



Frameworks for Exploring New Business Opportunities

Entrepreneur Success Series

Resource Note # 6

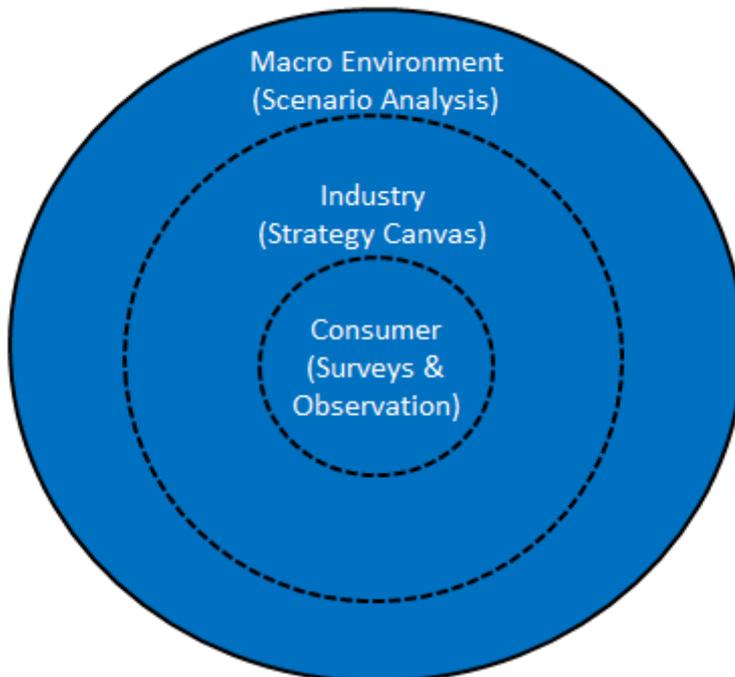


Frameworks for Exploring New Business Opportunities

Frameworks play important role in channelizing scientific and creative efforts. In last edition of Sattva we presented Peter Drucker’s framework for sources of innovation ideas. In this edition we go a step ahead and present frameworks for exploration of new business opportunities. The opportunities can be viewed from two lenses. First, an internal lens from the business side, and second, an external lens which focuses on macro environment, industry & consumers. The internal lens is useful in the context of an existing business organization, whereas external lens can be deployed by both new as well as existing enterprises. Hence, we focus our attention on external lens.

New business opportunities can be spotted by looking at consumer behaviour, the manner in which a given industry operates or by scanning the macro environment. Exhibit 1, shows the three sources along with some of the relevant tools & techniques.

Exhibit 1: External Sources of New Business Opportunity



(Source: DELTA M Management R&D Lab)

1. Study of Consumer Behaviour to Spot Opportunities

Here in we use the term consumer and customer interchangeably. One can think of three types of consumers: household consumers, institutional consumers and government as consumer.

Institutional consumers include business as well as non-profit organisations. Each category of consumers exhibit unique behaviour and follow different styles of decision making. Further, within each category the behaviour varies across products and services. For instance, a business consumer requires a range of products and services like capital items (e.g. plant & machinery), raw material & parts and supplies & services. Some of these constitute what is called as ‘non-strategic purchases’ for business buyers. In a research carried out by Anderson, Narus and Wauters, it was found that purchasing managers from business organisations who are responsible for ‘non-strategic purchases’ follow different style than other fellow purchasing managers. Once they have narrowed down a few suppliers that meet basic specifications and are within acceptable price range, the purchasers look for what are called as ‘tie breaking justifiers.’ These tie breakers are not additional features or further price concessions but a noteworthy extra whose value is self evident and can enhance purchasing manager’s standing in their organisations. For example, a distributor of standard technical parts who can put labels with the customer’s own part number on packaging, eliminating the hassles and cost of translating the distributor’s numbers to the customer’s inventory system.

While such differences in behaviour do exist, there are some commonalities which can be used to identify new business opportunities. The opportunities may emanate in the form of *unfelt*, *unmet*, *under-served* or *over-served* consumer needs. Unfelt needs are the ones that the consumer does not realize or even if s/he realizes s/he is unaware of any product or service that can satisfy such a need. For instance, 3 –D Printing technologies may serve the needs of a manufacturer who is facing problem of rising labour costs but is simply unaware of such a technology. Sony’s Walkman is another such example.

At times the consumer is aware of a problem that needs solution but such a product either does not exist or it is not available easily. For instance, cure for cancer patients in advanced stages is an unmet need.

Under-served needs exist when solution to a problem is sub-optimal. At times consumers are not even aware that they are using is a suboptimal solution or they might have learnt to live with it. For instance, LED lighting is more efficient than other forms of lighting.

At times, consumers have no choice but to use such products & services that have extra features, which consumer do not require but have to pay for. Such situations of over-served needs often lead to what are called as ‘disruptive innovations.’ Clayton Christensen cites example of computer hardware industry in which IBM kept on improving performance of its mainframe computers while other developed computers with lower capacity. Low cost airlines satisfied needs

of family travellers and entrepreneurs who were unwillingly paying higher prices for flying by full service airlines.

Answer to following questions can help in identifying new business opportunities.

- What are the trends in consumer spending pattern? Which products & services account for how much share of consumer's wallet?
- Are there any functional / emotional / social / epistemic (variety, novelty) / conditional benefits that the consumer appears to be deprived of?
- Is he aware of such deprivation? If he is aware or becomes aware, does this deprivation bother him? How much priority he accords to such a need?
- Is the consumer paying unjustified higher price for searching / switching (from old to new practice / product / supplier or brand) buying / using / disposing the product?
- Is s/he aware of this? If s/he is aware or becomes aware, does this bother him/her? How serious & urgent is this issue for him/her?
- Which product categories and competitors does the consumer consider and choose? Which alternatives are not considered by them? What choices are they unaware of?
- How does a consumer evaluate various solutions? What are important factors?
- How are consumers currently satisfying chosen felt needs? To what extent are they satisfied with current solutions?
- What are the pain points? What are consumer anxieties, irritations & frustrations? What compensating actions does s/he engage in to overcome these? How successful has s/he been and why?
- What is the nature of the ideal experience the consumer wishes to receive? Does s/he expect same experience in varying situations? Or does s/he expect change depending on situation?
- What, When, How, How much & from Where does the consumer buy current solutions?
- Are there any such 'felt consumer needs' for which no solutions exists as on date? Can you do something about it?

Following framework proposed by Kim and Mauborgne can also be used to identify blocks to consumer value in various stages. This in turn can lead to identification of new opportunities.



Exhibit 2: Blocks in Consumer Value

Consumer Journey Stage →	In which stage are the biggest blocks					
	Purchase	Delivery	Use	Supplements	Maintenance	Disposal
Consumer Concern						
Consumer Productivity						
Simplicity						
Convenience						
Risk						
Fun & Image						
Environmental Friendliness						

(Source: Kim W.C. and Mauborgne R. (2005). *Blue Ocean Strategy*. Harvard Business Press. p. 124)

1.1 Techniques for Studying Consumer Behaviour

Consumer behaviour research techniques can primarily be classified into two categories.

- (i) Surveys: This involves designing of questionnaires and asking questions.
- (ii) Observation: Method of ‘asking questions’ has its limitations. The other option is watching consumers in action and identifying behaviors of which they may be unaware. “Empathic design” is a set of such techniques. These are based on observation (watching consumers) rather than inquiry (asking consumers), and unlike traditional lab-based usability testing (which typically involves observing consumers using a product in a laboratory), empathic design research is conducted in the environment where the consumers would commonly use the product.

Empathic design can yield the following five types of information that are not ordinarily revealed by traditional techniques:

- Triggers of use: What circumstances cause people to use a product?
- Interactions with the users’ environment: How does the product fit with users’ environments and habits?
- User customization: Do users redesign the product to fit their needs? If so, how?





- Intangible product attributes: Intangible attributes may be important in creating an emotional bonding with the consumer.
- Unarticulated user needs: Observation can discover unarticulated user needs that can be easily fulfilled, but nobody might have thought about it.

Some experts suggest creating a User & Buyer Persona which provides a composite of typical buyers of the product including the goals, concerns, preferences and decision process. The demographics and general activities of the buyer are not the primary objective of developing buyer persona. The most important insight about a Buyer Persona is the answer to this question -- what prevents the buyer from realizing their goals? Is an appropriate solution not available? Is competition too expensive, too complex, or inadequate in some way? Is there no technology solution at all?

2. Analysis of Industry to Spot Opportunities

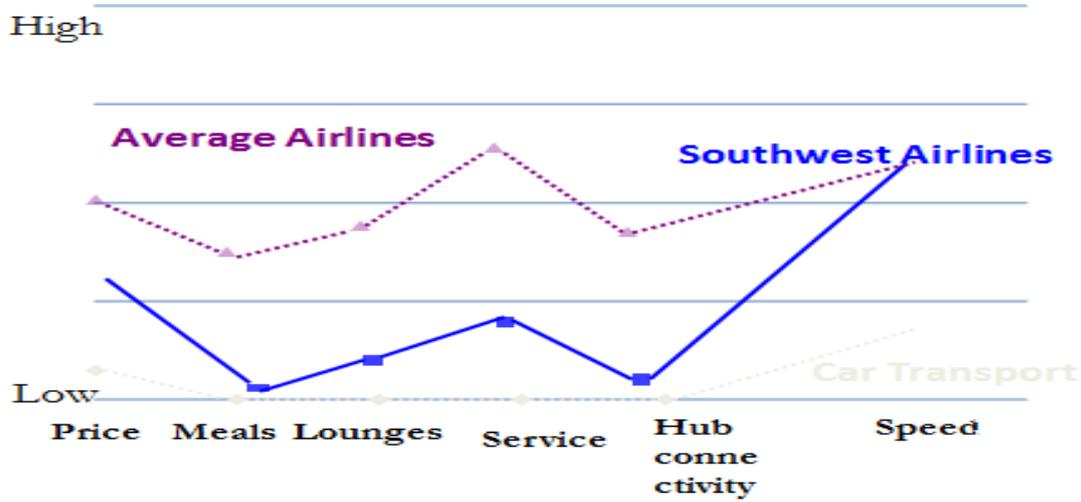
Like study of consumer behaviour, study of industry strategies, policies and practices can reveal new business opportunities. In order to identify specific opportunities for value innovation and there by creation of new markets, Kim and Mauborgne have developed the concept of Blue Ocean Strategy (BOS). They distinguish it from Red Ocean Strategy which focuses on gaining market share from existing demand within an industry. Blue Ocean Strategy focuses on increasing the market demand itself. Strategic Canvas and Four Action Framework are two important tools of BOS which help in creating new opportunities.

A Strategy Canvas can be drawn as follows:

- Identify & plot important factors on which the industry currently competes on X – axis.
- Rate performance of competitors as well as your organisation as low, medium or high on each of these factors.
- Join points to get value curves.

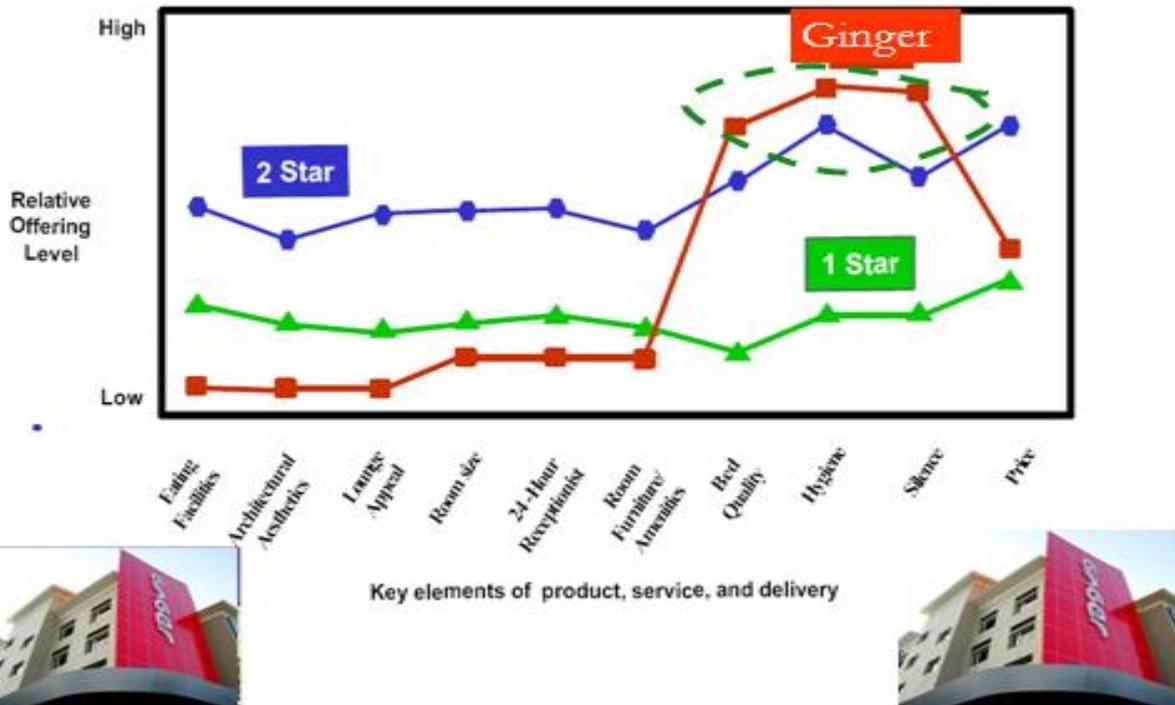


Exhibit 3& 4 show a Strategy Canvas for South West Airlines and Hotel Ginger respectively. Exhibit3: Strategy Canvas of South West Airlines



South West Airlines intentionally opted for lower performance on parameters such as Lounges, Service and Hub Connectivity, where as eliminated free Meals. Resulting lower prices created a blue ocean by attracting new first time flyers. A similar experiment has been tried by Tata group in India in Hotel industry.

Exhibit 4: Strategy Canvas – Ginger Hotel Chain

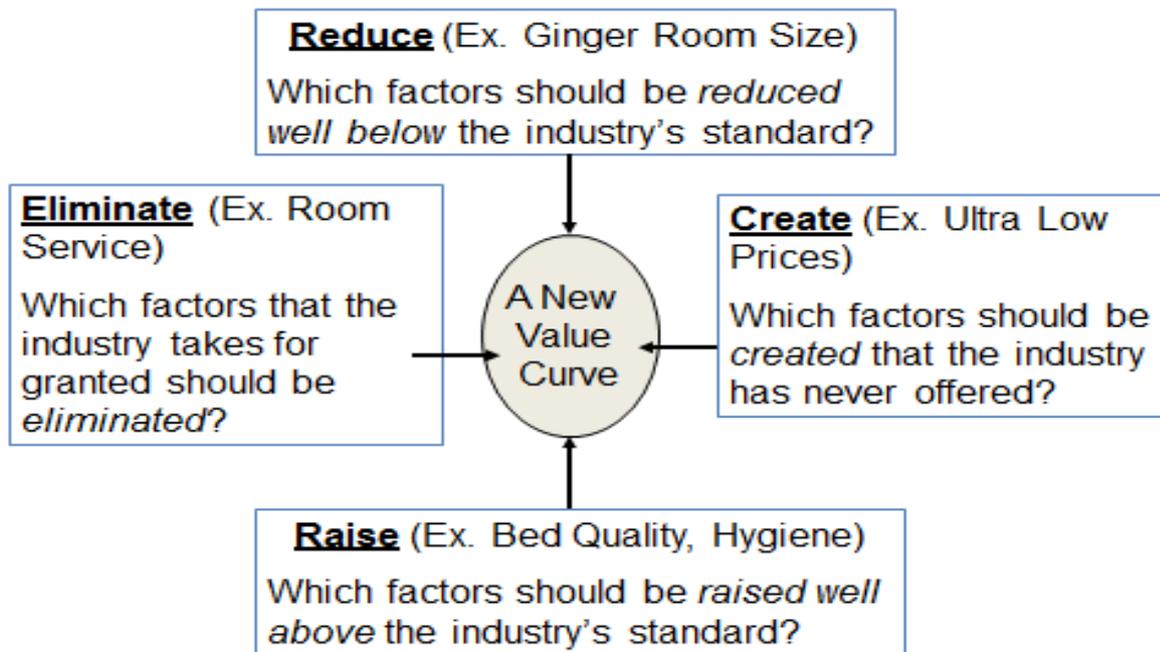


Key to designing a new strategy canvas involves asking following four questions:

- What can be eliminated from what competitors are doing?
- Where can we reduce performance standards?

- Where can we raise performance standards?
- Can we create a new performance criterion which no one has thought of?
- While the act of elimination and reduction results into cost saving, the act of increase & creation of new criteria adds customer value. This leads to ‘value innovation.’

Exhibit 5: Four Actions Framework – Ginger Hotel Chain



3. Analysis of Macro Environmental Trends to Spot Opportunities

New business opportunities can also be located through careful observation and analysis of macro external environmental forces. An INR - PRESIDENT framework can be used for analysis of macro business environment.

3.1 INR - PRESIDENT Framework

The acronym PRESIDENT stands for Political, Regulatory, Economic, Social, Infrastructural, Demographic, Environmental, NGOs & Technological factors that influence business. Effect of each of these factors can be analysed systematically by assessing whether these factors are likely to have a positive or negative impact on market demand for its products & services. Positive developments in the external environment create ‘opportunities’ while negative ones pose ‘threats.’ For instance, Government of India’s demonetisation decision followed by increased emphasis on digitalisation since November 2016 has opened up new business opportunities for debit / credit card swiping machines, plastic material required for making these cards, internet

connectivity etc. Similarly implementation of Goods & Services Tax in India from July 2017 has opened up new opportunities for taxation advisors & accounting software firms.

The macro environmental factors need to be monitored at International, National & Regional level (INR). Impact of needs to be understood specifically at three levels:

- How will it affect number of potential consumer for a product / service idea?
- Will this development cause change in consumption quantity per consumer?
- How will it affect the price which consumers will be willing to pay for a product / service?

Exhibit 6: Macro Environmental Forces and Market Demand

Factors			Components of Market Demand		
International	National	Regional	Number of Consumers	Quantity per Consumer	Per Unit Price
Political					
Regulatory					
Economic					
Social					
Infrastructural					
Demographic					
Environmental					
NGOs					
Technological					

(Source : DELTA M Management R&D Lab)

From new business opportunity point of view some of the important pointers under each factor are as follows.

- Political : Government institutions at various levels like Centre, State, District, City, Town, Village; political parties & their ideologies; political stability; government policies related to various sectors of business, employment, agriculture, health, education, law & order; identified priority sectors; political relationship with other countries; international trade policies & practices etc.
- Regulatory: Various regulations & laws related to ownership, operations, marketing, intellectual property, employees, costs, taxation & processes etc; judicial system; regulatory institutions & their style of functioning.
- Economic:

Macroeconomic conditions - Size of economy, contribution of various sectors like Agriculture, Manufacturing & Services, rate of GDP growth, rate of inflation, exchange rate; etc

Microeconomic conditions - Size, type and ownership of firms; rate of investment in various sectors, financial performance of companies, changes in economies of scale/structure of key industries etc.

Market demand structure – Government & business market size for various products & services; export demand for various products & services, country mix in export basket; household consumption market for various products & services, urban & rural market size, per capita income, spending patterns of consumers (urban/rural, national/regional); impact of the informal sector, sources of competition (national, regional, international);

Impact of global economy and development - Volume of assistance from multilateral and bilateral agencies, conditions for assistance (policies, requirements)/harmonization; risk tolerance and conditions for entry and exit by international firms, stake in local economy by international firms etc.

- Social: Cultural norms & behaviours of various religions, regions, castes, communities; educational levels; social peace; civic liberties & civic discipline; openness etc.
- Infrastructural: Current state of infrastructure & future plans related to road, rail, aviation, ports, transport apparatus, communication, thermal, hydro, solar, wind, nuclear energy, extent of electrification, availability of power, mining, water, sanitation, health care facilities, primary, secondary & higher educational facilities etc.
- Demographic: Trends in population and its break up into various age, gender, educational, income, occupational, religious, ethnic groups etc.
- Environmental: Major environmental issues & concerns, environmental foot print at different stages of consumer behaviour beginning with product search to post use disposal.
- NGOs: The NGO activism is not restricted to only traditionally environmentally sensitive industries like Mining, Metals, Oil, & Chemicals etc. Activism of NGOs goes beyond environmental concerns and can open up new business opportunities.
- Technological: Impact of technology needs to be viewed in all areas such as production & operations, communications, transportation, product design, sales & distribution etc. For instance, the US hearing aid industry has converted to 100% 3-D manufacturing technologies in less than one & half years. All those companies which did not adopt the new technology are out of business today. GE Aviation has switched to manufacturing of the fuel nozzles of



certain jet engines using 3-D printing. This is likely to cut manufacturing cost by 75%. The 3-D printing has also been used in large object manufacturing context. Entire body of drones, the unmanned aerial vehicles, are now being manufactured using 3-D printing.

Technological developments need to be seen not only from business side but also from the lenses of society in general & customers in particular.

3.2 A partial list of sources of data on business environment:

- International Agencies such as World Bank, IMF, WTO, OECD etc.
- Census reports of various governments
- Private Syndicate Data Providers such as Euromonitor, AC Nielson etc.
- Trade Associations such as Telecom Regulatory Authority of India (TRAI), Society of Indian Automobile Manufacturers (SIAM)
- Management Consultancy Firms such as McKinsey, BCG, Bain etc.
- Investment Advisory Firms such as Goldman Sachs, Ernst & Young etc.
- Publications of Universities & Educational Institutes such as Harvard Working Knowledge Series, Knowledge at Wharton etc.
- Annual Reports of Competitors
- Business & Sector Specific publications & General Press

At times, a change in an individual factor in the environment creates a new business opportunity. For example, during meetings of Presidents, Prime Ministers or other important functionaries of two countries announcements of developmental assistance or soft loans are often made. If a would be entrepreneur keeps close watch on such announcements s/he may be better prepared to explore new business opportunities in varied areas such as rail infrastructure, power plants, water purification projects, educational projects etc.

While opportunities may be created by a single factor, the exploitation of opportunity is affected by multiple factors. Hence, entrepreneurs need to project future state of all important factors in external environment that are likely to impact the outcome. What adds to the challenge is the fact that impact is created by a combination of various factors. Understanding such impact requires imagining various possible states of each factor & their combined effect. This is accomplished through Scenario Building techniques.

3.3 Scenarios

Scenarios are description of journeys to possible futures. They reflect different assumptions about how current trends will unfold, how critical uncertainties will play out and what new factors will





come into play. General Electric & Royal Dutch Shell were among the pioneers in use of scenario analysis.

Scenarios are based on assumptions arising out of mental models that reflect different perspectives on past, present and future developments. Scenarios account for uncertainties and possibility of new factors coming into play. That is why scenario building process should not be considered as a “true” knowledge of the future; rather, they are merely glimpses of “possible” futures.

Scenarios depict joint effect of the environmental factors in future. This is like combining various possibilities of each factor and coming out with several possible scenarios. As one moves from present to future, each factor may play out in several possible ways.

There are three alternative assumptions about understanding of future. *First*, the future is ‘predictable’ from the current & past state of environmental factors. Hence, more information one collects about the past & present, better he is at predicting the future. *Second*, the future ‘evolves’. It follows a chaotic, uncontrollable & random path. Hence, knowledge of present is inadequate to predict the future. *Finally*, the future is thought to be ‘malleable’. Though future events are unpredictable, they are not completely uncontrollable also. Organisations can at least partly influence the future.

Scenario methods can be best practiced by combining the three paradigms. Hence, quantitative techniques have their limitations in Scenario analysis. One needs to combine these techniques with qualitative analysis, imagination and creativity.

Boston Consulting Group proposes following phases of scenario development.

(i) *Identification of Scenario Field*

This phase involves defining precisely for what purpose scenarios are to be developed. What specifically is the issue / problem to be dealt with? What must be integrated? Where are the limits, what is to be left out of consideration?

(ii) *Identification of key factors*

Key factors are those variables, parameters, trends, developments, and events which receive central attention during the further course of the scenario process.

(iii) *Analysis of key factors to generate hypotheses*

In this phase individual key factors are subjected to analysis to find what possible future salient characteristics are conceivable in each case. Statistical data & quantitative techniques need to be combined with managerial intuition and creativity.

(iv) *Scenario generation*



Scenarios are nothing but consistent bundles of factors which are brought together, selected, and worked up into scenarios. Although many scenarios are theoretically conceivable, the number of scenarios which can be processed cognitively is limited. Generally suggested number is 4 to 5 scenarios at a maximum for any one scenario field.

It needs to be remembered that none of the scenarios may unfold in entirety. But they provide a framework within which entrepreneurs can evaluate their current strategies & plans and imagine the radical new ones. The scenario building process helps in picking up 'weak signals' and at times this makes a big difference to the strategic management.

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