

The background features abstract, overlapping purple geometric shapes, primarily triangles and polygons, in various shades of purple, creating a modern and dynamic aesthetic.

Innovative Entrepreneurship Theory and Practice

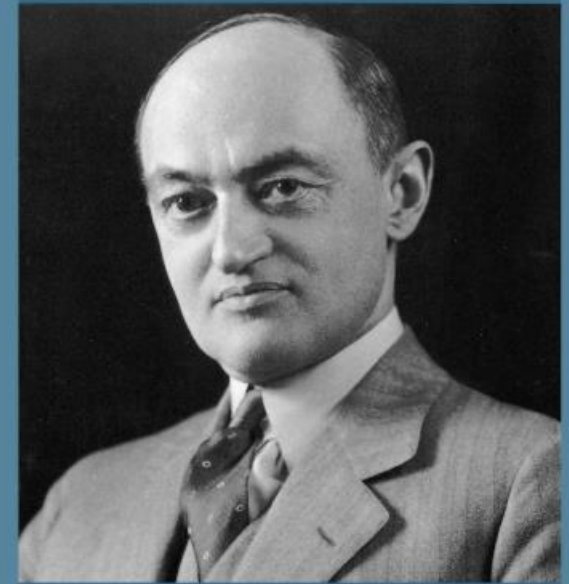
Innovative Entrepreneurship Theory and Practice

DIN111 (888111) 3(3-0-6)

Lesson 5: Opportunity

Innovative Entrepreneurship theory and practice (888111)

JOSEPH A.
SCHUMPETER

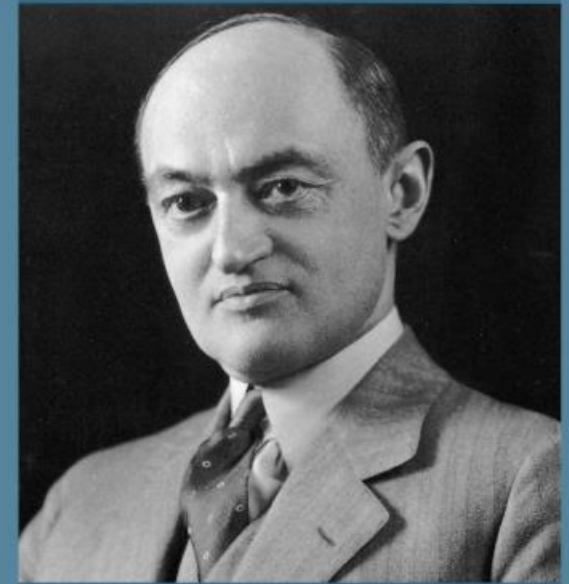


How do entrepreneurs find opportunities to start new business?

Entrepreneur create value by

- exploiting an invention or more generally,
- an untried technology possibility for producing a new commodity or
- producing an old one in a new way,
- by opening up a new source of supply of materials or a new outlet for products,
- by reorganizing an industry and so on".

JOSEPH A. SCHUMPETER



How do entrepreneurs find opportunities to start new business?

This view emphasize **innovation** as the key to entrepreneurship

- Using **a new technology** to produce **a new product**
- Using an existing technology to produce **a new product**
- Using an existing technology to produce an old product in **a new way**
- Finding **a new supply of resource** (that might enable the entrepreneur to produce a product more economically).
- Develop **a new market** for existing product

opportunity

1. Problems
2. Changes
3. Inventions
4. Competitive advantages
5. Technological advances

opportunity

1. **Problems** your business can solve
2. **Changes** in laws, situations, or trends
3. **Inventions** of new products or services
4. **Competitive advantages** in price, location, quality, reputation, reliability, speed, or other attributes of importance to customers
5. **Technological advances** that entrepreneurs take from the laboratory to the marketplace

Internal & external opportunities



Internal opportunity

An internal opportunity

- comes from inside you
- from *a personal hobby, interest, or even a passion*
- or inside your organization.

Internal opportunity

An external opportunity

- is generated by an outside circumstance
- **The best business opportunities** usually combine both internal and external factors.

Ideally, a business that

- you are passionate about
- fills a sustainable need
- in the marketplace.

How Do Entrepreneurs Create Business Ideas?

1. Listen.

- Improving a business or;
- Creating a new one....

2. Observe

- How to help society
- What kind of businesses I could start
- What consumers need.....

3. Analyze

- What product or service could solve it

How Do Entrepreneurs Create Business Ideas?

Ask yourself such questions as:

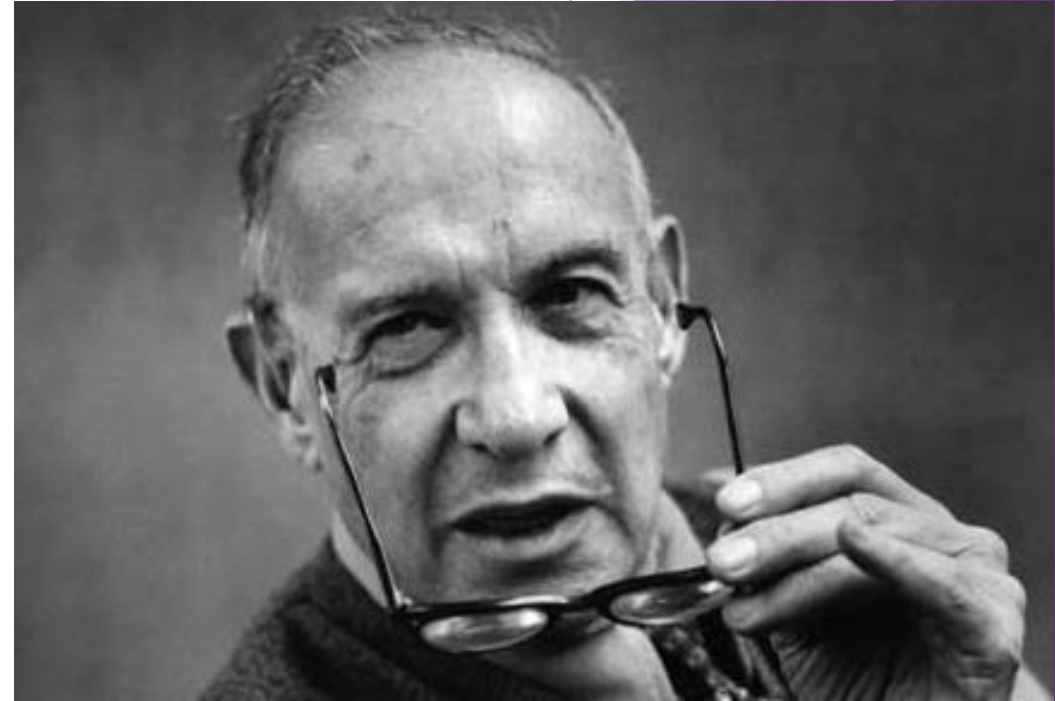
- What is the one thing I would like to have more than anything else?
 - What would it look like?
 - What would it do?
- What innovative product or service idea have I been thinking about?
- What problem have I encountered in everyday life and thought: “There has to be a better way to do this?”

Where does innovation
come from?

Drucker's Do's and Don'ts of innovation

Do:

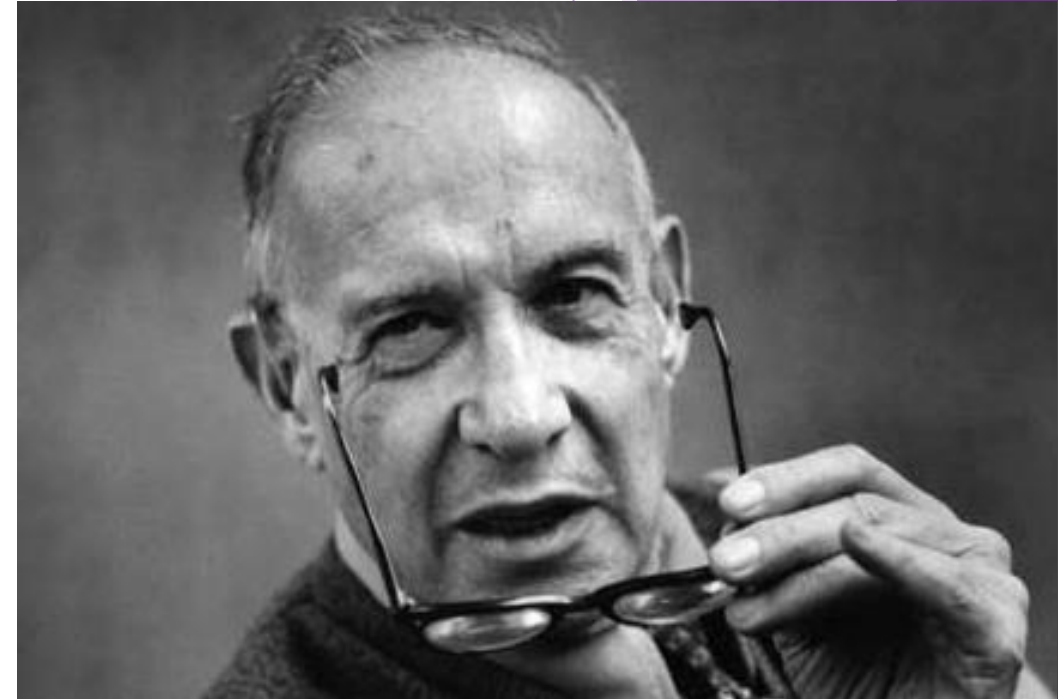
1. Regularly analyze innovative opportunities
2. Listen to what the market says
3. Keep it simple – “All innovations are breathtakingly simple”



Drucker's Do's and Don'ts of innovation

Don't:

1. **Be too clever** – if only a few people can understand it, the innovation won't change society
2. **Try to appeal to everyone** – choose a niche
3. **Innovate for the present** – otherwise innovations won't last long



Peter Drucker's 7 sources of innovation

According to Drucker (1985), there are **seven sources of innovative opportunity**:

Within the enterprise/industry:

- **The unexpected** – e.g. a changing pattern, or something not working
- **Incongruities** – discrepancies, e.g. customer expectations vs. reality
- **Process need** – ‘There ought to be a better way’
- **Market structures** – a change in industry structure, growth or decline

Peter Drucker's 7 sources of innovation

According to Drucker (1985), there are **seven sources of innovative opportunity**:

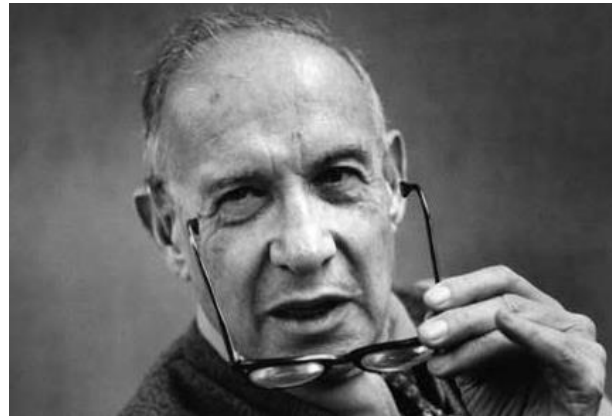
Outside the enterprise/industry:

- **Demographics** – changes in population (e.g. age, education, income)
- **Changes in perception, meaning, or mood**
- **New knowledge** – but often a combination of knowledge from different areas



Peter Drucker's 7 sources of innovation

1 – the unexpected



1. The unexpected

- A successful company is one that is able to recognize changing patterns, and that builds a new market position on those patterns
- being able to admit to be wrong and moving forward in a new direction, constantly adapting to what the external environment says and wants, is a typical feature of a prosperous venture

1. The unexpected (cont.)

- a company should always look at its own mistakes and adjust them as soon as possible, it should also take a look at what went right during a specific period of time
- The unexpected success, as Drucker refers to it, can open-up the most rewarding and least risky of all innovative opportunities

1. The unexpected

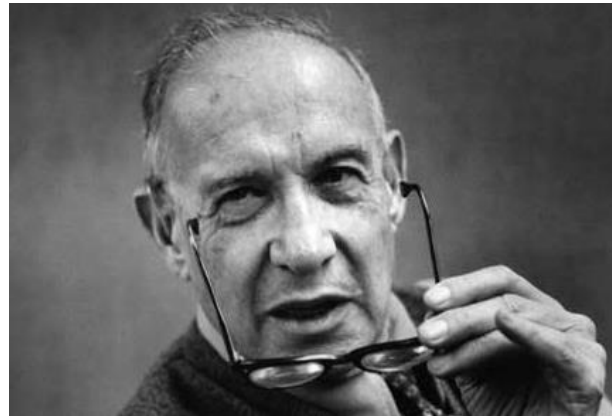
- In the early 1930s, IBM developed the first modern accounting machine, which was designed for banks.
- But banks in 1933 did not buy new equipment.
- What saved the company was its exploitation of an unexpected success: The New York Public Library wanted to buy a machine.
- Unlike the banks, libraries in those early New Deal days had money, and they **sold more than a hundred of his otherwise unsalable machines** to libraries.
- Only later did business unexpectedly show an interest in a machine that could do payroll, which enabled IBM to become a leader in the computer industry, a position it has maintained to this day.



Peter Drucker's 7 sources of innovation

2 – Incongruities

differences from what we think



2. Incongruities

- Incongruities result from a **difference between perception and reality**
- Often, incongruities are disguised as macro-phenomena, which occur within a company or a business sector. They might **resemble discrepancies** in economic realities, in the logic of a process, or between perceived and actual customer values and expectations
- Despite its source, this incongruity is something that **produces better results**, that exploits the **rising demand**, and it should therefore be highly considered by the entrepreneur whenever it presents itself

2. Incongruities



- Container shipping is one of the key transport revolutions of the 20th century.
- The use of standardized containers saves tremendous costs, as the goods are packed only once and can be transported over long distances using various modes of transport – truck, rail, or ship
- Less time in port, and large and fast container ships, has substantially reduced the cost per tonne-mile between ports

The incongruity here was **identifying that the real cause of costs was time in port loading and unloading goods – not, as was previously assumed, time at sea**

updates

reminders & announcements

1. please make sure you are **registered** correctly
2. please **find a group** and let me know the group members
3. both exams will be **closed book exams**

the midterm exam will be closed book

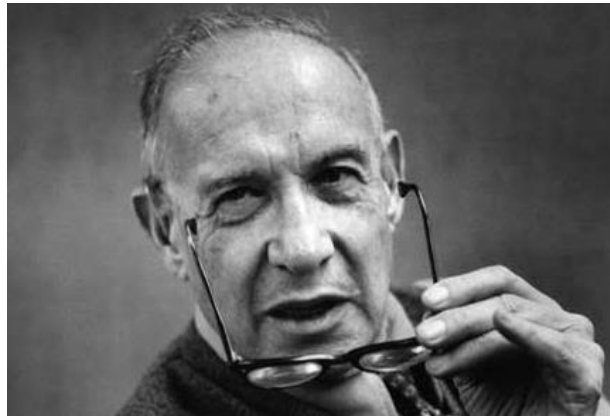
(20%)

the final exam will be closed book

(25%)

Peter Drucker's 7 sources of innovation

3 – need



3. Process need

- ‘there ought to be a better way’; necessity, of something that, at some point in time, feels like a requirement in a business ecosystem
- to be effective, a process need must be understood, there has to be some sort of knowledge to do the job required, and lastly, the solution must fit the way people do the work and want to do it

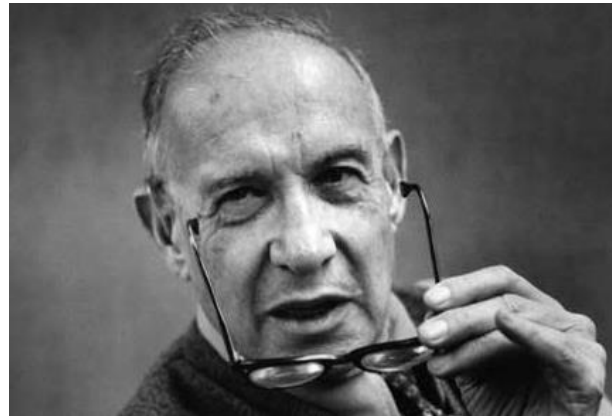
3. Process need

- Like many of the best inventions, the ATM was developed **as a result of frustration**.
- John Shepherd-Barron, Managing Director at banknote manufacturer De La Rue, found himself unable to cash his cheques after his bank closed on a Saturday morning.
- Pondering the dilemma in the bath later that evening, he was inspired by chocolate vending machines to create something similar for cash.
- Within days, Barclays had agreed to work with De La Rue to create the first six – and then a further 50 – machines.
- Shepherd-Barron's invention had begun to change the face of banking.



Peter Drucker's 7 sources of innovation

4 – market change



4. Market structures

- A **change in industry structure** offers exceptional opportunities, which **don't have to be perceived as threats**
- The most common trait of these indicators is the **rapid growth of an industry**; swift expansion = satisfaction of the overall demand in a completely different and more efficient way
- According to Drucker, “New opportunities rarely fit the way the industry has always approached the market, defined it, or organized to serve it. Innovators therefore have a good chance of being left alone for a long time.”

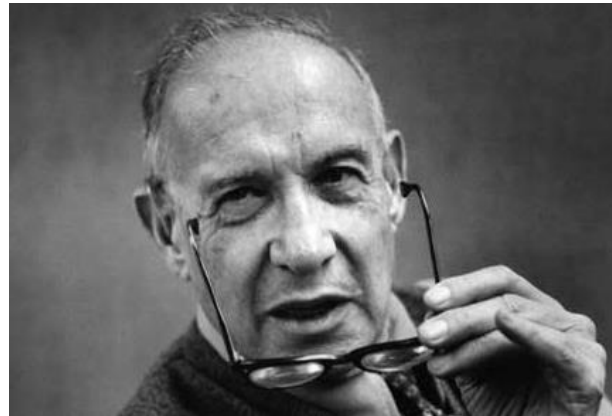
4. Market structures

- Until the personal computer, manufacturers of large mainframe computers, terminals, and software developed for specific uses within a firm dominated the computer industry.
- With the adoption of the personal computer and advent of the laptop computer, the composition of **computer sales and marketing changed dramatically.**



Peter Drucker's 7 sources of innovation

5 – people change



5. Demographics

- Defined as **changes in population, its size, age structure, composition, employment, educational status, and income**, demographics is certainly one of the go-to factors when it comes to market researches and offer segmentation
- For example, 20-year-olds rarely have the same needs and wants of 60-year-olds; as a result, businesses' value propositions should be shaped around these differences
- The same holds true for other, non age-related differences

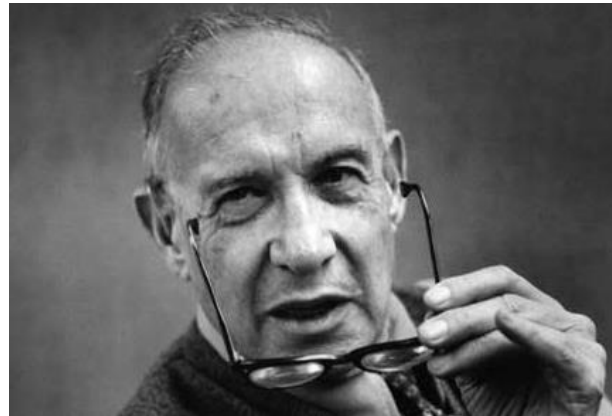
5. Demographics

- The Japanese are ahead in robotics because they paid attention to demographics.
- Everyone in the developed countries around 1970 or so knew that there was both a baby bust and an education explosion going on.
- Consequently, the number of people available for traditional blue-collar work in manufacturing was bound to decrease and become inadequate by 1990.
- Everyone knew this, but only the Japanese acted on it, and they now have a ten-year lead in robotics.



Peter Drucker's 7 sources of innovation

6 – other change

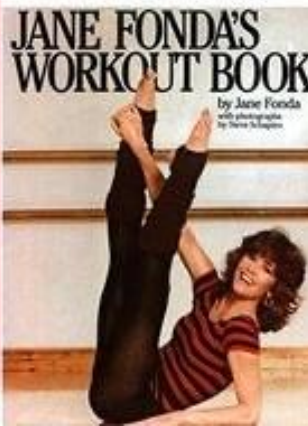
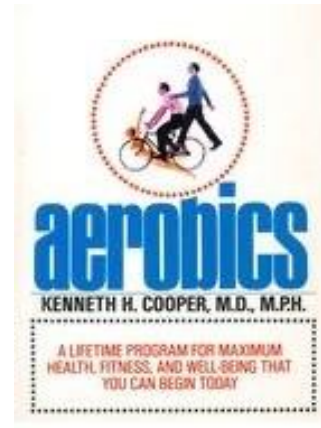


6. Changes in perception, meaning, and mood

- This is a little bit more complicated than demographic factors, but nonetheless essential for building and maintaining a stable position in the marketplace
- **Knowing the general perception and mood is a must for any entrepreneurial endeavor.**
- Businesses are economic entities built upon a long-term vision; therefore, for them, not being able to see what's happening in the current environment or even to predict what will happen in the future indicates that it's highly unlikely that they will hang around for long

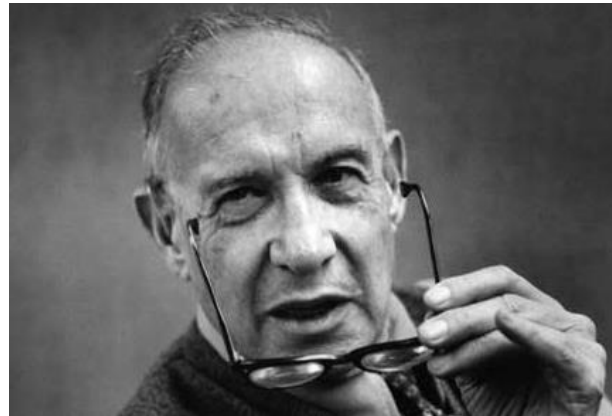
6. Changes in perception, meaning, and mood

- Rather than rejoicing in great improvements in health, in the 1980s Americans became more concerned about personal health.
- This created many opportunities for innovations: markets for new health care magazines, for exercise classes and jogging equipment, and for all kinds of health foods.
- The fastest growing new U.S. business in 1983 was a company that made indoor exercise equipment.



Peter Drucker's 7 sources of innovation

7 – new knowledge



7. New knowledge

- Of all the innovation sources we discussed so far, the knowledge-based one is the most time-consuming (although potentially most valuable) of all
- Think about some of the major innovations and breakthroughs we experienced, even more recent ones, such as the iPhone: it is a classic example of knowledge-based innovation
- Apple continually develops new products and services that require years of non-stop work and the **intersection of multiple information sources** in order to be made a reality

7. New knowledge



To anticipate the mobile internet etc in the early 2000s, you would have had to imagine not just how mobile phone technology could continue to develop, but also **how people and businesses could find new ways to use the mobile internet** – and very, very few people did.

7. New knowledge (cont.)

- This type of innovation, however, must contain different components, each one absolutely necessary for flawless execution
- Specifically, it needs careful analysis about the resources that the business has or hasn't, so as to see how it can possibly make up for the latter
- The second requirement is a focus on the company's strategy: in particular, on the **product's ecosystem** (namely having a complete solution for a specific problem, market or niche), on **the market** (also known as “putting the right product in front of the right people”), and on the **strategic position** (which stands for how the company wants to be perceived by the market itself)

7. New knowledge (cont.)

- De Havilland, a British company, designed and built the first passenger jet, but it did not analyze what the market needed and therefore did not identify two key factors.
- One was configuration – the right size with the right payload for the routes on which a jet would give an airline the greatest advantage.
- The other was: How could the airlines finance the purchase of such an expensive plane?
- Because de Havilland **failed to do an adequate user analysis**, two American companies, **Boeing** and Douglas, took over the commercial jet-aircraft industry.



7. New knowledge (cont.)

- This is why Drucker said, “Contrary to almost universal belief, **new knowledge is not the most reliable or most predictable source of successful innovations.**”
- For all the visibility, glamour and importance of science-based innovation, it is **actually the least reliable and least predictable one.**”



exam prep
and practice

examples of types of exam questions

1. simple questions (3 minutes)
2. shorter questions (15 minutes)
3. essay-type questions (30 minutes)

example exam questions

simple questions (3 minutes each)

complete the following statement about innovations:

1. Keep it simple - “All innovations are breathtakingly _ _ _ _ _”
2. _ _ _ _ try to appeal to everyone - choose a niche.
3. According to Drucker (1985), there are _ _ _ _ _ sources of innovative opportunity

example exam questions

essay-type questions (30 minutes)

Drucker's seven sources of innovative opportunity are 1. The unexpected, 2. Incongruities, 3. Process need, 4. Market structures 5. Demographics, 6. Changes in perception, meaning, or mood, 7. New knowledge

example #1

Where does innovation come from? Give examples of ideas and opportunities

example #2

Choose and explain three (3) sources of innovation?

suggested answer length in an exam: write for 20 to 30 minutes

example exam questions

short questions (15 minutes)


example #1

Choose and explain one of the seven sources of innovative opportunity?

example #2

What have you learnt from the first half of the course?

*suggested answer length in an exam: : write one or two paragraphs
(15 minutes)*



Thank you!
any questions?