commission for every parking space it helps its customer's rent. Parking Panda's efforts should be assisted by city governments, which has a big incentive to find solutions to the parking problem. This aspect of Parking Panda's business model is particularly attractive.
Average Score	4.5/5.0

Decision: We would fund Parking Panda. The management team is young and untested, which creates an unknown. But the opportunity, industry, and business model are strong. As mentioned above, the parking problem is large and pervasive, and someone will eventually solve the problem. If it's Parking Panda, Parking Panda could become a large firm. The wildcard for a company like Parking Panda is how quickly and effectively they can expand. There are certainly regulatory issues in each city that vary and must be dealt with. The silver lining is that everyone benefits by the parking problem being solved. We're looking forward to watching Parking Panda's progress over the next one to three years.

Special note: Our students have pointed out to us the elegance of Parking Panda's Web site. It is visually appealing and very easy to navigate. This tells us that Parking Panda is placing emphasis on exactly the right metric—the experience that the customer has in utilizing its service.

CASES

Case 2.1
Dropbox: Solving a Compelling Problem in a Smooth Manner

DISCUSSION QUESTIONS

1. What environmental trends are working in Dropbox's favor as the firm seeks to operate profitably? What environmental trends may work against Dropbox and why?

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Answer: The environmental trends that are working for Dropbox are (1) an increased dependence that people have on technology; (2) the increasing amount of digital storage space that people need, as a result of storing photos and videos along with word documents and spreadsheets; (3) an increase in the number of platforms that people work from, which now includes desktop computers, laptop computers, tablet computers, and smartphones; and (4) an increasing mobile population. All of these factors favor Dropbox's cloud-based storage solution that can be accessed from all of a user's devices. The trends working against Dropbox are (1) the sheer number of devices that people have is increasing the complexity of Dropbox's service and (2) the continual drop in the cost of storing digital content is bringing new competitors in the market.

2. What personal characteristics does Drew Houston possess that suggest he may have what it takes to be a successful entrepreneur?

   Answer: Drew Houston seems to have all the characteristics of a successful entrepreneur highlighted in Chapter 1, which include passion for the business, product/customer focus, tenacity despite failure, and execution intelligence. We don't know enough about Drew Houston to make an informed judgment regarding the personal characteristics mentioned in Chapter 2. He did demonstrate a certain degree of entrepreneurial alertness and creativity in conceiving of the Dropbox business idea and the manner in which the idea has been executed.

3. What *problem* did Dropbox's founders solve with the service they developed?

   Answer: Dropbox has completely solved the problem of creating a document on one device (i.e., desktop computer at work) and having the same document available on another device (i.e., laptop computer at home). The same applies for storing any piece of digital content that Dropbox allows, such as photos or videos, available on multiple devices.

Case 2.2
Rover.com: Don't Chuckle: This Is One Impressive Business Idea

1. In the United States, what environmental trends are supporting the development of Rover.com's business?

   Answer: Most students will assemble a list that includes (1) increasingly mobile population—which necessitates that dog owners need their dogs watched by others more often, (2) aging of the population—many older people have dogs for companionship, and (3) increase in the spread of technology and mobile devices—people may be more willing to leave their dogs in the care of others if they can get frequent updates on their dogs via e-mail and other forms of digital communications.

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2. How might Rover.com use focus groups to gain a better understanding of its current and potential customers and their needs?

   Answer: Most students will revert to the information in the chapter about focus groups. Challenge your students to apply the material in the text to specifically how Rover.com would setup focus groups and utilize the information gleaned through them.

3. In this chapter, we noted that a true business opportunity is attractive, durable, timely, and anchored in a product or service that creates value for a buyer. To what extent does Rover.com's service satisfy each of these criteria?

   Answer: Rover.com's service is attractive in that it places a dog owner's dog in a home rather than a kennel. This aspect of Rover.com's service provides a dog more personalized attention and is healthier, given that the dog will not be in close proximity to a large number of other dogs, some of which may be sick. The service is durable in that the number of dogs and dog owners in the United States continues to go up. The amount of money that people spend on their pets, dogs included, also continues to go up each year. The service is timely in that the population in general is increasingly mobile, meaning that people travel more which necessitates dog owners needing to find others to watch their dogs. Finally, the service is anchored in a product or service that creates value for a buyer. The entire intent of Rover.com is to provide a dog owner a better experience that placing a dog in a kennel. There are many examples throughout the case where Rover.com achieves this objective.

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