



Entrepreneurship

Chapter 1

Entrepreneurs Recognize Opportunities



What Is Business?

- **Business**—buying and selling of products and services.
- **Product**—exists in nature or is made by human beings.
- **Service**—work that provides time, skills, or expertise in exchange for money.



What Is an Entrepreneur?

- **Employees**—earn their livings working for someone else’s business.

- **Entrepreneurs**—earn their livings starting, owning, and working for their own businesses.



Entrepreneurs Add Value to Scarce Resources

- All resources (wood, coal, oil, etc.) that cost money are “scarce.”
- Entrepreneurs add value to scarce resources by shifting them from areas of lower to higher productivity.

Personal Characteristics of the Entrepreneur

Characteristics that tend to make some people better at recognizing opportunities than others

Prior Experience

Cognitive Factors

Social Networks

Creativity

What is An Opportunity?

1 of 2

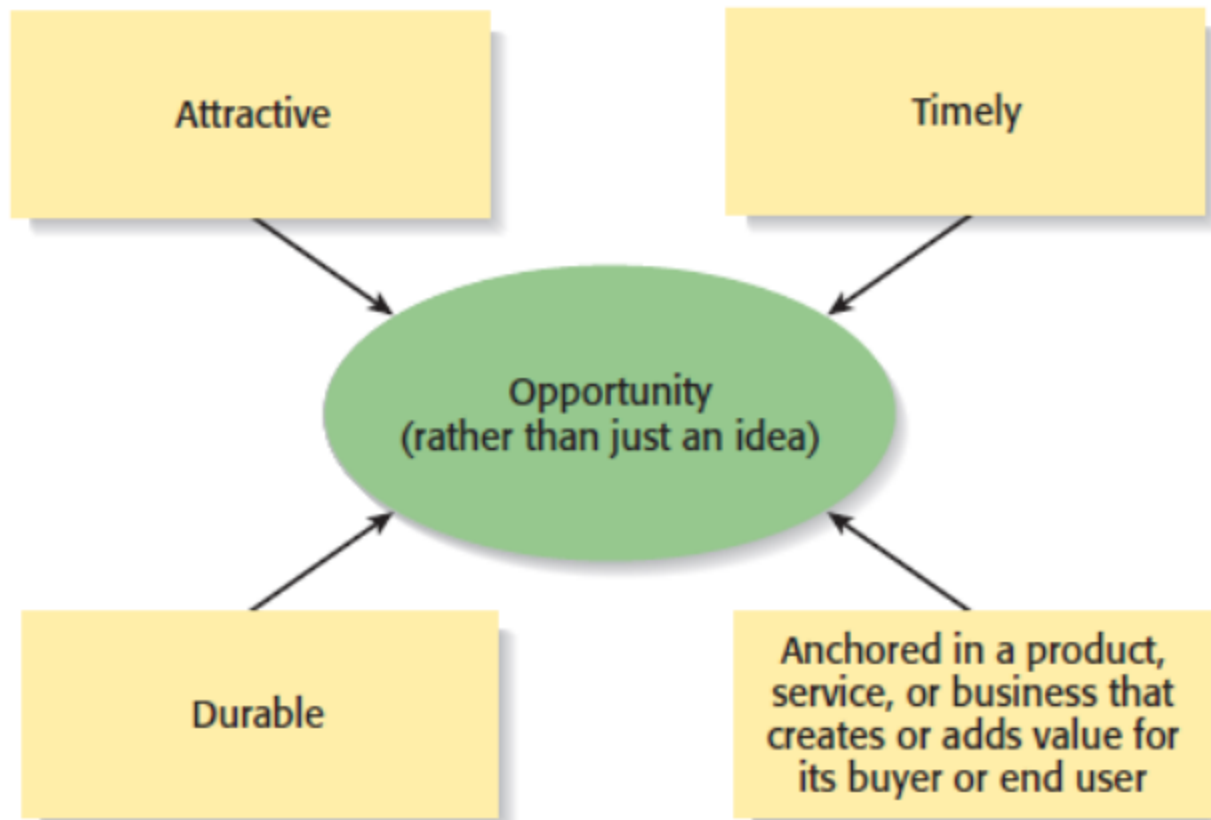
Opportunity Defined

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

What is an Opportunity?

2 of 2

An opportunity has four essential qualities



Three Ways to Identify an Opportunity



Observing Trends

Solving a Problem

Finding Gaps in the
Marketplace

First Approach: Observing Trends

1 of 2



- Observing Trends
 - Trends create opportunities for entrepreneurs to pursue.
 - The most important trends are:
 - Economic forces.
 - Social forces.
 - Technological advances.
 - Political action and regulatory change.
 - It's important to be aware of changes in these areas.

Second Approach: Solving a Problem

1 of 2



- Solving a Problem
 - Sometimes identifying opportunities simply involves noticing a problem and finding a way to solve it.
 - These problems can be pinpointed through observing trends and through more simple means, such as intuition, serendipity, or change.

Third Approach: Finding Gaps in the Marketplace

1 of 2

■ Gaps in the Marketplace

- A third approach to identifying opportunities is to find a gap in the marketplace
- A gap in the marketplace is often created when a product or service is needed by a specific group of people but doesn't represent a large enough market to be of interest to mainstream retailers or manufacturers.



The Economic Questions

- What should be produced?
- When will it be produced?
- How will it be produced?
- Who will produce it?
- Who gets to have what is produced?

An **economy** is a country's financial structure. It is the system that produces and distributes wealth.



Profit Is the Signal

- Profit—amount of money earned by a business left over after bills are paid.
- Profit signals that an entrepreneur is adding value to scarce resources.
- Entrepreneurs try to make choices (trade-offs) that will increase profit.



Why Be an Entrepreneur?

- Control over time
- Fulfillment
- Creation/Ownership
- Control over Compensation
 - salary
 - wage
 - dividend
 - commission
- Control over Working Conditions



Costs and Benefits of Entrepreneurship

Costs

- Business failure
- Obstacles
- Loneliness
- Financial Insecurity
- Long Hours/Hard Work

Benefits

- Independence
- Satisfaction
- Financial Reward
- Self-Esteem



Cost/Benefit Analysis

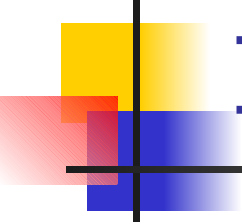
- **Costs**—money and time you will invest
- **Benefits**—money you will earn, knowledge and experience you will gain
- **Cost/Benefit Analysis**—list costs and benefits in order to make decisions that are not emotional.
- **Opportunity Cost**—cost of your next-best investment

For Cost/Benefit Analysis to be accurate, be sure to include your opportunity cost.



Sources of Opportunity

1. Use new technology to produce a new product.
2. Use an existing technology to produce a new product.
3. Use an existing technology to produce an old product in a new way.
4. Find a new source of (cheaper) resources.
5. Develop a new market for an existing product.



Business Opportunity= Idea + 4 Characteristics

1. Attractive to customers
2. Will work in your business environment
3. Can be executed in existing window of opportunity
4. Entrepreneur has resources and skills to create the business



5 Roots of Opportunity

1. Problems
2. Changes
3. Inventions
4. Competition
5. Technological advances

***Where others see problems,
entrepreneurs recognize opportunities.***



Use SWOT to Evaluate Business Ideas

- **S**trengths
- **W**eaknesses
- **O**pportunities
- **T**hreats



2 Classes of Opportunities

1. **External**—generated by outside circumstances noticed by the entrepreneur.
2. **Internal**—generated by an interest or hobby of the entrepreneur.



Respect Intellectual Property

- Do not sell counterfeit knockoffs of popular brands.
- Do not take graphics, music, or content from the Web without permission.
- Know the source of goods you sell, to avoid the risk of selling stolen property.



7 Rules for Building a Successful Business

1. Recognize an opportunity
2. Evaluate it with critical thinking (SWOT)
3. Build a team
4. Write a business plan
5. Gather resources
6. Decide ownership
7. Create wealth



What Is a Business Plan?

- A document that you can use to start and operate your business.
- A document you can show investors and bankers to raise money (capital) for your business.