Opportunities

Creating, Shaping, Recognizing, Seizing
Opportunity Driven Entrepreneurship - William H Sahlman
- Nicola Paxon – speciality cosmetics

Think “big enough”
- Donna Novitsky – Big Tent Design

Start small but think big
- Evan Williams – Blogger

Entrepreneurs can change the world
In this session:

- Define the differences between an opportunity and an idea
- Assess opportunity via a zoom lens on the criteria used by successful entrepreneurs, angels, and VC investors
- Explain the role that ideas, pattern recognition, creative process play in entrepreneurship
- Identify sources of information for finding & screening opportunities
Opportunity through a zoom lens

- Opportunities get missed, overlooked
- Opportunity recognition is complex, subtle, situational
- The entrepreneurial journey is illusive, contradictory, perilous
Entrepreneurial journey

- Like a road trip –
  - Various conditions, terrain, weather
  - Sometimes smooth, straight superhighways
  - Sometimes twisting, turning, narrow one-lane passages with breathtaking views
  - Unexpected tornadoes, dust storms, hurricanes, volcanoes
  - Might run out of petrol, get flat a tyre
- It's not easy – but neither is life.
New Venture Realities

- Always work in progress, end product differs from start product
- Most business plans obsolete when written
- Research – 91% business fail if rigidly follow their business plans
- Speed, adroitness of reflex, adaptability are crucial
- Success is situational (can’t pick it!) – time, space, context, stakeholders
- Make “new” mistakes only
Starting a company is....

A lot harder than it looks
A lot harder than you think it will be

But, you can
Last a lot longer
And do more than you think
if
you do not try to do it solo
and
You do not give up prematurely
Opportunities:

- Create or add significant value to customer or end user
- By solving a significant problem, removing serious pain point, meeting significant want or need for which someone will pay a premium
- Have robust market, margin, money making characteristics
  - Enable calculation and communication of this value to potential stakeholders
- Good fit with founder(s) and management team
- Attractive risk-reward profile
Successful ventures

Start with the what market wants, what customers want or need, and do not loose sight of this
Ideas

- An idea is a tool in your hand
- First step in converting your creativity into an opportunity
- Can be overrated at expense of the need for products, services or both that can be sold to real customers
- Shaping the idea into a viable commercial opportunity
  - Series of iterations, trial and error
  - Brainstorming barriers
  - Running into chance encounters
  - Turning mistakes into miracles
Opportunities arise from….

- Free enterprise systems
  - (but also… black markets, crime….)
- Changing circumstances
- Chaos, confusion, inconsistencies
- Lags or leads
- Knowledge and information gaps (cross fertilisation)
- Vacuums in the market or industry
  - Internet
  - Deregulation
- The number of ideas don’t matter – the economics behind the idea **does**
Ideas are tools

- 1st step in opportunity recognition is conceiving the idea

- Beware overrating idea at expense of products or services to sell

  - Balance - refining idea into an opportunity & underemphasising commercial imperatives

- Some end results are not what was initially intended
Ideas are tools

- A new idea does not guarantee success

- Entrepreneurship portrayed as simple

  - stunningly successful ventures get the profile;
  - These are exceptions **not** the rule

- Impression - technology ideas particularly successful

  - 1-3% of all ideas pitched to VCs are funded

- Business is a tough, competitive reality
Screening Opportunities

1st Focus on the opportunity
- not marketing, pr, strategy, financing, ownership, etc
- Cash burn rate is fast in new ventures, metrics maybe wrong, emotion/excitement can be misleading

Use tried and true business criteria
- VC and small business alike
- Helps identify problems, over estimations, clarifies opportunity, opens your eyes

Create “attractiveness scale” for value judgements

Not attractive 1 2 3 4 Very attractive
Industry & Market Screening

- Market structure – buyers, sellers, barriers, substitutes, rivalry, price sensitivities
  - new, niche, emerging, mature, declining
  - fragmented, asymmetry of information/resources
  - competitive, highly concentrated:
    - High capital for distribution & marketing
    - Price cutting to generate sales
    - Revenge – product strategy, legal tactics, supplier pressure
Market size

- Cashcows
- Stars
- Dogs
- Wildcards

Number of Customers

Projected growth

Very Attractive

Less Attractive
Growth Rates

- **Attractive markets**
  - Large and growing
  - Capture market share without threatening competitors
    - Have 5% of a $100m market growing at 50% pa (yr 1 $50,000, yr 2 $75,000, yr 3 $100,000) if maintain market share
  - Growing but existing firms cannot meet needs
  - If you can dominate or take biggest share of market

- **Unattractive markets**
  - Old, stable, contracting
  - Sudden influx competitors scrambling for niches (lipsticks, perfumes?)
Cost Structure

- **Attractive**
  - Low cost provider
  - Low cost of learning
  - Economies of scale not important

- **Unattractive**
  - Declining cost conditions, increasing cost of inputs/resources
  - High cost of learning
  - Tight margins (gross profit margin, etc.)
Estimate for Australian market for lipstick

Use your judgement, document your assumptions - informed by research – structure, size, growth rate, capacity, cost structure

1. Total population = 22m
2. Total working age = 66% total population
3. Women = 45% of total population
4. Women who might wear lipstick = ?, say 60%
5. Estimate of potential customers:
   \[22m \times 0.66 = 14.520m\] working age population
   \[14.520m \times 0.45 = 6.534m\] women
   \[6.534m \times 0.6\% = 3.920\ m\ wear\ lipstick\]
   1 lipstick per woman per year
Estimate for Australian market for lipstick

Use your judgement, document your assumptions - informed by research – structure, size, growth rate, capacity, cost structure

- Price information (eg Estee Lauder $26)
  
  $26 \times 3,920,000 = $101,930,400 \text{ pa},$
  
  capture 1% of that market = $1,019,304 \text{ pa}$

- Number of competitors, selling at that price point?
  
  Approx 111 makeup companies selling lipsticks:
  
  3,920,400 potential customers/111 competitors
  
  $= 35,3183 \text{ potential customers}$
Estimate - Aust market for lipstick

Costs to produce 1x lipstick – fixed, variable, breakeven

- **Fixed:**
  1. R&D formula, colour, texture, other benefits eg 30+spf $10,000
  2. Costs to design, source packaging
  3. Costs to produce lipstick & package
  4. Overhead costs of business (communications, office rent, salaries, consultants, equipment, consumables etc)

- **Variable:**
  1. Production run eg 1,000 lipsticks @ $.50 per lipstick
  2. Packaging eg 1,000 packages @ $.10 per lipstick

- **Breakeven:** the amount of sales/dollars at which it is feasible to produce
<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D formula</td>
<td>10,000</td>
</tr>
<tr>
<td>Design, source packaging</td>
<td>2,000</td>
</tr>
<tr>
<td>Consultants</td>
<td>7,000</td>
</tr>
<tr>
<td>Manufacture setup</td>
<td>1,500</td>
</tr>
<tr>
<td>Overheads</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Total Fixed Costs</strong></td>
<td><strong>30,500</strong></td>
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</tbody>
</table>

**per unit**

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
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</thead>
<tbody>
<tr>
<td>Production run 1,000</td>
<td>0.5</td>
</tr>
<tr>
<td>Packaging production 1,000</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total Variable Costs</strong></td>
<td><strong>0.6</strong></td>
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</tbody>
</table>
Breakeven = Fixed Cost/(unit Selling Price - unit Variable Cost)

FC $30,500.00
Unit SP $26.00
VC $0.60

Breakeven at 1,200.79 units

<table>
<thead>
<tr>
<th>Units</th>
<th>1200</th>
<th>35,318</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated sales @ $26 each</td>
<td>$31,500</td>
<td>$918,291</td>
</tr>
<tr>
<td>Variable costs</td>
<td>$720</td>
<td>$21,191</td>
</tr>
<tr>
<td>Fixed Costs</td>
<td>30,500</td>
<td>30,500</td>
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Profit = Sales - Costs

<table>
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<tr>
<th></th>
<th>-$20</th>
<th>$866,6001</th>
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Screening Opportunities

Conclusion?

- Australian market for lipsticks, assuming previous assumptions (as stated), potentially 3,920,000 women, of whom 1% may purchase our product ie 35,318, at a price of $26 per lipstick. Estimated market share = $918,291

- Fixed costs of $30,500 and VC total of $0.60, generate a estimated profit of $866,600
Screening your opportunity

Market structure

Justification - state the answers:

- customer need/pain point?
- Customers reachable/receptive?
- Customer payback/$benefit?
- Product life? Renewable? Frequency of purchases
- Can recover investment in product life?
- Expand beyond one product?

Market Structure

Market Size etc…….