

## CHAPTER 2

### RECOGNIZING *OPPORTUNITIES* AND GENERATING IDEAS

#### LEARNING OBJECTIVES

1. Explain the difference between opportunities and ideas.
2. Describe the three general approaches entrepreneurs use to identify opportunities.
3. Discuss the personal characteristics of entrepreneurs that contribute to their ability to recognize business opportunities.
4. Identify and describe techniques entrepreneurs use to generate ideas.

#### CHAPTER OVERVIEW

This chapter begins by describing the difference between an opportunity and an idea. Students are reminded that many firms fail, not because the entrepreneurs involved didn't work hard, but because there was no real opportunity to begin with. The four components of a favorable opportunity (attractive, durable, timely, and anchored in a product, service, or business that adds value) are then discussed.

The middle of the chapter focuses on the three primary ways that entrepreneurs discover opportunities: by studying environmental trends, solving a problem, or finding gaps in the marketplace. This material is followed by a discussion of the personal characteristics of entrepreneurs that heighten their ability to recognize business opportunities. The chapter then transitions to talking about techniques that can help entrepreneurs come up with new business or product ideas. The techniques introduced include brainstorming, focus groups, library and Internet research, and an assortment of other techniques.

#### CHAPTER OUTLINE

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

- C. Library and Internet Research
- D. Other Techniques

## CHAPTER NOTES

- I. The Difference Between Opportunities and Ideas
  - A. An opportunity is a favorable set of circumstances that creates a need for a new product, service, or business.
  - B. An opportunity has four essential qualities: it is (1) attractive, (2) durable, (3) timely, and (4) anchored in a product, service, or business that creates value for its buyer or end user.
  - C. For an entrepreneur to capitalize on an opportunity, its window of opportunity must be open.
    - 2. The term “window of opportunity” is a metaphor describing the time period in which a firm can realistically enter a new market.
  - D. It is important to understand that there is a difference between an opportunity and an idea.
    - 1. An idea is a thought, impression, or notion. It may or may not meet the criteria of an opportunity. This is a critical point because, as we noted in Chapter 1, many businesses fail not because the entrepreneurs that started them didn’t work hard, but because there was no real opportunity to begin with.
- II. Three Ways to Identify Opportunities
  - A. Observing Trends—The first approach to identifying opportunities is to observe trends and study how they create opportunities for entrepreneurs to pursue.
    - 1. Economic Forces
      - a. Economic forces affect consumers’ level of disposable income. Individual sectors of the economy have a direct impact on consumer buying patterns.
      - b. For example, when the economy is strong, people have more money to spend and are willing to buy discretionary products and services that enhance their lives. In contrast, when the economy is weak, not only do people have less money to spend, but they are typically more

reluctant to spend the money they have, fearing the economy may become even worse—and that in turn, they might lose their jobs because of a weakening economy.

## 2. Social Trends

- a. An understanding of the impact of social forces on trends and how they affect new product, service, and business ideas is a fundamental piece of the opportunity recognition puzzle.
- b. The persistent proliferation of fast-food restaurants, for example, isn't due primarily to people's love for fast food but rather to the fact that people are busy—the number of households with both parents working remains high.
- c. Some of the social trends that allow for new opportunities are as follows:
  - Aging of the population
  - The increasing diversity of the population
  - Increased participation in social networks
  - Growth in the use of mobile devices
  - The increasing focus on health and wellness
  - Emphasis on clean forms of energy including wind, solar, biofuels, and others
  - Continual migration of people from small towns and rural areas to cities
  - Desire for personalization (which creates a need for products and services that people can tailor to their own tastes and needs)

## 3. Technological Advances

- a. Given the rapid pace of technological change, it is vital for entrepreneurs to remain on top of how new technologies affect current and future opportunities.
- b. Once a technology is created, products emerge to advance it. For example, the creation of the Apple iPhone, iPad, and similar devices has in turn spawned entire industries that produce compatible devices.

## 4. Political Action and Regulatory Changes

- a. Political action and regulatory changes also provide the basis for opportunities. For example, new laws create opportunities for entrepreneurs to start firms to help companies comply with these laws.

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

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

## B. Solving a Problem

1. Sometimes identifying opportunities simply involves noticing a problem and finding a way to solve it.
2. These problems can be pinpointed through observing trends and through more simple means, such as intuition, serendipity, or chance.
3. Some business ideas are clearly gleaned from the recognition of problems in emerging trends. For example, some older people find traditional cell phones hard to use—the buttons are small, the text is hard to read, and it’s often difficult to hear someone on a cell phone in a noisy room. To solve these problems, GreatCall, a recent start-up, is producing a cell phone called the Jitterbug, which is designed specifically for older users.
  - a. A serendipitous discovery is a chance discovery made by someone with a prepared mind.

## C. Finding Gaps in the Marketplace

1. The third approach to identifying opportunities is to recognize a need that consumers have that is not being satisfied—by either large, established firms or entrepreneurial ventures.
2. Large retailers compete primarily on price by serving large groups of customers with similar needs. They do this by offering the most popular items targeted toward mainstream consumers. Although this approach allows the large retailers to achieve economies of scale, it leaves gaps in the marketplace.
  - a. This is the reason that small clothing boutiques and specialty shops exist. The small boutiques, which often sell designer clothes or clothes for hard-to-fit people, are willing to carry merchandise that doesn’t sell in large enough quantities for Wal-Mart or Costco to carry.

3. A common way that gaps in the marketplace are recognized is when people become frustrated because they can't find a product or service that they need and recognize that other people feel the same way.

### III. Personal Characteristics of the Entrepreneur

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

- A. **Prior Industry Experience**—Several studies show that prior experience in an industry helps entrepreneurs recognize business opportunities.
  1. By working in an industry, an individual may spot a market niche that is underserved. It is also possible that while working in a particular area, an individual builds a network of social contacts in that industry that may provide insights that lead to opportunities.
- B. **Cognitive Factors**—Opportunity recognition may be an innate skill or a cognitive process.
  1. There are some who think that entrepreneurs have a “sixth sense” that allows them to see opportunities that others miss. This sixth sense is called entrepreneurial alertness.
  2. Entrepreneurial alertness is formally defined as the ability to notice things without engaging in deliberate search.
- C. **Social Networks**—The extent and depth of an individual's social network affects opportunity recognition.
  1. In one study, the differences between solo entrepreneurs (those who identified their business ideas on their own) and network entrepreneurs (those who identified their business ideas through social contacts) were examined. The researchers found that network entrepreneurs identified significantly more opportunities than solo entrepreneurs, but were less likely to describe themselves as being particularly alert or creative.
  2. An important concept that sheds light on the importance of social networks to opportunity recognition is the differential impact of strong-tie versus weak-tie relationships. Relationships with other people are called ties.
    3. Strong-tie relationships are characterized by frequent interactions, such as ties between coworkers, friends, and spouses. Weak-tie relationships are characterized by infrequent interaction, such as ties between casual

acquaintances. It is more likely that entrepreneurs will get business ideas via weak-tie versus strong-tie relationships.

- D. Creativity—Is the process of generating novel or useful ideas. Opportunity recognition may be, at least in part, a creative process. It is easy to see the creativity involved in forming many products, services, and businesses.
1. For an individual, the creative process can be broken down into five stages, as shown in Figure 2.4 in the textbook. The five steps are:
    - a. Preparation—Is the background, experience, and knowledge that an entrepreneur brings to the opportunity recognition process.
    - b. Incubation—Is the stage during which a person considers an idea or thinks about a problem; it is the “mulling things over” phase.
    - c. Insight—Is the flash of recognition, when the solution to a problem is seen or an idea is born.
    - d. Evaluation—Is the stage of the creative process during which an idea is subjected to scrutiny and analyzed for its viability.
    - e. Elaboration—Is the stage during which the creative idea is put into a final form. The details are worked out, and the idea is transformed into something of value.

#### IV. Techniques for Generating Ideas

##### A. Brainstorming

1. Is used to generate a number of ideas quickly. It is not used for analysis or decision making.
2. A brainstorming “session” is targeted to a specific topic about which a group of people are instructed to come up with ideas.
3. The number one rule of brainstorming is that no criticism is allowed, including chuckles, raised eyebrows, or facial expressions that express skepticism or doubt. Criticism stymies creativity and inhibits the free flow of ideas.
  - a. There are two reasons brainstorming generates ideas that might not arise otherwise.

- i. First, because no criticism is allowed, people are more likely to offer ideas than they would in a traditional setting.
- ii. Second, brainstorming focuses on creativity rather than evaluation.

#### B. Focus Groups

1. A focus group is a gathering of 5 to 10 people who are selected because of their relationship to the issue being discussed. Although focus groups are used for a variety of purposes, they can be used to help generate new business ideas.
2. The strength of focus groups is that they help companies uncover what's on their customers' minds through the give-and-take nature of a group discussion. The weakness is that because the participants do not represent a random sample, the results cannot be generalized to larger groups.

#### C. Library and Internet Research

1. Libraries are often an underutilized source of information for generating business ideas. The best approach to utilizing a library is to discuss your general area of interest with a reference librarian, who can point out useful resources.
2. Internet research is also important.
  - a. If you are starting from scratch, simply typing "new business ideas" into Google or Yahoo! will produce links to newspaper and magazine articles about the "hottest" and "latest" new business ideas.
  - b. If you have a specific idea in mind, a useful technique is to set up a Google "e-mail alert" using keywords that pertain to your topic of interest.

#### D. Other Techniques

1. Customer advisory boards. Some companies set up customer advisory boards that meet regularly to discuss needs, wants, and problems that may lead to new ideas.
2. Day-in-the-life research. Other companies conduct varying forms of anthropological research, such as day-in-the-life research.

## BOXED FEATURES: QUESTIONS FOR CRITICAL THINKING

### Savvy Entrepreneurial Firm

#### Solving Problems via Social Ventures

1. Refer to Figure 2.1. Are there differences between social ventures and for-profit organizations in regard to the essential qualities of an opportunity? If so, what are the differences?

Answer: Figure 2.1 looks at the four essential qualities of an opportunity – attractive, timely, durable, and anchored in a product or service. Social ventures deal with “wicked” or difficult to solve problems, as the UCLA food wastage situation points out. This means that opportunities in social ventures may not fit easily with all the four qualities of an opportunity indicated above. For example, the UCLA students saw food waste, noticed that it was a problem, but this was not readily anchored in a product or service. The same goes for Soko and Drive for Change.

2. For the social ventures highlighted in the feature, what was the role of changing environmental trends in enabling the social venture to address the problem it is tackling?

Answer: Key environmental trends common to all three is increasing income disparity on the one hand (artisans in sub-Saharan Africa versus arguably middle-class youth in the U.S.) and a growing consciousness that societal problems need to be tackled as otherwise they would not go away.

3. How can social ventures attract talented employees, given that they typically do not pay as much as for-profit organizations?

Answer: Pay disparity is a challenge that most not-for-profits and social ventures face. They typically cannot match the salaries that for-profit companies will pay. The key is to ensure that there are other motivations at work – the satisfaction of addressing a societal need, for example. In addition, given that most of such organizations are understaffed, growth opportunities and increasing work responsibilities can motivate people to join such firms.

4. Would you enjoy working for a social venture? If so, why? Which of the social ventures highlighted in this feature interests you the most? Explain your answer.

Answer: Student responses will vary. Swipe Out Hunger deals with food wastage, Soko is an artists’ cooperative and Drive For Change rehabilitates felons by getting them to work on a food truck business. Each one has attractions for some people.

## What Went Wrong?

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

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

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

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

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

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

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

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

Answer: Most students will say that Everpix wasn’t thinking big enough—and ultimately was building a business that was akin to a single or a double rather than a home run. Although they were trying to solve a compelling problem (i.e., helping

people store and organize photos in a manner that would encourage people to go back and look at them), they built a site that wasn't viral and wasn't marketed sufficiently to attract a large number of users.

### **Partnering for Success**

#### **Want Help Converting a Business Idea Into a Profitable Company? Find a Mentor**

1. At this point in your educational process, your business (if you're starting one), and in your life in general, in what areas do you believe you could benefit the most from having a mentor? What would your expectations be for the mentor/mentee relationship?

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

2. Make a list of the opportunities on your campus and the surrounding community for connecting with potential mentors. Which opportunities do you think would be the best bet for you in terms of connecting with a potential mentor?

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

3. Go to LinkedIn and type in the name of your university and a functional area (marketing, finance, entrepreneurship, engineering, etc.) in which you have an interest. How many search results did the query produce? As you scanned the search results, did you notice anyone with whom you would like to connect?

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

4. To what degree do you believe that having a mentor can make the difference between an entrepreneur succeeding or failing? Have you had a mentor at any point in your life? If so, briefly relate the manner in which your mentor was able to help you.

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

## REVIEW QUESTIONS

2-1. What is a product opportunity gap?

Answer: A product opportunity gap is the gap between what is currently on the market and the possibility for a new or significantly improved product, service, or business that results from emerging trends.

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

Answer: Via careful observation and then via (1) emphasizing or enhancing personal characteristics that contribute to opportunity recognition, such as prior experience, cognitive factors, social networks, and creativity and (2) utilizing the techniques highlighted in the chapters for improving opportunity recognition, such as brainstorming, focus groups, and library and Internet research.

2-3. What is an opportunity?

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

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

Answer: An opportunity has four essential qualities: it is (1) attractive, (2) durable, (3) timely, and (4) is anchored in a product, service, or business that creates or adds value for its buyer or end user. An opportunity would not be attractive if any of the qualities were missing.

2-5. What four environmental trends are most instrumental in creating business opportunities? Provide an example of each environmental trend and the type of business opportunity that it might help create.

Answer: The four environmental trends (or factors) that are most important in creating business opportunities are: economic factors, social factors, technological advances, and political action and regulatory changes.

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

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

MyLab Question.

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

Answer: A gap in the marketplace suggests that particular clientele, such as people who need plus-sized clothing or people who are hard to fit, are not being adequately serviced. Providing products or services for these people represents a business opportunity. The trick is whether there is a large enough critical mass of people in a particular area to support a business that fills a gap in their marketplace for a specific clientele.

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

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

2-9. In what ways does prior industry experience provide an entrepreneur an advantage in recognizing business opportunities?

Answer: By working in an industry, an individual may spot a market niche that is underserved.

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

Answer: There are some who think that entrepreneurs have a “sixth sense” that allows them to see opportunities that others miss. This sixth sense is called entrepreneurial alertness, which is formally defined as the ability to notice things without engaging in deliberate search. Entrepreneurial alertness is important, because individuals with higher levels of entrepreneurial alertness will presumably identify more business opportunities.

2-11. How does an extensive social network provide an entrepreneur an advantage in recognizing business opportunities?

Answer: The extent and depth of an individual’s social network affects opportunity recognition. People who build a substantial network of social and professional contacts will be exposed to more opportunities or ideas than people with sparse networks. This exposure can lead to new business starts.

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

MyLab Question.

2-13. What is creativity?

Answer: Creativity is the process of generating a novel or useful idea. Opportunity recognition may be, at least in part, a creative process. It is easy to see the creativity involved in the formation of many products, services, and businesses.

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

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

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

Answer: The five stages of the creative process are as follows:

Stage 1: Preparation is the background, experience, and knowledge that an entrepreneur brings to the opportunity recognition process.

Stage 2: Incubation is the stage during which a person considers an idea or thinks about a problem; it is the “mulling things over” phase.

Stage 3: Insight is the flash of recognition—when the solution to a problem is seen or an idea is born.

Stage 4: Evaluation is the stage of the creative process during which an idea is

subjected to scrutiny and analyzed for its viability.

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

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

Answer: An opportunity has four essential qualities: it is (1) attractive, (2) durable, (3) timely, and (4) anchored in a product, service, or business that creates or adds value for its buyers or end users. An idea is a thought, impression, or notion. It may or may not meet the criteria of an opportunity.

- 2-17. Why is “no criticism” the number-one rule for brainstorming?

Answer: Brainstorming is used to generate a number of ideas quickly. It is not used for analysis or decision making. No criticism is allowed. Criticism stymies creativity and inhibits the free flow of ideas.

- 2-18. How is a focus group used to generate new business ideas?

Answer: A focus group is a gathering of 5 to 10 people who are selected because of their relationship to the issue being discussed. Although focus groups are used for a variety of purposes, they can be used to help generate new business ideas.

Usually focus groups are conducted by trained moderators. The moderator’s primary goals are to keep the group “focused” and to generate lively discussion.

- 2-19. What is the purpose of day-in-the-life research?

Answer: Day-in-the-life research refers to sending a team of testers to the homes (or businesses) of a company’s users, to see how its products are working and gain insights for new product ideas.

## **APPLICATION QUESTIONS**

- 2-20. Justin Coban plans to write an e-mail message to his dad asking for a loan. The purpose of the loan will be to start a company to sell an environmentally friendly line of cleaning supplies that are suitable for light manufacturing facilities. Justin has spent the past two years developing the products in his spare time, and wants to convince his dad that the idea represents an attractive business opportunity. What information and insights about his potential company should Justin include in the e-mail message?

Answer: Justin should try to convince his dad that (1) the idea meets the four tests of an opportunity, (2) the idea either takes advantage of an environmental

trend, solves a problem, or fills a gap in the marketplace, and (3) he has done sufficient research, either through brainstorming, focus groups, and/or library and Internet research, to assure himself that the idea is attractive.

- 2-21. Identify three start-ups, other than those discussed in the chapter and listed in Table 2.2, which were started to solve a problem. Briefly describe the problems the three start-ups are solving and how they are going about doing so.

Answer: There are countless examples that students might suggest. Urge your students to browse through magazines such as *Inc.* and *Entrepreneur* for suggestions if they are having a hard time coming up with ideas. The Springwise blog ([www.springwise.com](http://www.springwise.com)) also provides fresh examples of new products and services on a near daily basis.

- 2-22. Marshall Hanson, the founder of Santa Fe Hitching Rail, a chain of nine steak restaurants in New Mexico, is considering expanding his menu, which is currently restricted to steak, hamburger, potatoes, and fries. He has just read a book about entrepreneurship and learned that entrepreneurs should study social trends to help identify new product opportunities. What are some current social trends that might help Marshall choose items to add to his menu? Given the trends you list, what items do you suggest Marshall add to expand his restaurant's menu?

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

- 2-23. Tiffany Jones owns a small chain of fast-casual restaurants in Denver that sell sandwiches, soups, wraps, and desserts. In general, her restaurants are successful, but she feels they are getting "stale" and could benefit from new ideas. What techniques could Tiffany use to generate new ideas for her restaurants.

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

- 2-24. As mentioned in the chapter, "prior experience" in an industry helps entrepreneurs recognize business opportunities. This concept of "help" extends to prior experience in any aspect of life—whether it is sports, music, or a volunteer activity. In what areas do you have a good amount of prior experience? How could this prior experience position you to start a business?

Answer: This is a good question for an individual assignment. Make sure your students directly tie their prior experience to a potential business opportunity.

Some students will argue that they really don't have any prior experience that would lend itself to a business opportunity. In these cases, challenge your students to think harder. All of us have unique experiences that might lend themselves to business opportunities.

- 2-25. Make a list of your strong-tie and weak-tie relationships. Include at least five ties on each list. Select two names from your list of weak-tie relationships, and speculate on the types of new business ideas that you think these individuals would be uniquely qualified to help you contemplate.

Answer: This is a good question for an individual assignment.

- 2-26. Imagine that you've been hired by Fitbit, the wearable activity tracker, to conduct focus groups on your campus to get a better sense of how Fitbit can be as relevant and useful to college students as possible. How would you go about setting up the focus groups? What are the primary issues on which you would concentrate with the focus groups?

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

- 2-27. How could Jamie Heywood and Ben Heywood, the co-founders of PatientsLikeMe, the subject of case 1.2 in Chapter 1, have utilized library and Internet research to flesh out their business idea?

Answer: There is undoubtedly much that Jamie and Ben Heywood could have learned about amyotrophic lateral sclerosis (ALS) and other diseases (and how people coped with them) via library and Internet research, regarding what the options were, the cost of treatment, etc.

## YOU BE THE VC 2.1

**Company:** PillPack ([www.pillpack.com](http://www.pillpack.com))

**Business Idea:** Create an online pharmacy that is easier to use than traditional pharmacies.

**You Be the VC Scorecard**  
**PillPack**  
 (www.pillpack.com)

Item	Score/Comments
Strength of New-Venture Team	1   2   3 <u>4</u> 5  PillPack was founded by T.J. Parker, a second-generation pharmacist, and Elliot Cohen from MIT. The two met at an MIT event and decided to launch PillPack. Elliot Cohen has a background in computer science and an MBA. Parker worked in his family's pharmacy before launching PillPack.
Strength of the Opportunity	1   2   3   4 <u>5</u>  Societal trends are working in favor of PillPack. The aging of America means there are more older people who take a number of medications every day. PillPack's service addresses two important pain points: the trouble of going several times to pharmacies to get prescriptions filled AND the need to remember what medication to take when.
Strength of the Industry	1   2   3   4 <u>5</u>  Medications for the elderly is a growing market and there do not appear to be others addressing the issues that PillPack addresses.
Strength of Business Model	1   2 <u>3</u> 4   5  This is a tough one. Since PillPack does not charge its customers for the services it provides, it has to absorb them in the margins it gets from buying the drugs and getting insurance reimbursement. Insurance companies have tremendous pricing power and PillPack's initial size may work against good prices to cover their costs.
Average Score	4.25/5.0

**Decision:** We would fund this firm. A big plus in PillPack's favor is the strength of its opportunity. We have no quibbles there. PillPack addresses two major pain points. They do not seem to have direct competitors and so they are likely to get a first mover

advantage. Their business model is less encouraging until they get to be the size that increases their pricing power.

**YOU BE THE VC 2.2**

**Company:** Feetz (www.feetz.com)

**Business Idea:** Using 3D printing technology, make custom fit shoes for every person.

**You Be the VC Scorecard**

**Feetz**

(www.feetz.com)

Item	Score/Comments
Strength of New-Venture Team	1   2   3 <u>4</u> 5  Principal founder Lucy Beard is a Chartered Financial Analyst and former actuary who has held positions at Intuit and Zynga before launching Feetz with her husband, Nigel. Nigel Beard, a Ph.D. in microfluids, is chief technical officer. There is both the technical and the business side well represented here.
Strength of the Opportunity	1   2 <u>3</u> 4   5  This is a hard one to evaluate. For many people, footwear is a fashion accessory. Feetz seems to address the comfort part well but not necessarily the fashion part. There is an opportunity to focus on the part of the footwear market that is looking simply for comfortable footwear, but we don't know how big that is.
Strength of the Industry	1   2 <u>3</u> 4   5  Given the success of the Dr. Scholes brand, it is possible that there is a sizeable market for people who want shoes that are comfortable and not necessarily fashionable. We don't know that. Given that Feetz focuses on comfort primarily, they may be addressing a smaller part of the market.
Strength of Business Model	1   2 <u>3</u> 4   5  The model is not scalable as is since each pair needs to be custom made. Down the road, Feetz is looking at

	selling the technology and/or partnerships with shoe retailers like DSM. This may be the better way to go.
Average Score	3.25/5.0

**Decision:** We would not fund Feetz. The management team appears quite capable but less attractive is the size of the opportunity and the current business model. We don't know the size of the intersection in the market between those who need comfortable shoes and are less particular about fashion. If this segment is very small, then Feetz doesn't have any headroom to grow. We do not know the full financial effect of their partnerships for us to evaluate if this is the path forward.

## CASES

### Case 2.1

PledgeMusic and Zinepak: Creating New Businesses in the Music Industry by Directly Engaging Fans

## DISCUSSION QUESTIONS

- 2.32. What environmental trends are working in favor of PledgeMusic and Zinepak? What environmental trends are working against each company?

Answer: The environmental trends that are working for both PledgeMusic and ZinePak are (1) an increased level of comfort that people have on technology; (2) the need for interactive, more immersive experience that digital technology enables; (3) an increase in the number of social media platforms that people work from, which now includes Facebook and Twitter; and (4) an increasing mobile population. All of these factors favor both companies' immersive solution that can be accessed from all of a user's devices. The trends working against both companies are (1) the sheer number of devices that people have is increasing the complexity of the services offered and (2) the threat that either company could be vulnerable to technological disruption.

- 2.33. What gap or gaps in the marketplace does both PledgeMusic and ZinePak fill? On a scale of 1 to 10 (10 is high), how elegantly do you think each company is filling the gap or gaps you identified?

Answer: Both companies fill a similar gap: hard core music fans – the Super Fans – are willing to spend more money than what they currently spend to get to know their favorite performers, except that there are very few avenues for them to do it. While student reactions may differ, PledgeMusic may have the more elegant solution (grade of 8-9) because what it is offering is more interactive and more immersive than what ZinePak does.

- 2.34. Suggest one or two additional business ideas that would allow musicians to better engage with their Super Fans.

Answer: One idea could be for performers to record personal birthday or other wishes for their fans. This is a good exercise to get students to exercise their creativity.

### Case 2.2

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

### DISCUSSION QUESTIONS

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

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

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

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

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

Answer: Rover.com's service is attractive in that it places a dog owner's dog in a home rather than a kennel. This aspect of Rover.com's service provides a dog more personalized attention and is healthier, given that the dog will not be in close

proximity to a large number of other dogs, some of which may be sick. The service is durable in that the number of dogs and dog owners in the United States continues to go up. The amount of money that people spend on their pets, dogs included, also continues to go up each year. The service is timely in that the population in general is increasingly mobile, meaning that people travel more which necessitates dog owners needing to find others to watch their dogs. Finally, the service is anchored in a product or service that creates value for a buyer. The entire intent of Rover.com is to provide a dog owner a better experience than placing a dog in a kennel. There are many examples throughout the case where Rover.com achieves this objective.