

The Entrepreneurial Process (I)

The process of starting a new venture is embodied in the entrepreneurial process, which involves more than just problem solving in a typical management position. An entrepreneur must find, evaluate, and develop an opportunity by overcoming the forces that resist the creation of something new. The process has four distinct phases: (1) identification and evaluation of the opportunity, (2) development of the business plan, (3) determination of the required resources, and (4) management of the resulting enterprise. Although these phases proceed progressively, no one stage is dealt with in isolation or is totally completed before work on other phases occurs. For example, to successfully identify and evaluate an opportunity (phase 1), an entrepreneur must have in mind the type of business desired (phase 4).

Identify and Evaluate the Opportunity

Opportunity identification and evaluation is a very difficult task. Most good business opportunities do not suddenly appear, but rather result from an entrepreneur's alertness to possibilities, or in some case, the establishment of mechanisms that identify potential opportunities. For example, one entrepreneur asks at every cocktail party whether anyone is using a product that does not adequately fulfill its intended purpose. This person is constantly looking for a need and an opportunity to create a better product. Another entrepreneur always monitors the play habits and toys of her nieces and nephews. This is her way of looking for any unique toy product niche for a new venture.

Although most entrepreneurs do not have formal mechanisms or identifying business opportunities, some sources are often fruitful: consumers and business associates, members of the distribution system, and technical people. Often, consumers are the best source of ideas for a new venture. How many times have you heard someone comment, "If only there was a product that would..." This comment can result in the creation of new business. One entrepreneur's evaluation of why so many business executives were complaining about the lack of good technical writing and word-processing services resulted in the creation of her own business venture to fill this need. Her technical writing service grew to 10 employees in two years.

Due to their close contact with the end user, channel members in the distribution system also see product needs. One entrepreneur started a college bookstore after hearing all the students complain about the high cost of books and the lack of service provided by the only bookstore on campus. Many other entrepreneurs have identified business opportunities through a discussion with a retailer, wholesaler, or manufacturer's representative.

Finally, technically oriented individuals often conceptualize business opportunities when working on other projects. One entrepreneur's business resulted from seeing the application of a plastic resin compound in developing and manufacturing a new type of pallet while developing the resin application in another totally unrelated area—casket moldings.

Whether the opportunity is identified by using input from consumers, business associates, channel members, or technical people, each opportunity must be carefully screened and evaluated. This evaluation of the opportunity is perhaps the most critical element of the

entrepreneurial process, as it allows the entrepreneur to assess whether the specific product or service has the returns needed compared to the resources required. This evaluation process involves looking at the length of the opportunity, its real and perceived value, its risks and returns, its fit with the personal skills and goals of the entrepreneur, and its uniqueness or differential advantage in its competitive environment.

The market size and the length of the window of opportunity are the primary basis for determining the risks and rewards. These risks reflect the market, competition, technology, and amount of capital involved. The amount of capital needed provides the basis for the return and rewards. The methodology for evaluating risks and rewards frequently indicates that an opportunity offers neither a financial nor a personal reward commensurate with the risks involved. One company that delivered bark mulch to residential and commercial users for decoration around the base of trees and shrubs added loam and shells to its product line. These products were sold to the same customer base using the same distribution (delivery) system. Follow-on products are important for a company expanding or diversifying in a particular channel. A distribution channel member such as Kmart, Service Merchandise, or Target prefers to do business with multi-product, rather than single-product, firms.

Finally, the opportunity must fit the personal skills and goals of the entrepreneur. It is particularly important that the entrepreneur be able to put forth the necessary time and effort required to make the venture succeed. Although many entrepreneurs feel that the desire can be developed along the venture, typically it does not materialize. An entrepreneur must believe in the opportunity so much that he or she will make the necessary sacrifices to develop the opportunity and manage the resulting organization.

Opportunity analysis, or what is frequently called an opportunity assessment plan, is one method for evaluating an opportunity. It is not a business plan. Compared to a business plan, it should be shorter; focus on the opportunity, not the entire venture; and provide the basis for making the decision of whether or not to act on the opportunity.

An opportunity assessment plan includes the following: a description of the product or service, an assessment of the opportunity, an assessment of the entrepreneur and the team, specifications of all the activities and resources needed to translate the opportunity into a viable business venture, and the source of capital to finance the initial venture as well as its growth. The assessment of the opportunity requires answering the following questions:

- What market need does it fill?
- What personal observations have you experienced or recorded with regard to that market need?
- What social condition underlies this market need?
- What market research data can be marshaled to describe this market need?
- What patents might be available to fulfill this need?
- What competition exists in this market? How would you describe the behavior of this competition?
- What does the international market look like?
- What does the international competition look like?

- Where is the money to be made in this activity?

Developing a Business Plan

A good business plan must be developed in order to exploit the defined opportunity. This is a very time-consuming phase of the entrepreneurial process. An entrepreneur usually has not prepared a business plan before and does not have the resources available to do a good job. A good business plan is essential to developing the opportunity and determining the resources required, obtaining those resources, and successfully managing the resulting venture.

Determine the Resources Required

The resources needed for addressing the opportunity must also be determined. This process starts with an appraisal of the entrepreneur's present resources. Any resources that are critical need to be differentiated from those that are just helpful. Care must be taken not to underestimate the amount of variety of resources needed. The downside risks associated with insufficient or inappropriate resources should also be assessed.

Acquiring the needed resources in a timely manner while giving up as little control as possible is the next step in the entrepreneurial process. An entrepreneur should strive to maintain as large an ownership position as possible, particularly in the start-up stage. As the business develops, more funds will probably be needed to finance the growth of the venture, requiring more ownership to be relinquished. Alternative suppliers of these resources, along with their needs and desires, need to be identified. By understanding resource supplier needs, the entrepreneur can structure a deal that enables the resources to be acquired at the lowest possible cost and the least loss of control.

Manage the Enterprise

After resources are acquired, the entrepreneur must use them to implement the business plan. The operational problems of the growing enterprise must also be examined. This involves implementing a management style and structure, as well as determining the key variables for success. A control system must be established, so that any problem areas can be quickly identified and resolved. Some entrepreneurs have difficulty managing and growing the venture they created.

Hisrich, PhD, Robert D., Michael P. Peters, PhD and Dean A. Shepherd, PhD. Entrepreneurship. 6 ed. New York: McGraw-Hill Irwin, 2005.