Module 13 – The Opportunity Analysis Canvas
Trainee notes

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Contents

Introduction to the Module

In the business context the term opportunity is referred to the potential to create a new venture. This can be a for-profit company, a non-profit company, a venture within an established company or organization, or any related venture that creates value for the customers and the owners of the venture.

Looking back in time all people have the ability to recognise good opportunities. It is quite simple to see and recognise the success of other people and to believe that we could have performed well or even better than the success stories, which we review. Our decisions, however, are of most value in the present, and not in hindsight.

The question that arises is what is missing to helps us identify and analyze entrepreneurial opportunities. Why are so few students launching businesses?

There is the need for something new, something different, that helps us identify and analyze entrepreneurial opportunities. For aspiring entrepreneurs, new tools are necessary to develop the ideas that can lead to effective business planning and successful ventures.

Through the structure of the course, the participants will discover how this question is answered by the concept and methodology of Opportunity Analysis Canvas.

The Opportunity Analysis Canvas is based on an award-winning educator at the University of Maryland, Dr. James V. Green leads the education activities of the Maryland Technology Enterprise Institute, who identified that entrepreneurial opportunity analysis is a process that could be taught.

The Opportunity Analysis Canvas is a new tool developed by prof. James V. Green (Maryland Technology Enterprise Institute-Mtech) for identifying and analyzing entrepreneurial ideas. Structured as a nine-step experience, the canvas is segmented into: thinking entrepreneurially with an entrepreneurial mindset, entrepreneurial motivation, and entrepreneurial behaviour; seeing entrepreneurially with industry condition, industry status, macroeconomic change, and competition; and acting entrepreneurially with value innovation and opportunity identification.

Consequently, participants to the specific course will be able to become more effective in identifying and analyzing entrepreneurial opportunities, and realizing their personal and professional goals.

Chapter 1 – The Opportunity Analysis Canvas

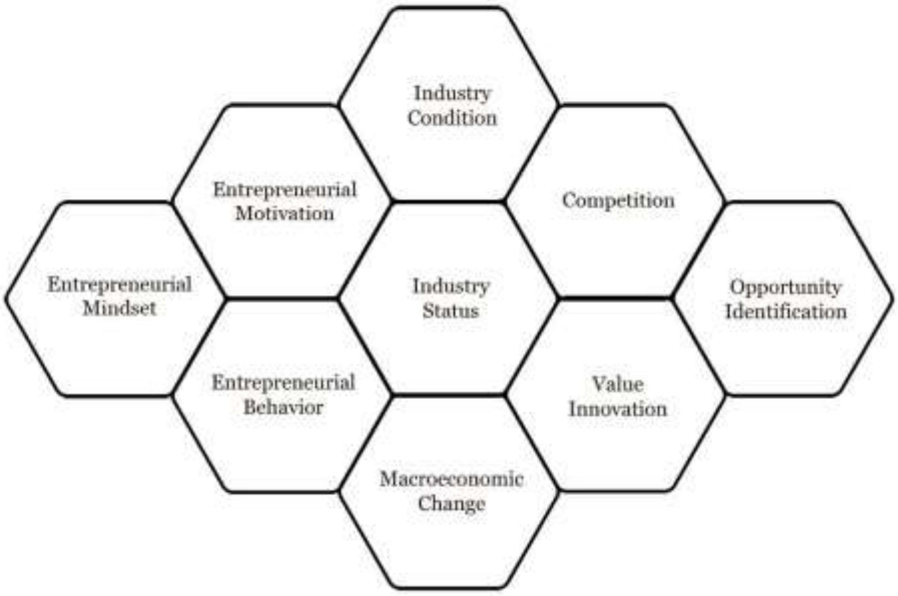

Figure 1: The Opportunity Analysis Canvas

Without the idea of the product or service, neither the business model nor the discovery of the customer can start. This is the first step in defining the idea that the Opportunity Analysis wants to fulfill.

The Opportunity Analysis Canvas is a tool that will help the participant to identify business opportunities. Nine steps comprise it:

1. entrepreneurial mindset,
2. entrepreneurial motivation, entrepreneurial behavior,
3. industry condition,
4. industry status,
5. macroeconomic change,
6. competition,
7. value innovation and
8. opportunity identification.

The nine steps are organised in three parts.

Steps 1 – 2: Thinking entrepreneurially. Thinking in business context is affected by three parameters, which are the individual mindsets, the motivations and the behaviors.

Steps 3 – 7: Seeing entrepreneurially. Seeing entrepreneurially requires the potential entrepreneur has a "big picture" perspective. This means that it recognizes and understands the economic forces impacting its ideas as well as industry and competitive factors that exist now and in the future. Seeing entrepreneurially is affected by industry condition, industry status, macroeconomic change, and competition.

Steps 8 – 9: Acting entrepreneurially. By developing the abilities to think and see entrepreneurially, each person is better prepared to act and react. This requires attention to value innovation and opportunity identification. Through this, the entrepreneurial ideas can be transformed into action.

Aiming to understand better the roles of entrepreneurial thinking and opportunity identification it is important to be introduced in the context of entrepreneurial opportunities in more depth. Entrepreneurial opportunities are different and more specialized than the more generic term of general business opportunities. Entrepreneurial opportunities require the discovery of new relationships and interactions in the marketplace that are uncertain and dynamic. In this global market, there is a continuous race to bring new products and technologies. The opportunity analysis canvas will introduce the participant to a new level improving its ability to see entrepreneurial opportunities and make entrepreneurial decisions.

Chapter 2 – Part I - Thinking Entrepreneurially

The first three steps of the Opportunity Analysis Canvas are:

- Entrepreneurial Mindset
- Entrepreneurial Motivation
- Entrepreneurial Behaviors

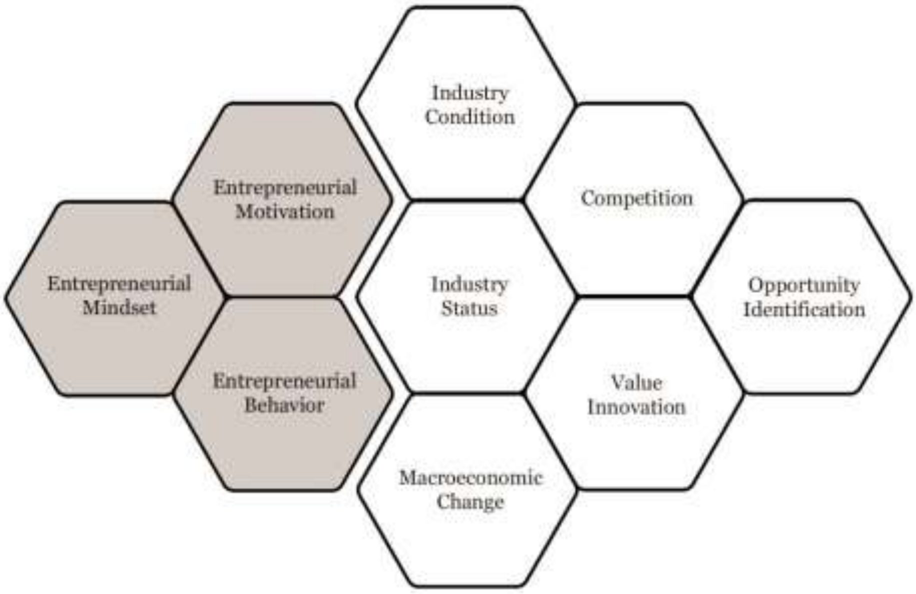

Figure 2: Part I of Opportunity Analysis Canvas

2.1 Entrepreneurial Mindset

It is quite important to recognize that the person, the entrepreneur, is at the significant part of the entrepreneurship context. Therefore, to understand the mindset of entrepreneurs is critical to understand how to develop and launch successful ventures. The understanding of Entrepreneurial Mindset will explain why less than 5% of society become entrepreneurs.

Entrepreneurs are typically optimists, who strive for success. They tend to be independent individuals, intensely committed to persevering in starting and growing a venture.

While every entrepreneur is unique, there are common features in entrepreneurial mindset that they share. To understand this we focus on that entrepreneurial mindset, with attention to the five characteristics: *achievement, individualism, control, focus, and optimism*.

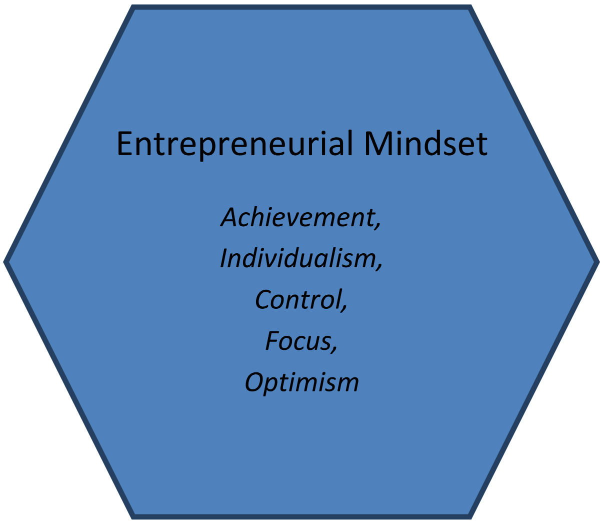

Figure 3: Emphasis on "Entrepreneurial Mindset"

Characteristic 1: Need for achievement is an internal decision of a person to confront problems or challenges aiming to deliver outcomes. There are several terms someone can use to describe this personal need for achievement, such as "drive for accomplishment", or "hunger to complete", others may call it self-motivation of a person. All these terms and words are considered as accurate in the context of entrepreneurial mindset.

It is important to clarify that entrepreneurs have an increased need for achievement than other persons and this is a key difference between entrepreneur and manager. What we call a manager in this context is a corporate or government employee.

A high need for achievement makes for better entrepreneurs. Naturally, if you have a greater motivation, a greater drive, and a greater level of commitment, you're going to have higher involvement in your job and in your career. You're going to have higher organizational commitment and commitment to colleagues, suppliers, partners, customers, and investors. Need for achievement is therefore an enabler of becoming a successful entrepreneur.

How do you know if you have a high need for achievement?

Take a step back and think about the entrepreneur. Think about yourself. We want to know what it means to have this need for achievement.

We first want to think about goal setting.

- Do you have personal goals?
- Are they written?
- Are they specific and challenging and relevant?
- Do you mentally rehearse or forecast or think about future events?
- Do you anticipate obstacles?
- Do you develop alternative solutions?
- And are you not only driven to success, but are you planning your own success?

In summary, need for achievement is a key component of the entrepreneurial mindset. It's one of the five key components that we're going to analyze. It's motivating for individuals to pursue their new venture's success, and contributory to their success as entrepreneurs.

Analyzing your own need for achievement is valuable to diagnosing and enhancing your level. We are all at different levels. And it's not to say that you are where you are and that's all there is to it. What we hope to do within each of these elements is identify and assess where we are, and work towards improving ourselves in each element.

Characteristic 2: Individualism is a key element of the entrepreneurial mindset. When we define the term individualism, it means that you need less support or approval from others. You may place a very high value on independence, freedom, and control. There may be a willingness, even a preference, to go against the norm. High individualism is associated with an emphasis on individual initiative and a high need for achievement.

Individualism is tightly correlated with decision making based on achievement and risk taking. There's more assertiveness. There's more speed to action. Entrepreneurs tend to have a higher level of individualism, but too much may be detrimental. We do not benefit from entirely lacking this collectivism aspect. Once you understand your preferences between individualism and collectivism, you can strive towards developing a balance.

Characteristic 3: Control is a key issue in the entrepreneurial mindset context. The key question that we need to answer is "Do you believe that you have control of your own destiny?". In considering the question of your belief that you have control of your own destiny, we'll deconstruct the term into two pieces: *autonomy* and *locus of control*.

With *autonomy*, we're considering your freedom from the influence of others in decisions that you make. For the significant decisions that you make, you may solicit advice and counsel, and consider others' inputs. But when it comes down to it, are you the number one influencer and the number one decision maker? And can you act on your decision, and what you think is right, with relative independence and freedom from the influence of others?

The second element that we'll examine is the *locus of control*, which is a different side of control that looks at the individual's belief that they can influence others, or that they can influence the environment. When good things happen, do you attribute that to what you did, or to what happened externally? Inversely, when bad things happen, do you take accountability for that? Do you take control of that situation, or do you attribute that to others?

Locus of control is either internally or externally oriented. Locus of control that's internally oriented means that you believe, as an individual, that you are in control and able to influence your environment and its outcomes. Inversely, externally oriented means that you're feeling subject to people and events, that you have minimal influence. You attribute fate or luck or other external factors to what caused certain things to happen.

In summary, beliefs about the value of entrepreneurial opportunities are driven by the individual, and their willingness to take action on their ideas. The ability to make an idea a reality is in large part based on how you operate in the sense of how independently you operate.

Do you believe that you have the ability to successfully pursue that opportunity? That's where autonomy and locus of control play a role in your ability to execute on these beliefs. This depends on the degree to which you believe that you can influence others, the environment, and the circumstances that exist.

Characteristic 4: Focus is a central challenge for entrepreneurs. Developing an ability to focus our time and energy is an important step to enhancing our entrepreneurial mindset.

Our definition of focus in this context is concentration on a specific issue or task. To really focus, you need self-discipline and motivation. Do you have the commitment and attention span to see a task through to completion with high quality and relative speed?

Successful entrepreneurs can focus on a task and see it through to completion, or see it through to its next milestone. We can be more efficient, and do things better, by giving it our full attention, by processing information efficiently and thoroughly. This enables us to be decisive and thoughtful in our decisions.

To assist with your focus, use timelines for your tasks and goals. Create a plan for what you want to achieve by what time or day. With your timeline, particularly your daily timelines and to-do lists, be sure to schedule breaks and vary your tasks as possible. As the human attention span typically declines after two hours, taking short periodic breaks can be more productive than being heads down and staring at a computer all day.

I suggest that you maintain a to-do list that you actually schedule on your calendar. You should know how much time you're going to spend each day on various tasks. That allows you to structure your day and to have time allotments, and forces you to adopt a principal of "done is better than perfect." That way you're bringing things to a close, and you're able to make progress on the next task.

Characteristic 5: Optimism is better measured by how other people see you. A textbook definition for being optimistic is to anticipate the best possible result. The optimum result. We'll modify this definition to include a "favorable" outcome that may not be the optimum result. While the optimum result may not occur, if you're an optimist, you do expect that the outcome will be at least favorable.

Optimism can certainly be learned, according to Martin Seligman, the author of Learned Optimism. Let's highlight the principles and takeaways that he suggests for learning to be more optimistic.

1. The first step is to learn to identify situations and events that we routinely face. To document them and to think about the challenges that we encounter.
2. Then write your beliefs and assumptions. What comes to mind? What do we expect? Can we separate the facts from our feelings, and have a more objective view and objective account of what it is that we're facing.
3. The third step is to think about consequences and the levels of emotions and energy, and what's happening and what we did.
4. Then think about the elements that you may dispute. There may be a devil's advocate way of thinking about what else may have happened, what may we have missed, what else could have influenced this? We look at evidence. We think about alternatives and consider other implications. Again, documenting these elements.

5. Lastly, we think about the level of influence of energy and beliefs over time. We think about how these elements of emotions and feelings, be they of a pessimistic or of an optimistic nature, have influenced the decisions that we've made. Have we encountered an initial hurdle, but because we felt that it was difficult, we stopped? Or have we performed at somewhat of a lackluster level? Or conversely, if we thought that it was difficult, but we gave it our full energy anyway, what was the outcome then?

This five-step approach is a way of establishing and developing optimism. We can also better understand the root causes of our pessimism.

A number of the characteristics and behaviors that we've discussed are influenced by our experiences. We have the capacity to learn things as individuals, to unlearn, and to relearn. And that's true of emotional behaviors and psychological patterns. In that sense, when we begin to understand who we are and what we are, it gives us the opportunity to enhance and redevelop ourselves.

In summary, the optimistic approach combined with high reality testing is the ideal balance. We avoid being overly optimistic. We don't want to fool ourselves into thinking we should do things that we haven't analyzed. We do want to focus on positive options, and become an *"optionist"* in the context of thinking about how to move forward and how to be optimistic as entrepreneurs. Also within this element, we want to emphasize our capacity to learn, to unlearn, and to relearn. And that's true of optimism and the other factors that we've been discussing.

2.2 Entrepreneurial Motivation

Entrepreneurial motivation encompasses the factors by which goal-directed behavior is initiated, energized, and maintained. For entrepreneurial strategic decision making, three factors are self-efficacy, cognitive motivation, and tolerance for ambiguity.

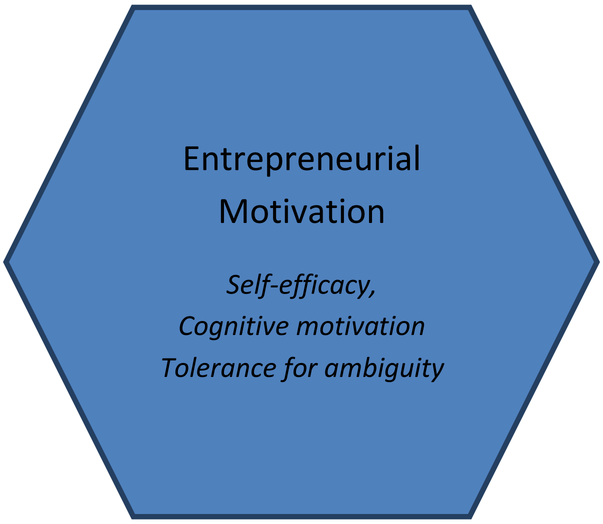

Figure 4: Emphasis on "Entrepreneurial Motivation"

Do you have high self-efficacy?

As we turn our attention to *entrepreneurial motivation*, we're going to start the conversation with a discussion of *self-efficacy*. Specifically, we'll examine how self-efficacy impacts you and your motivations, and how to improve your personal self-efficacy.

Self-efficacy is your belief in your ability to accomplish a specific task. It intersects an element of mindset, as well as an element of entrepreneurial motivation.

Self-efficacy may sound like confidence, but it differs. Confidence is a general characteristic that applies to all tasks. We generally think of ourselves as being a confident person or an unconfident person.

Self-efficacy differs from confidence in that self-efficacy is task dependent. For example, if you enjoy numbers, you think of yourself as a numbers person, your self-efficacy for dealing with financial matters is probably high. If you fear public speaking, and you don't think you are effective as a public speaker, your self-efficacy for selling in front of an audience or marketing in front of a crowd may be low. For this person, who may be generally confident, their self-efficacy is high in finance and low in sales and marketing.

The benefits of having a high self-efficacy as it's related to entrepreneurship are many. It certainly is a key predictor of individual performance. Naturally, if you think that you can do something well, like our discussion of optimism, the likelihood of actually doing it well is higher than if you go into it with a low self-efficacy. For that reason it's valuable to increase our self-efficacy.

In summary, when we examine self-efficacy, it is a key predictor of individual performance in entrepreneurial endeavors. Now, for some of us it may be innate. For others it may be learned. For all of us, it can be improved. There are elements of our background, experiences, childhood, professional experiences, and education that influence our self-efficacy. Learning how to improve self-efficacy starts with understanding the principle, and focusing on improving for the future.

Do you exhibit high cognitive motivation?

In our discussion of *cognitive motivation*, we'll examine its role as an entrepreneurial motivator. We will also explore its impacts on the success entrepreneurs, and how you can improve your own cognitive motivation. This is the second element that we're exploring within the topic of entrepreneurial motivation.

When we consider the term cognitive, fundamentally it's the process of thought. When adding motivation to this term, we're addressing the question of do you enjoy problem solving? And do you use research and analysis to solve problems?

Individuals with high cognitive motivation tend to seek, acquire, and analyze information. They're researchers. They're analytics.

Individuals with low cognitive motivation typically rely on their experience, intuition, assumptions, and luck.

High cognitive motivation aligns with activities that we process in our left-brain. Information search and processing is a primary activity. Those with high cognitive motivation seek the details. They often move in a sequential order and use logic to solve problems.

Alternatively, individuals with lower cognitive motivation, the right-brained, typically think holistically. They may see the big picture and have an end result in mind. They're creative in their pursuit of problem solving, in that tasks appear random, and intuition is a key tool for their problem solving.

Solving problems via a high cognition or low cognition approach can both yield positive solutions. In entrepreneurship, the problems are often ill defined and the information is often lacking. Decisions may be relatively unprecedented. Entrepreneurs need to exercise both their left brain and right brain in problem solving.

What are the benefits of high cognitive motivation?

Individuals who have a higher need for cognitive motivation typically make better entrepreneurial decisions. If you don't like hard problems, if you expect to find the answers easily, or if you expect to have lots of precedence, then entrepreneurship is a hard way to go. If, however, you enjoy the challenge, you enjoy difficult problems, and you enjoy trying to make a puzzle fit even though you may be missing pieces, that's more aligned with the entrepreneurial path.

Individuals who have a higher need for cognition are able to recall information and connect information in different ways. They're more accurate in analyzing that information, of thinking about arguments, counter arguments, alternative solutions, and the selection of solutions within that path. They demonstrate better logical reasoning along the way. Intuition and emotion play roles, but more attention is paid to the analytics of it and the logical decisions of it.

In summary, when we think about cognitive motivation, I encourage you to pursue a high cognition approach of being detail-oriented and research driven in your problem solving, while leveraging the left brain elements of creativity and a holistic perspective.

What is your tolerance for ambiguity?

As entrepreneurs face many dynamic challenges, *tolerance for ambiguity* is surely an asset. We'll examine tolerance for ambiguity in the context of entrepreneurship, its impact and influence on successful new venturing, as well as how to assess your personal tolerance for ambiguity. This is the third element of our discussion of entrepreneurial motivation as it relates to strategic decision making.

Our definition of tolerance for ambiguity is the tendency to perceive ambiguous or unclear situations as acceptable, or even desirable, rather than threatening.

The need for tolerance for ambiguity in entrepreneurship is clear, because markets change, customers change, competition changes, regulations change, and politics change. When you're dealing with many different changing forces, you need to be comfortable with experiencing the unexpected. And with that, you can make complex decisions relatively quickly with limited information.

How can you improve your tolerance for ambiguity?

To understand your own tolerance for ambiguity, consider your comfort with uncertainty, with change, and with unfamiliar situations. Think about how you can improve your tolerance through experience. As you experience new things, the next time that you experience them, they're not new. You have new know-how. You have new capabilities that you've established. You have new insights, new relationships, and new resource for next time. Trying new things beyond your comfort zone, professionally and personally, is a good way to develop your tolerance for ambiguity.

It's also helpful to talk with aspiring and active entrepreneurs about their challenges. It demystifies the entrepreneurial experience. It makes starting a new venture less lonely. It emphasizes that you're not the only one facing challenges. Within cities and regions that you're residing, there may be networks of entrepreneurs that meet periodically—perhaps socially, perhaps professionally. You can talk, share stories, share solutions, and learn from others—and thereby improve your tolerance in that context as well.

In summary, when we think about tolerance for ambiguity, it's an asset to making decisions and making complex decisions quickly and with limited information. Uncertainty, change, and the unfamiliar are the norm when you're truly innovative. It's only in trying new things, and building relationships with others—particularly with fellow entrepreneurs—that makes navigating the ambiguous entrepreneurial journey more comfortable.

2.2 Entrepreneurial Behavior

Entrepreneurial mindset and motivation can only translate into action if *entrepreneurial behaviors* exist. While there are many behaviors that may be described as entrepreneurial, we'll focus on the four behaviors most critical to entrepreneurial opportunity analysis and action: *confidence, risk, interpersonal skills,* and *social capital.*

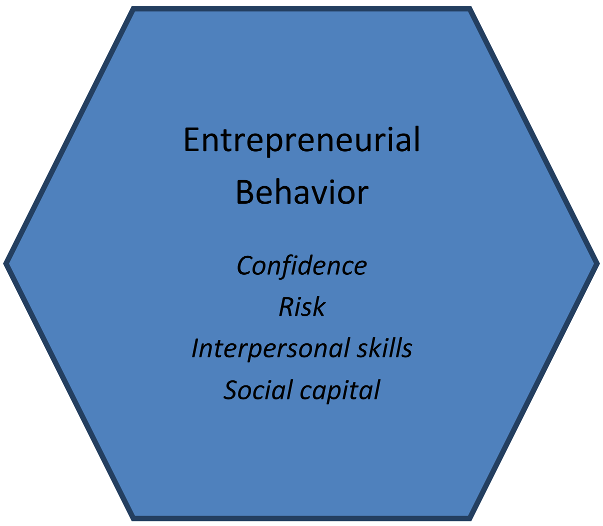

Figure 5: Emphasis on "Entrepreneurial Behavior"

Do you have the confidence to attempt the difficult?

There are many statistics on the failure rates of startups. You may hear that 10% of new companies survive. Perhaps it's a 20% survival rate for second-time entrepreneurs. For entrepreneurs who have raised venture capital for their startups in the past, their success rate on future ventures may be 30%.

While the statistics are debatable, we recognize that in a startup, nothing is going to happen unless the entrepreneur tries to make it happen.

When we examine *confidence*, it's the belief in oneself or one's powers or abilities. Self-confidence, self-reliance, and self-assurance are related concepts. Confidence differs from self-efficacy in that self-efficacy relates to an individual activity. Confidence is a broader measure that generally applies to all tasks.

While we're aware of self-confidence as a concept, we may be unfamiliar with the signs of low self-confidence. Shy body language, a hesitancy to speak up, and avoiding interaction are overt signs of low self-confidence. Internal signs are being indecisive, fearing failure, resisting trust, and seeking external validation for our actions.

Entrepreneurs need to have confidence in their own judgment, particularly when things are difficult or when decisions are unpopular. Entrepreneurial opportunity discovery is constrained if there's limited confidence or discomfort with making decisions that are out of the norm.

In summary, self-confidence is an important tool within entrepreneurial behavior. You will miss every opportunity that you don't try. And while taking the advice of others, or going with the mainstream thinking, is the popular and easy thing to do, a high degree of personal confidence is required to be innovative.

Your confidence is critical to influencing others to participate in your startup as an investor, employee, partner, or customer. You need a high level of confidence when talking with investors, for recruiting prospective partners or co-founders, for bringing employees on board, and for communicating your product's benefits to customers.

What is your risk tolerance?

Risk is a concept that's commonly discussed in startup conversations. We're going to talk about the impact of *risk tolerance* on the success of new ventures.

To define risk in our context, it's the potential for loss. It's loss of money. It's loss of time.

There is also a risk in losing entrepreneurial opportunities. While loss of opportunity is a subjective assessment, the decision not to start a venture, or not launch a product, is a decision that involves risk of lost profit or lost success.

Do entrepreneurs prefer risk?

Do entrepreneurs by definition show a higher natural tendency to take risk? The short answer is "no." There's no significant difference between the risk tolerance of entrepreneurs and non-entrepreneurs.

Non-entrepreneurs being those individuals that are working within corporations or established organizations.

Why do select individuals pursue new ventures? What's different about the risk that they see versus non-entrepreneurs? We all see risk differently. Our perceptions differ, and the risk perceptions differ between entrepreneurs and non-entrepreneurs. We may have a common risk tolerance, but what we see as risky differs. Risk is in the eye of the beholder. It's conceptualized based on our own assessment of the uncertainty, and our own consideration of the benefits and costs of an opportunity.

If you're seeking a high income, if you're seeking significant freedom over how you spend your time, if you're seeking high autonomy or control over products or services, you're probably not going to have that within an established company. And if you do, it's probably going to be years or decades away. That wait and hope may be a risky proposition.

If you're seeking a reliable income, if you're seeking a well-defined product or customer, and desire job security, you're probably not going to find that in startups. A startup would be risky if those are the goals that you're guided by.

If you want to have the opportunity for significant income, if you want to have reasonable flexibility, and autonomy, and control, then a startup could be a good fit. A startup would actually be a less risky proposition to pursue those elements than would a traditional employment relationship. It all depends on your goals, your perception of risk, and your assessment of the benefits and costs associated with a startup.

What do venture capitalists avoid?

While the failure rate of startups is difficult to accurately measure, we do know that of the startups that raise money from venture capitalists, over 80% survive. Survive does not necessarily mean that they are wildly successful or grow to millions of dollars in revenues. It simply means that they operate for more than five years as a company.

Why is the survival rate of venture-funded startups dramatically higher than startups without venture capital funding? If you can secure sufficient financial capital to create and launch your venture, and bring a product to market to generate sales for the company, your probability of success increases significantly.

A second reason for the success of venture-funded companies is buy-in. In order to secure funding, you've had to convince those early investors that you have a concept that's worth funding. They've bought in on your concept and your team to the point that they're willing to put in money. Not only is the money there, but there's also a validation by professional investors in startups that you have an idea with great potential.

Even if you do not plan to pursue investment from venture capitalist, it's valuable to note the types of firms that venture capital don't invest in, and how risk tolerance influences their decision making.

Venture capitalists typically avoid restaurants. Restaurants are problematic for venture capitalists for a number of reasons. One is a very high failure rate of up to 60%. Another is very high capital costs that are in large part unrecoverable. By the time you pay a lease, do renovations, hire a staff, do a reasonable amount of marketing, buy food—all of those are large, unrecoverable costs. Hundreds of thousands, perhaps even millions of dollars are invested before you open the doors to see if any customers are interested in your offering.

Retail stores are also commonly avoided by venture capitalists. Eighty percent of new retail stores close within the first five years. Why? It's a question of limited uniqueness and low barriers to entry. If you're selling products developed elsewhere, and those same products are available in other places, there's no uniqueness with your products. Your uniqueness may be limited to your location or additional services you can provide. A further challenge with retail is online competitors. It's difficult to successfully compete selling the products of others face-to-face if those products are also available online, and often at a lower price.

If restaurants, bricks-and-mortar retailers, and other minimally-differentiated businesses are removed from the startup failure rate equation, the success rates of startups dramatically improve. This is why I encourage you to seek entrepreneurial opportunities that are innovative and differentiated.

How can entrepreneurs minimize their risk?

Successful entrepreneurs find that they can manage risk and reduce risk by doing a number of things, and we'll talk about three of those. We'll talk about their search for information, minimizing their investment, and maximizing their flexibility.

How does searching for information mitigate risk?

For the first element of searching for information, many entrepreneurs who are unsuccessful just start doing things. They fire before they aim. Instead, be planful. We still want to take action, but we want to think about what we're doing before we act.

As you explore ideas for new products, go into a retailer and see what's available, and think about what you may introduce that will still be competitive in six months. It may take you three months or six months to get your product to market, and many of the products that are in that retailer today are going to change over time. You have to think ahead—three months out, six months out, even years out—to what's going to be competitive then. You have to ask what new patents are being issued, and what new products are being demonstrated at trade shows. What new research is going to inspire new products?

Think about what's missing in the world and write that down, examine it, explore it, and begin to talk to other people about it.

The business model canvas is a risk management tool that we will discuss later. We'll also talk about business plan development, and while authoring a business plan doesn't guarantee your success, and while you may have many things wrong in the beginning, a key value of it is that it puts your thoughts and your ideas to paper. It forces you to connect disparate themes of thinking about what is my product, who is my customer, and what's my market? How am I going to finance it? What level of funding do I need? What team am I going to build? This aligns your ideas with your goals, a timeline for implementation, and quantitative measures to assess your progress. It puts you on path to doing research, analyzing markets, and understanding customers—and doing it all within a cohesive document. It's that search process, and that process of thinking, that is more valuable than the document itself.

How does minimizing your investment mitigate risk?

Customer discovery and customer validation are critical to product development and company building. Using lean startup principles, build a simple version of your product or service, a minimum viable product (MVP). Build a basic prototype, deploy it, and solicit feedback. A prototype in a very basic sense may be with paper, it may be with wood, it may be simply drawing what a website, an app, or a service may look like in a Word document or in PowerPoint. This is a very basic rendition before you're down the path of building something that's sellable.

Share this basic prototype with prospective customers to get their feedback before you invest the time and energy in building the real product. What would they change? What would they pay? Maybe you think you need five features, and maybe the customers only care about three. Maybe they're only willing to pay for two. Well, that lets you know not to spend the time or money to build that five feature product, because the customers don't want it and they're not willing to pay for it. You can discover which two features are important, and that's where you can focus your energy and your money.

Learn from this, refine the product, and build it again. In this way, you're able to move through multiple iterations of product development with real customer feedback. From an alpha, a beta, a version one, etc. The basic premise is to start with something simple. Get it to market as soon as possible. Get feedback, and then iterate.

How does maximizing flexibility mitigate risk?

The third element of risk reduction is maximizing flexibility. This lets you make those pivots and adaptations to your product or service at a lower cost. It lets you test different market segments and find out where you fit and how people are going to respond to what you're offering, and gives you the opportunity to adapt that or change that if needed. Simple ways to do this are trying to use off-the-shelf products rather than custom products. If you have a software concept, see if there is a white label solution out there. Use Squarespace or other tools to build the early versions of your product. This is a critical step in the customer validation process.

Startups should not start with websites, logos, and business cards. Start with validating the concept, thinking about the specific feature set, and testing that with customers to get their feedback.

In summary, entrepreneurs are not inherently risk-seekers. We simply seek risk differently than non-entrepreneurs, and make an effort to mitigate it and put that into practice. Have that idea. Build a version—a simple version. Try it. Test it. Measure feedback. Look at your data. Learn from your data. Build it a second time. Iterate through these cycles as fast as possible to get to something that's sellable. Search for information as you're working through these steps. Minimize your investment and maintain your flexibility along the way.

Are your interpersonal skills well developed?

In spite of popular opinion that entrepreneurship is a solo sport, it's a team activity. Entrepreneurs spend their time with co-founders, partners, and employees. There's time spent with customers and investors. There's time spent with the press. In all of these elements, strong interpersonal skills are an asset for entrepreneurs.

While interpersonal skills may be innate to select individuals, we can all improve our interpersonal skills through study and practice. Questions to consider as we assess our interpersonal skills may include:

- Do we isolate ourselves?
- Do we have difficulty expressing our feelings?
- Do we feel that others take advantage of us?
- Do we try and guess how we should act within a group?
- Do we take relationships seriously?
- Do we have problems developing intimate relationships?
- Do we ever feel guilty?

Based on a recent survey, there is a great divide in the interpersonal skills of today's workplace, particularly with millennials. When we look at how millennials describe themselves, we see that nearly 70% feel their interpersonal skills to be well developed. When we look at how experienced co-workers describe millennials, we see an entirely different story with less than 30% of millennials described as having well developed interpersonal skills.

Without seeing all of the data and studying the survey, I am unable to attest to the accuracy of it. I can say that this is a good representation that shows how we see ourselves may not be how others see us. And that's not only true with interpersonal skills; it's true of all of the behaviors that we will examine.

How can we understand and improve our interpersonal skills?

When we define interpersonal skills, we're addressing the skills related to relationships between people. This includes building relationships with new people, as well as renewing, maintaining, and enhancing our existing relationships. This requires effective communication, assertiveness, conflict resolution, and anger management.

With communication skills, listening is very important. We all listen with a filter based on our assumptions and beliefs. This filter influences our perceptions, for better or for worse. We should respond thoughtfully, and not simply react. Most importantly, we need to focus on understanding what's being said and clarify, to make sure we understand what's being expressed.

To improve your assertiveness, be specific and ask for what you want. Be direct. Deliver the message to whom it's intended. Own that message. Do not be fearful of communicating your needs and wants.

From a conflict resolution standpoint, focus on the problem, the root problem, and not the individual. Be direct, specific, and timely, while being positive and acknowledging and validating others' concerns. Seek alternative solutions, discuss next steps, and follow up.

From an anger management perspective, be aware of what you're feeling and notice the signs of anger building. We need to understand what's really angering us and not displace anger. We may need to de-escalate and take a break. We want to examine our options and visualize how we may respond. Think multiple steps ahead. What may I do? What will be their response? What will I do next? How will they respond? What will I do next? You can also develop activities that help you cope with anger.

In summary, we know that others' perceptions of us are a truer measure of our interpersonal skills, and a truer measure of many of our internal behaviors, than our self-view. To improve your interpersonal skills, think about communication, assertiveness, conflict resolution, and anger management. We also want to focus on building and maintaining relationships. I emphasize maintaining the most. It's easier to keep a relationship and to keep in touch with a friend or a contact than to make a new one. With today's online tools—LinkedIn, Facebook, etc.—it's very easy to stay connected. I encourage you to use those types of tools to stay connected to your networks, and connect to new networks.

Are you rich in social capital?

Are you rich? Not rich in the traditional monetary sense, but are you rich in *social capital*?

To explore capital, we understand financial capital—money. We understand manufactured capital—something that's built or made. There's human capital—individuals and their talents and capabilities. There's intellectual capital, which includes patents, trademarks, and copyrights.

For entrepreneurs, social capital is incredibly valuable. It gives you tremendous access and tremendous relationships that either can't be bought, or would be expensive to buy or attain over time.

When we define social capital, we're addressing the resources available in and through your personal relationships. Social capital is not limited to one degree of separation; it's whom you know and whom they know. Social capital gives you the opportunity to make connections through subsequent connections. It can be very expansive, and it can be measured in its size as well as in its quality and diversity.

Why build it? People with rich social capital, people with large and diverse networks, are better informed. They're more creative, they're more efficient, and they're better problem solvers. You can save time, you can save money, you can collaborate, and work smarter, when you have relationships in place. When we examine examples of this, it's not uncommon that successful startups breed other successful startups.

There are many instances where individuals have success within a startup and create subsequent startups. They build relationships, they understand skill sets, they understand personalities, and their interpersonal relationships form. They can establish social capital and stay connected, and do new things with one another in a variety of different ways.

Raising capital through social capital is the most common way that people find funding. The U.S. Small Business Association reports that 75% of new businesses find and secure financing via their social networks. Whom they know often enables entrepreneurs to have the financial capital to start their ventures. For most startups, it's the social capital that leads to the financial capital.

There are a breadth of opportunities to build your social capital. You can attend meetups. You can volunteer. You can go to events and conferences. You can participate in professional associations. You can associate with alumni clubs of your universities. You can join degree programs of people that have common interests;

You can also make new programs, and make new organizations. If there's not a group that's accessible to you, start one. There are probably other people in your area with similar interests who would benefit from connecting with one another.

In summary, recognize that social capital is exceptionally valuable to entrepreneurs. It's important to map and track and understand your network, and to keep the friends you have. It's easier to retain relationships, or renew relationships, than to form new ones. You should also be willing to go out and get involved. Get involved in organizations. Get involved in activities. Start your own organizations and activities. Work to build your social capital.

Chapter 3 – Part II - Seeing Entrepreneurially

Successful entrepreneurs introduce a product or service that satisfies customer needs in a better way than competitors at a price that is greater than the cost of creating and delivering that product or service.

To understand how to fulfill customer needs at an attractive price, four areas are critical to assess: *industry condition, industry status, macroeconomic change, and competition*.

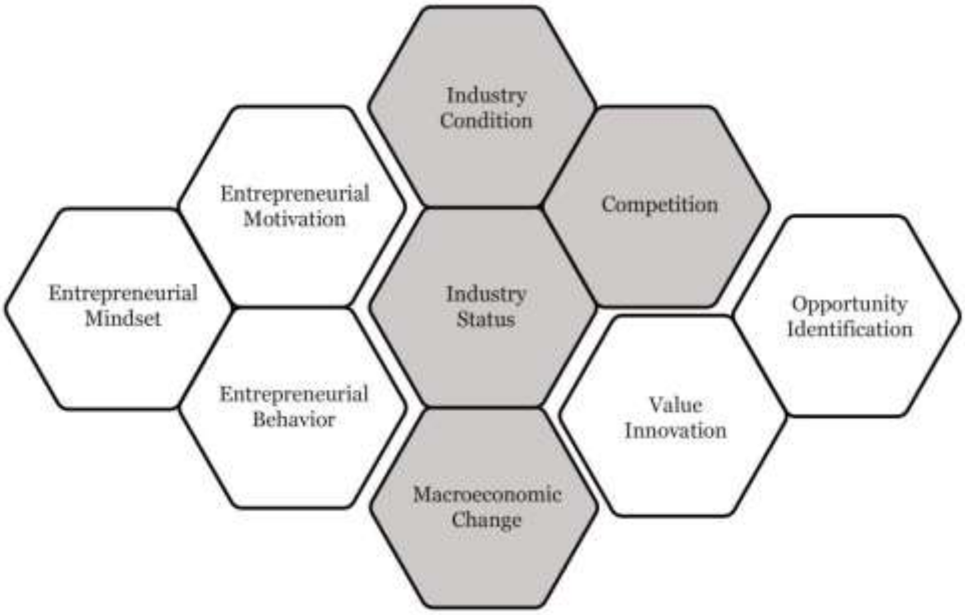

Figure 6: Emphasis on "Part II – Seeing Entrepreneurially"

3.1 Industry Condition

After examining entrepreneurial mindset, motivation, and behavior, the next step in exploring entrepreneurial opportunities is evaluating *industry condition*. We can examine the rules of competition within an industry. This helps entrepreneurs to decide what industries they may want to enter, and which ones they may want to avoid. For those industries that they do choose to enter, entrepreneurs can better anticipate the opportunities and challenges therein.

Understanding the *knowledge conditions* and *demand conditions*, the two core segments of industry condition, provides insights into the attractiveness of an industry for new entrants. With this understanding, aspiring entrepreneurs can determine if, and how, to compete effectively within their chosen industry.

What impact do knowledge conditions have in your industry?

Knowledge conditions influence the success of entrepreneurs within their chosen industries. What we mean by knowledge conditions is the quantity as well as the quality of knowledge that is required to create and deliver the industry's products or services. Within a specific industry, what is the relative influence or importance of human expertise? What's the importance of knowledge within that industry? How does money, location, and relationships influence a company's success within that industry, as compared to knowledge?

Industries that are characterized by high knowledge conditions would be those that are intellectually difficult. They're fundamentally hard to enter and have a high barrier of entry. Industries that have low knowledge conditions would be those that perhaps anyone could enter if they had sufficient money, a viable location, or the right relationships.

When we think about where venture capitalists invest, the bulk of it is in high-tech, and industries that are very knowledge intensive. Software, biotech, media, entertainment, IT, industry, medical devices, consumer products—all are things that require deep expertise and are very knowledge-based. Money, location, and relationships alone do not result in success in high knowledge industries. Success is largely attributable to the founding team and the expanded team, and it takes a lot of knowledge to develop winning ideas into commercial successes.

How do you build knowledge within your startup?

By illustration, if you're a technologist, starting a tech company is a viable opportunity if you have the software skills, or the engineering skills, to build your product or service.

However, if you're interested in doing a tech startup and you're not a technologist, the path is much more challenging. Teaching yourself to write software or engineer products takes time. Your idea will also be difficult to secure funding for if you don't have the right team. The absence of a technologist on a tech team is a gap that investors have a hard time accepting.

If you're interested in starting a tech company, but lack the technical expertise, I strongly encourage you to seek a co-founder with the appropriate technical skills. Perhaps a colleague, or a former co-worker or classmate, is a fit.

If you don't have a technical co-founder, or need to supplement their technical skills, you can hire technical employees. You'll also likely hire later to build your startup's knowledge and expertise in finance, marketing, sales, and the other functions of the company.

You may also partner or joint venture to build the collective knowledge of your startup. A number of my students have created successful technology companies by partnership. They've had the vision. They've had the market insight. They've had the relationships in the industry. But they may not have had the programming talent, so they've been able to find other small companies that do product development and software development to partner with and form partnerships or joint ventures.

Outsourcing is a type of partnership that is typically short-term and project-based. For example, an entrepreneur may hire a small company or an individual that can do technical projects and tasks. Or it may be managed via an online community like Elance or oDesk. They offer an online network of individuals who are experts in various areas. You can post your project information there; they bid on that project. You select your winner, and you manage your project from there.

In summary, we need to understand the dynamics of the industries that we may enter, what it takes to succeed within different industries, and the rules of competition. As entrepreneurs, our best positioning is within industries with high levels of knowledge conditions. Consider how to leverage your knowledge, or acquire new knowledge. Knowledge can be learned. It can be realized via a co-founder. It can be employed. It can be outsourced. It can be partnered. There are a variety of ways that you can build that knowledge and expertise for your new venture.

3.2 Industry Status

With industry conditions addressing the knowledge and demand factors, it's important to understand *industry lifecycle* and *industry structure* as the key components of *industry status*. By studying industry status, aspiring entrepreneurs can assess an industry's timeliness for new entrepreneurial entrants.

We'll discuss how industries evolve, and what happens as new competitors emerge. I'll also help you recognize the timelines and windows of opportunity that are going to maximize your success within an industry.

What is the lifecycle stage of your industry?

With *industry lifecycle*, we're addressing the life of the industry. What's the lifecycle of a person? What are the normal stages of a person? You can go all the way back to conception, then there's a baby, and a child. There's young adult and adult, middle age, old age, and death. Businesses often live on a similar cycle. They're conceived, they grow, and they mature. Eventually, most businesses will die.

Where can you be an early entrant? You will find that it's far easier to attract customers when there aren't existing market leaders in the space. For example, if you're interested in buying a new smartphone, you're probably going to look to Apple or Samsung. Perhaps Nokia or Motorola. Your options are relatively slim. Probably not a market that you'd want to enter today as a startup. There a few companies in the market, and these few companies do it very well. They have the brand, the relationship. There are technical standards that have emerged.

As an emerging industry, consider eBooks. Why?

Will young students begin receiving textbooks provided by their school in eBook form instead of print? If K-12 schools purchased eBooks and tablets instead of printed textbooks, this alone would dramatically increase the eBooks market.

Will new features enabled by eBooks versus print books create a new eBook following among readers? You should be able to do things with an eBook that you can't do with a print book. You should be able to tap on a word and see a definition, picture, or video.

What's it mean when you have a product that has more features than the preceding product? What should that mean about the price point? It should be higher, right? I have a product that's better. It's portable. It's more durable. It's environmentally friendly. It has new features and functions. Click, and I can save and highlight and share. I can purchase it immediately, without the drive to a bookstore or waiting on a delivery. I can do all these things with an eBook that I can't do with a print book. However, many people still balk at being charged more for an eBook than a print book.

Why would people be against paying more for an eBook? There's that physical aspect. There's that tactile sensation of a print book to which we're accustom. This is part of consumer behavior. The customer's willingness to pay is still evolving.

Interestingly, while eBook sales are increasing dramatically, dedicated eBook devices are decreasing dramatically. Now that's not intuitive. You would think that if eBook sales were increasing, it would mean that people are going to need to buy eBook readers for the first time. However, iPads and tablets are replacing dedicated eBook readers.

Kindle, as it was initially conceived as an eBook reader, is winding down. Now they have the Kindle Fire, which is more tablet-like, with broad features and functions.

What's the market opportunity for you? Should you enter the eBook device market? Probably not. Should you enter the tablet market? Probably not. Why not? Because that core technology's already there. It's too late. You're already behind the curve. And you probably don't want to compete against Apple, Amazon, and Samsung.

Is there an opportunity for you in the eBook area anyway? How can you compete or participate in this market if you're not going to start an eBook reader or a tablet company?

There are many ways to participate in the growing eBook market. You could build apps. You could build accessories. What do people buy after they purchase a tablet? They buy a case. They want screen protectors or external speakers. Consider a company called ZeroChroma, started by an engineering graduate from the University of Maryland. They recognized and acted on an opportunity in this space to do a new style of iPhone and iPad cases.

Recognize that young industries favor new firms, and there's substantially less competition versus established industries. There's more of a level playing field. If you're not out there trying to compete with Apple, you're trying to compete with the two or three companies that are making software that's trying to convert docs to mobi files for eBooks, for example. That's a more feasible space to enter. The big brands are not there yet. Their relationships are not there yet. These small competitors may have more money than you, but they don't have an Apple level of money.

In summary, when we think about industry lifecycle, I emphasize that new ventures tend to perform better in younger industries. They have the opportunity to enter a market that is relatively immature. There's less competition and more of a level playing field to enter as a new venture with other smaller firms. Startups can effectively compete for customer loyalties. If the industry is new, if there are not major competitors already in play, and if there are not already major brands in play, startups have an easier time attracting customers.

What is the structure of your industry?

To understand *industry structure*, we examine the barriers to entering the industry and the competitive dynamics within the industry. The key factors to assess within industry structure are: *capital intensity, advertising intensity, company concentration,* and *average company size.*

Is the industry capital intensive?

Capital intensity is the amount of money required to enter and compete within an industry. Industries that have a high capital intensity are things like automotive manufacturing. Industries that have a low capital intensity would be something like a website that you start to provide movie reviews, where, for perhaps $10, you can launch a website driven by a website builder. If you can use Microsoft Word, you can build a site using one of these website builders. You can watch movies. You can post your reviews of those movies. It's very easy and inexpensive to start.

Is the industry advertising intensive?

When we consider *advertising intensity*, we're exploring the importance of advertising and branding to the success of competitors in a specific industry.

Industries with high advertising intensity are characterized by customers who prefer to buy based on past successful transactions, brands they know, or products about which they've heard. Established companies that have a reputation for success are going to have a unique advantage in high advertising intensity industries, and new ventures have a harder time competing.

When we look at industries with low advertising intensity, customers here are more willing to try new products and to try new brands. There may be other influences in play—there may not be established product leaders or established brands in that space. There may be low switching costs, so it's easy for consumers to experiment and try a variety of different things before committing to one thing. There may be differentiation and/or another value that the new products deliver. The preferred scenario for new ventures is to be able to operate inside lower advertising intensity industries.

In summary, by studying industry structure, aspiring entrepreneurs can assess the industry's timeliness for new entrepreneurial entrants, and better understand how to compete. Low advertising intensity industries present a more affordable opportunity for new entrants to enter and compete effectively. This also suggests that the brand loyalty of incumbents is more surmountable by new entrants.

Are you trying to enter a concentrated market?

Market concentration can present an opportunity or a challenge for us in entrepreneurship. When we look at this and we think about what's the ideal, we would like a small number of small-sized competitors.

We can also think about concentration based on geography. Now, as an online business, one could argue you could be based anywhere, nationally, or internationally. But what we may find is that there are certain advantages to being near customers, or near partners, or near investors.

In summary, when we think about market concentration, we'd like a small number of competitors, and preferably small competitors. It's not always the reality of our industry. But, it is important to recognize, and it helps guide the strategies that we're developing. It helps us create and market better products.

What is the average size of a company in the industry?

The *average size* of your competitors is an important issue to examine. We're going to look at that in the context of industry status and its impact on starting the venture. This is within our element of industry structure of the Opportunity Analysis Canvas, and it's defined by the resources of competitors. It's the number of employees and other capital and resources that these competitors have on average.

When we examine startups, we see that many are one or two people. We see that 85% of them are supporting the startup almost exclusively from their own savings, or from other consulting work that they're doing on the side.

When we look at their startup problems, more than 50% are facing product development problems, particularly for technology-based products.

Nearly 30% are struggling with time issues. This is influenced by their funding strategies. If they're doing consulting and side projects to fund their primary objective of the startup, naturally that's taking time away from the primary goal.

Approximately 20% are struggling with their marketing and sales efforts.

In summary, when we examine industry status, we find that new ventures perform better in younger industries with immature industry structures. We find there's less competition than if you're trying to compete within established industries. We find that capital intensity and advertising intensity tend to be lower in younger industries. It's more affordable for new entrants to be competitive. We also want to recognize that young industries offer a common learning curve and comparable branding opportunities among competitors. This presents entrepreneurs with a more level playing field, and improves their likelihood of success.

3.3 Macroeconomic Change

Macroeconomics deals with the performance of a large economy and its vast number of influencing factors. For entrepreneurs, it's valuable to understand how the needs and wants of your target audience are influenced by the world around them.

This chapter explores this complex world, with an emphasis on *demographic* and *psychographic* changes. Changes in *technology, society, politics,* and *regulations* are also examined, as these are central to entrepreneurs' understanding of their customers' buying behaviors.

Demographic changes can present a host of opportunities for new ventures. Our definition of demographic changes is simply the observable characteristics of populations. It provides insights into where opportunities exist within markets. It also gives us insights on how to develop appropriate business and marketing strategies to target those customers.

As entrepreneurs, we are not examining demographics only for general knowledge. Where are the opportunities? Is there an opportunity to do training, workforce development, education, or other activities? Where can we bring new solutions to the problems that exist?

In summary, understand that demographics provide insights into where opportunities exist now, and even more importantly, where they may exist in the future. With demographics, we're better equipped to develop appropriate business and marketing strategies to target the customers that we want to focus on.

While many of us are familiar with demographics, the concept of *psychographics* is new to most. We will explore psychographics as it's related to macroeconomic change, and what we can do with this knowledge to be better entrepreneurs. This is the second element that we're examining within our discussion of macroeconomic change.

Our definition of psychographics is the attitudes, values, opinions, interests, and related personal factors of markets. It's contrasted with demographics in that psychographics involve how people think, how they feel, and their interests and values. It's influenced by their social class, lifestyle, and personality.

Most of us, as individuals, are primarily concerned with basic health and wellness—the food and shelter elements. We go from there into safety, esteem, and on up through actualization and transcendence. There's a pattern that we see of human behavior and human needs and wants.

Psychographics help us understand how and where to position our product or service. Where do we need to advertise? As we build our brand, are there other brands that are having success with our target audience? What are the characteristics and personalities of those brands? What inspiration may we draw from them?

Experiences are becoming the predominant economic offering of many innovative ventures. It's not only the item you buy. It's not only the service. It's the customization and personalization that's desirable.

In summary, understanding psychographics, in addition to demographics, provides insights into how prospective customers think and feel, and what influences their buying preferences. By examining psychographics, you can gain valuable insight into the evolving needs and wants of your target customers. It also gives you insights on how to build and market your offerings effectively and efficiently.

Technical advancements are a great source of opportunity as well. We're exploring this at a macroeconomic level as the third element of macroeconomic change.

With technical advancements, we're addressing improvements in technical processes, methods, or knowledge. It's one of the most important triggers of change for entrepreneurship. New technology enables limitless opportunities for derivative innovations.

Technical advancements can change industry dynamics and open new markets. When you have an app platform that entrepreneurs can sell into, you can work directly with Apple. Or you can even build your own independent site; sell directly to customers.

There are often new products that come to market that we think are new, but they are actually evolutions of past products.

Review patent applications to gain insights, and read blogs and rumor sites to see what's next.

It's valuable to think towards the future as you're exploring entrepreneurial ideas. Seek to understand trends, and try and predict what's going to happen. Think about opportunities, and begin acting on opportunities before they're late news or common knowledge. How can you shape inventions and innovations, and be at the forefront of new products and services?

Alternatively, we may be left behind. We may be left chasing existing markets. We may be left battling against industries or markets that are being dominated by others that are incumbents or that acted with better foresight. By being more proactive and by thinking about the future, we can leverage these technical advancements and be early movers.

Societal changes are a rich source of entrepreneurial opportunities as well. This is the fourth element that we're going to examine within macroeconomic change in the Opportunity Analysis Canvas.

As we define societal changes, we're exploring the social and cultural aspects of the macro-environment that affect customer needs and market sizes. This includes issues like health consciousness, career attitudes, and an emphasis on safety. When we think about societal changes, recognize that the customer's needs and wants evolve. With that evolution there is an opportunity for the emergence of new ventures started by entrepreneurs. We also want to anticipate societal change. We want to recognize that entrepreneurs who anticipate such changes are going to play a more successful role in entering and growing and scaling their new ventures in these spaces.

When we look at *political and regulatory forces*, we'll find that they can be a hurdle, or they may present opportunities for us as entrepreneurs. We're going to look at these two forces in the context of macroeconomic change and think about how we can use these to our advantage in the creation, launch, and growth of our new ventures. Political and regulatory forces conclude our discussion of the macroeconomic change section of the Opportunity Analysis Canvas.

We'll examine how the government, including local, state, federal, and international laws and policies, influence economies, industries, and markets. Examples of these include tax policy and fiscal policy, laws regarding business law and labor law and environmental laws, as well as trade control and tariffs, and political stability or instability.

We want to understand political and regulatory factors from a few different perspectives. We want to know how the laws impact the businesses that we're in, or that we may enter. We want to build an awareness of these political and regulatory changes and forces. We want to think about government as a customer and where opportunities may emerge. This allows us to prepare, anticipate, and position ourselves to be successful, and to think differently about what we're doing, rather than falling victim to something that we may read in the newspaper or that we may learn about after the fact.

3.4 Competition

Assessing industry condition and industry status provides a starting point for understanding competition. To outperform the competition, the *learning curve, complementary assets,* and *reputation* *effects* are key factors for entrepreneurs to understand. This is the competition element of the Opportunity Analysis Canvas.

When we define a *learning curve*, we're exploring the rate of learning over time. How long does it take to get good at something?

For a simple game, such as the Angry Birds app, it's probably an hour or two. Once you understand the basic principles of the game, you can build reasonable proficiency.

There are other things that take longer. To be a world-class tennis player, it takes about 15 years. Since you reach your physical peak by your early 20s, you need to start playing by 5 years old. It takes a long time to be world class.

Learning curves are influenced by what you know today, your commitment, and your resources for learning.

When we ask who would have a learning curve advantage, it's typically the large companies. A large company that's been there and done it, and has learned from their mistakes, has grown from trial and error, and has built expertise, is certainly going to have an advantage over the new entrant and the entrepreneur who hasn't had those experiences.

There's a lot that can be learned from companies and customers. I will caution you from trying to do the same thing as a large company, because they probably have learned how to do it, and how to do it well.

We also see evolving models for climbing the learning curve. What we call traditional learning is largely bundled in a one-size-fits-all model. There are traditional assessments and exams on a set schedule administered to all students within a class.

New stages of learning models are coming to market.

- Stage one is online and blended learning (with face-to-face and online elements). A traditional financial model that is tuition-based still exists.
- Stage two involves a level of unbundling, with a semi-customized curriculum. Courses may be separated into mini-courses offered at lower costs, in an online or blended format.
- Stages three, four, and five continue to gravitate towards free-range learning that's transformed into unbundled that's more value focused, that's more applied, with differentiated business models.

Coursera and the MOOCs are certainly moving through this path at a fast rate by partnering with universities. We see learning based on competence building.

As you're climbing the learning curve, there are abundant resources provided by universities, companies, governments, and organizations that can give you insights into understanding markets and industries.

In summary, embrace learning to climb the learning curve. Keep in mind that the learning curve is to your advantage when you're exploring new industries, new markets, or new technologies. Focus on being different, developing innovate products and services, and incorporating customer feedback to climb the learning curve quickly.

Complementary assets, our second topic within competition, are the capabilities and/or infrastructure that support commercialization, beyond the assets associated with the product or service itself.

Complementary assets can be tangible or intangible. It can be money. It can be equipment. It can be real estate.

The intangible assets include your knowledge and relationships, and your intellectual property – patents, trademarks, copyrights, and trade secrets. Entrepreneurs can develop an advantage if they have significant intangible assets – if they have the knowledge, the relationships, and the intellectual property. These are more difficult to replicate than the tangible assets.

How do you build your complementary assets? If you need to fulfill orders generated from your online retail site, you may buy or rent a warehouse. You may hire staff. You may manage all of your operations. Alternatively, you may partner with Amazon for inventory management and order fulfillment; without you having to build that system yourself. Or you may hire or collaborate with other partners to build your complimentary assets.

Complementary assets may increase demand, improve your commercialization, and increase the benefit or the utility of what it is you're bringing to the market. In summary, when we think about where and how we want to compete, avoid situations where the company with the most money is going to win. Instead, think about opportunities where complementary assets, and specifically, the elements of knowledge, relationships, and intellectual property, can be developed by you as a startup.

The *reputation* of competitors is important to understand. This will conclude our discussion of competition as part of the Opportunity Analysis Canvas.

Reputation is the set of generally held beliefs or opinions. This matters because customers often prefer to buy either from companies from which they've had a transaction before, or companies that they have familiarity and insight on via friends, or family, or the branding of those companies.

Today, there are an almost limitless number of online resources that shape and influence reputation. There are consumer review sites, free sites, paid sites, and professional review sites—a variety of resources that we want to be familiar with, and think about how to use, as we are doing our competitive analysis, as well as our own reputation management.

In summary, when we think about reputation, we need to examine our competitor's vulnerabilities. Where is it that we can make an impact? Are there problems in the marketplace that we can help solve with our ventures? We also want to think about new industries and new markets that we can enter. Also think about managing your own reputation. What can we do to build and manage our reputation? We need to take an active role in setting up our own alerts to see what's being said about us, and play an active role in shaping that conversation.

Chapter 4 – Part III - Acting Entrepreneurially

With an understanding of entrepreneurial mindset, motivation, and behavior, and insights into the key industry and market forces, you are well prepared to develop your entrepreneurial ideas. Our final chapter on *value innovation* and *opportunity identification* conclude our discussion of the Opportunity Analysis Canvas.

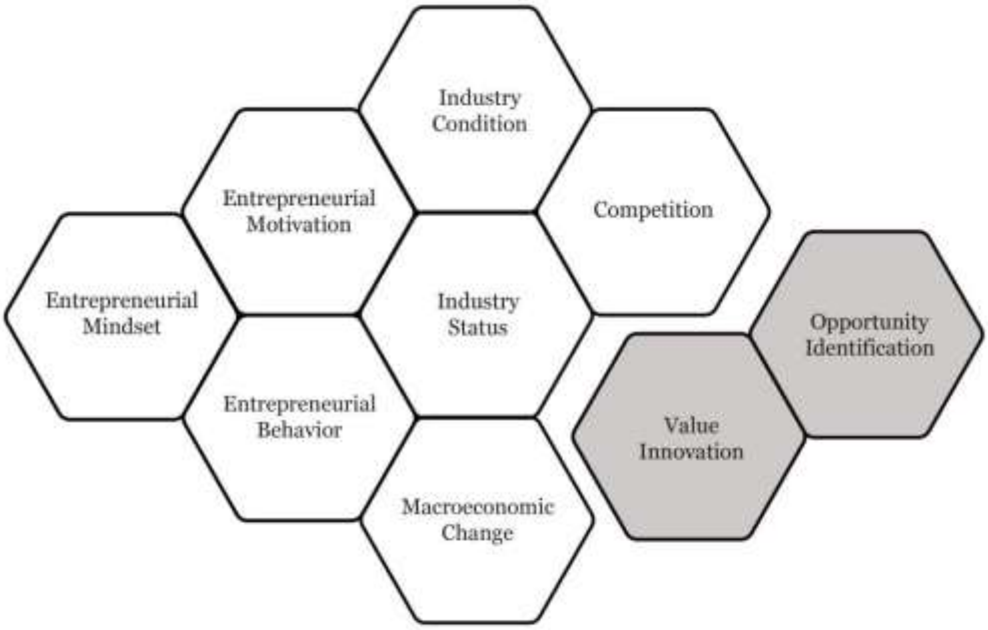

Figure 7: Emphasis on "Part III – Acting Entrepreneurially"

4.1 Value Innovation

With big ideas and scarce resources, entrepreneurs must be efficient in their decisions and discerning in their management of time and money. The concept of *value innovation* is well suited to evaluating how to compete efficiently and effectively.

Value innovation is the parallel pursuit of product differentiation and low cost, creating a rise in value for both buyers and the company (your startup). The value to buyers is derived from the product's benefits minus its price. The value realized by the company is generated from the product's price (company revenues) minus your cost (company expenses). Value innovation is achieved when the whole system of benefits, price, and cost is aligned.

Value innovation and value curves are linked. Value curves are the tool for developing and delivering value innovation. The value curve is a diagram that compares certain product or service factors on a relative scale of low to high. Factors often include features, benefits, price, brand, location, and a variety of other factors seen by customers. Diagramming each competitor's value curve alongside one another can identify value gaps, and highlight opportunities for entrepreneurs.

To deliver value innovation, focus on four questions that align with what to eliminate, reduce, raise, and create within the venture. Are there select factors that we can eliminate that are of limited to no real value to our target customers? A second element that we'll explore is reducing factors. Are there factors on the value curve that we can reduce without significantly reducing the value delivered to customers?

Another element that we'll examine is raising certain factors. Lastly, we'll consider if there are new factors that we can create? When we look at these four questions collectively, we'll gain insights into how we can deliver value innovation to successfully compete in the marketplace.

What existing factors can you eliminate?

Your startup's elimination of factors that are delivered to customers today by competitors is certainly easier said than done. While there's the concern for eliminating factors that truly matter to customers, it is unlikely that the customer values every factor at a high level. If we can identify those factors with minimal value, we can consider eliminating them and investing our resources in those factors that add value. This give us the opportunity to deliver a faster, better, and/or cheaper solution for customers.

Where can you reduce factors and not reduce value?

While select factors may be eliminated, others may be preserved, albeit reduced. These reductions present an opportunity to be more efficient and effective than competitors. Deprioritizing these less essential factors enables you to focus on the high value factors.

Which factors can you raise above competitors?

Think about which factors really matter. What is really needed to exceed customer desires? How does raising new factors further differentiate us in a meaningful way versus competitors, and increase our competitive advantage? Raising these high-value factors differentiates you from competitors and improves your competitive advantage.

What new factors can you create?

If entirely new features or benefits can be delivered by your product or service, and you are unique in this way, you are highly valuable to customers.

4.2 Opportunity Identification

Entrepreneurial opportunities become real when you have a solution that leverages your advantages to solve an important problem for customers. This chapter examines how to translate the approaches and tools presented to act on real entrepreneurial opportunities. The key elements of opportunity identification are *defining the problem, crafting a competitive solution, building your advantage,* and *forming the right team.*

Is the problem real?

What I mean by *problem* is a problem that you seek to solve in the market. It could be an opportunity that you discovered.

What I mean by real is are there enough customers that really care about the problem that you aim to solve? Is it something that you can build a business on?

An early question to ask to define the problem is who is your customer? This is the first step to defining your market and understanding the problem. With this knowledge, you can focus on assessing their needs. Focus on customer value first. Why do they need your product? What benefits will they gain?

Can they make money or save money with your product? These are all questions to consider in understanding the problem that you aim to solve.

Once this first round of problem-related questions are answered, the next questions are: How many people experience these problems now? In the future? How many buyers are there? Are there enough people who care about this problem for you to be financially successful by solving the problem?

With the Opportunity Analysis Canvas, your assessment of the industries, markets, competition, and value innovations are all very important to help answer this question of who is your customer and how can you best serve them.

There are typically a few customers that will buy almost anything. You need to know if there are enough customers, whether you have a real customer base, for you to be successful. Understand how many people experience that problem, now or in the future. When we forecast customer adoption of your product, note that not everyone experiencing the problem will buy your product. While a number of people may experience the problem, only a subset of them will place the economic priority on it to pay for a solution. Of those paying for a solution, a subset of those will choose your product over alternate solutions.

In the pursuit of identifying real problems, I encourage you to validate the ideas that you have through customer discovery. The best way to do that is to talk with prospective customers at the start of the product development process. Engage with customers before you build a prototype, and secure their insights early on. Understand how they solve the problem that you're addressing now. Ask, what features matter? What would they pay for your solution? Use these insights to understand if there is a real problem that's worth your time to solve.

Does your solution create value for your stakeholders?

Stakeholders are individuals and organizations impacted by the product that you bring to market. Your customers are stakeholders because they buy and use your product. Your employees and advisors are stakeholders. Suppliers are stakeholders. Investors are also stakeholders.

External stakeholders also influence the success or failure of your startup. Communities, organizations, and the government may be stakeholders as well. Be aware of your stakeholders before bringing your product to market. Anticipate sources of support or resistance to your startup, and plan for how to navigate this path successfully.

Entrepreneurs need to understand the role of stakeholders, and that the right partnerships and collaborations can be tremendously helpful for startups. By considering the impacts that your startup will have on stakeholders, you can develop a solution that maximizes the positive factors for all. Conversely, anticipating resistance by stakeholders to your company or your solution is valuable to understand early in the process.

Is your advantage superior and sustainable?

Building *competitive advantage* begins with developing a customer-validated perspective on the problem and your planned solution. This provides insights on where to invest your time and resources with your product. It helps you to understand how to be competitive, which requires consideration of two elements: the degree of your advantage and the sustainability of your advantage.

What is the degree of your advantage?

Are there better features that you can bring to the market? If a competing product has five features, it doesn't necessarily mean that you need those five features plus several more. Instead, focus on delivering the right set of features. From our discussion on value innovation, maybe there are one or two features that customers don't really value. You can remove those and reinvest your resources into the features most desirable by customers.

If your competitive advantage is based on low prices, be sure that you can accomplish this in a sustainable way, perhaps based on your operations. Where there is opportunity for a startup to offer lower prices, and if it's accompanied by cost advantages in the startup's operations, supply chain, manufacturing, etc., you can add real value for customers.

Is your advantage sustainable?

We also want to consider the *sustainability* of your advantage. By sustainability, I'm addressing the relative difficulty for others to copy your advantage. How easily can an existing or new competitor observe what you're doing, learn from you, and apply their resources, know-how, and relationships to replicate your success?

What can you do to make your product difficult to copy? Maybe it's intellectual property in the form of patents, trademarks, or copyrights. Perhaps you can build a strong brand that resonates, that really takes hold in the marketplace. It may be relationships that you develop. It may be exclusivity agreements that you can sign with people to whom you are selling your product, or who are supplying you with parts for that product. There are a variety of ways that you can work to build entry barriers that make it difficult for those to come later and compete against you.

Consider the sources of your competitive advantage. How are you going to derive your advantage in the first place?

One way is specialization. What I mean by *specialization* is the opportunity to be different than competitors.

How can localization create a sustainable advantage?

Localization is another opportunity to be competitively different and build competitive advantage. We see this in international markets where there's a domestic product that's doing well.

How does the team create a sustainable advantage?

A third source of competitive advantage is the *team*. If you're already successful, if you're Google or Microsoft, you can recruit great talent and great executives. Recruiting is tremendously difficult for startups, but incredibly important. As you're searching for co-founders, as you're looking for your first or second employee, you should be seeking great people. Search for people who are excellent at what they do. What you can expect is a greater likelihood of having excellent products and an excellent company if you start with an excellent team.

In summary, think about the degree of your competitive advantage and its sustainability. Can you do something that is better, cheaper, and/or rarer than competitors? Can you build something that's sustainable and difficult to copy? And can you find sources of advantage either independently or in combination, such as specialization, localization, and teaming?

Can you build the right team at the right time?

We're going to further explore *teaming* as we conclude our discussion on opportunity identification. Entrepreneurship is a team sport. The belief that it's the solo individual out on their own all the time is a myth. Entrepreneurs spend the majority of their time as part of a group. They're meeting with management teams, board members, and project teams. And as the venture grows, they're spending more and more time with suppliers, partners, and customers.

How do startups build teams? How do you pick your co-founders? How do you pick your earliest employees?

Thoughtfully consider who has complimentary interests. Who likes what I like and who has the passion for what I want to do?

Who has contrasting skill sets? Who are people that know things different than me? Who can complement my weaknesses with their strengths?

Are there differentiated relationships among my team? Will my team members know more people, and different people, than me?

What is the best approach to team building?

An ideal approach is to start with people you know. Only hire people you know. Particularly as a small team, having a bad hire may be the end of your company. It's time and money spent that may be irrecoverable.

Find partners with resources who can commit long-term. Find individuals who are willing not to take a salary for a period of months or even years: who have the savings that they can support themselves through the initial growth and scaling of the venture.

Don't hire college kids. Find people who have experience.

Integrate people with sales and marketing very early in the process.

Staff your group with people who believe in your mission that aren't only exploring for salary.

While all of the above may be ideal, it's not the reality of most startup.

The majority of the entrepreneurs with whom I advise are first time entrepreneurs. Typically, they do not know the right people. They have not worked in the companies, or joined programs, that connected them with the right people. They are not wealthy, and neither are their friends. And they are unable to afford experienced hires for their startup.

Be sure to identify the skills that your new venture needs. This takes an honest self-assessment of what you know, what you don't know, and what's critical to your venture.

If you're starting a technology-based venture, I suggest bringing on technology talent in a co-founder or full time management position. Beware outsourcing your core capabilities.

Recruit through a variety of means. You may have friends who have the right skill set. If they are committed, and have the right skills, complementary interests, and differentiated relationships, they may be a compelling team member.

Past or present co-workers can be great team members as well. You know their expertise. You know their work ethic. You know their personalities, and if you enjoy working with them.

Family members with the right skills, motivations, and relationships can be valuable team members. However, if you have family who may not be the most reliable, and have problems in their day-to-day life, I would be hesitant to bring them on to the team. Be highly selective.

LinkedIn, Facebook and other social networks can be very helpful for finding individuals. LinkedIn, by being able to index people on expertise, education, and experience, is a great tool to find people. There may be people who were in your circle years ago who have gone on to do pretty impressive things that you may not be aware of. If you connected on LinkedIn, you may find that they're the perfect co-founder, or that they're the perfect individual to join your team later.

You may recruit at face-to-face events. There are a variety of meet-ups, workshops, speakers, and socials in many different areas. They happen in many large and small cities globally, as people are more informed about entrepreneurship.

Understand the roles of cash and equity in your venture. You may be cash poor, but equity rich. What I mean by that is you may not have the cash to bring on individuals. You may not be able to pay a salary. But, every company starts with 100% equity. In that context, you have 100% ownership of your company to perhaps share with people who will join your team. Consider what it takes to bring people on and effective ways to bring them on with equity. Consider a vesting schedule to engage and retain them with your venture.

We also want to create a strong culture by hiring people whom you like to work with, and who share your values. Those who you think can be long term advocates and champions of your venture, of your cause, and of the solutions that you want to bring to market.

There's also an extended team. The extended team may be your board. It may be investors, attorneys, accountants, partners, and suppliers.

The extended team is something to be cautious about as well. Hopefully, if you were to choose a physician, you're not just going to flip through the yellow pages or search "physician" on the Internet and pick the first person who comes up and trust them with your healthcare. However, many entrepreneurs do that when they're searching for attorneys or accountants. That's not the thing to do.

Do the same thing you would do if you were trying to find a physician. Look for people who are respected, who have references, who may have worked with other individuals whom you know. I would be as selective with my extended team members as I would be for my own personal physician.

Why is a board of advisors critical for your success?

A key piece of the extended team is the board of advisors. It gives you a mechanism to have regular feedback from people who have expertise and insights, and who can provide an objective and informed level of feedback.

A board of advisors doesn't have a formal role or a formal influence over you. It's very different from a board of directors, who may have the legal ability to hire or fire the executive team, who may have the ability to choose to spend or not to spend on large scale projects, who may have the ability to approve or not approve acquisitions or mergers. Boards of directors often have considerable obligations and authority. Boards of advisors simply advise. And for the early stage entrepreneurs, that's what I would suggest starting with. It gives you a rich source of advice that long-term should help you make money, and should also save you a lot of money and save you from mistakes and pitfalls along the way.

In summary, when we think about the team, we want to be very selective. We want to be very selective with our co-founders as well as the early hires that we make, particularly those who we are going to give equity to. We also want to be very selective with our extended team.

We want to beware the pitfalls of friends and family. Yes, there are successful companies formed by friends. There are successful companies that are run by families. But it's not the norm. And it certainly brings a level of complication that you want to be aware of.

Leverage your relationships to establish your team. Think about whom you know and if they may be a prospective teammate.

I also want to remind you of this concept of building a board of advisors. It's a great way to have expert advice, and advice is something that you can take or leave.

Chapter 5. Next Steps

With this journey now complete, you are ready to use the Opportunity Analysis Canvas to identify and analyze entrepreneurial ideas.

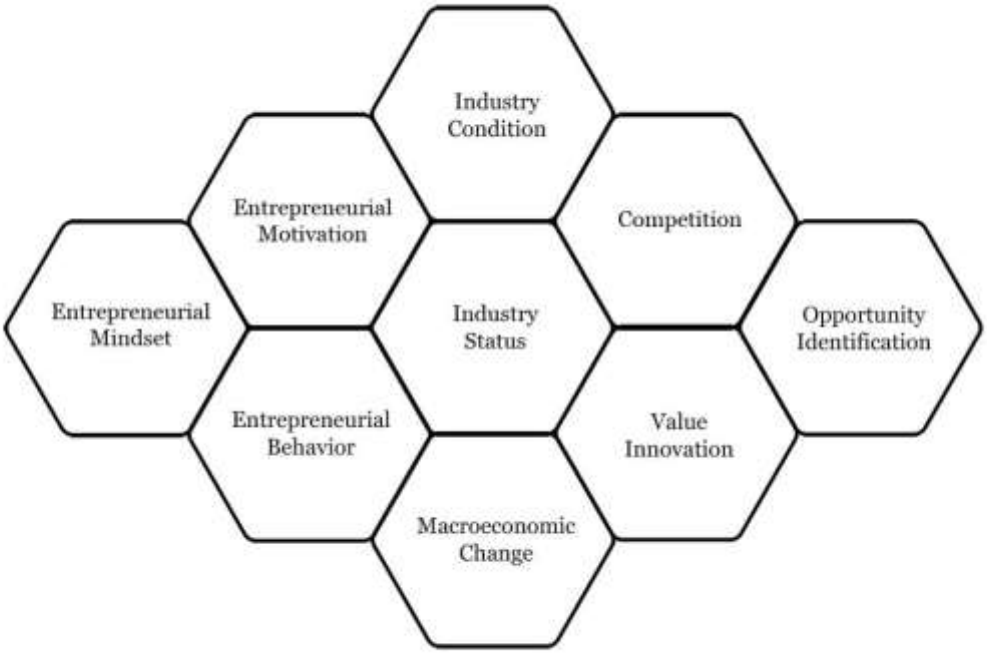

Figure 8: The Opportunity Analysis Canvas

By studying this seminar, your awareness of entrepreneurial mindset, motivation, and behavior has expanded. You appreciate the roles of markets and industries in entrepreneurial opportunities. You understand value innovation and the fundamentals of opportunity identification as key elements of entrepreneurial action.

Developing your business model is the next step in your entrepreneurial journey.

Developing the Business Model

As a precursor to writing the business plan, the business model describes the logic of how an organization creates, delivers, and captures value sustainably.

While the term *business model* is very popular today, the concept dates to the earliest days of business, and simply defines how an organization will make money.

A comprehensive model defines how the products or services of a business serve customer needs, at what price, through what manufacturing and distribution channels, and at what financial benefits and costs to the business.

With a well-developed business model, you can test your assumptions and strategy with prospective customers. They may affirm parts of the business model, and reject other parts. This early customer discovery and validation is valuable to adapting the business model, and perhaps the fundamental product or service idea itself, before authoring a full business plan.

Writing the Business Plan

This experience of hearing your customers' needs and wants in reaction to the business model allows you to write a well-researched business plan. With a customer-validated business plan, you can raise financial capital (if needed) and proceed with launching the venture.

Now, get to work!