

THE BIRD-IN-HAND PRINCIPLE: WHO I AM, WHAT I KNOW, AND WHOM I KNOW

Not all ideas are great opportunities—take, for example, New Coke or the Ford Edsel. Yet someone thought enough of it to actually invest in it and produce it. Understandably, most novice entrepreneurs, especially those who have good job market prospects, tend to worry a lot about finding the “right” opportunity.

Idea versus Opportunity: Assessing Feasibility and Value

There are several frameworks in textbooks, trade books, journal articles, periodicals, and on Web sites that claim to predict the feasibility and value of new venture ideas. **Figure 1** depicts a simple and useful summary of four key concepts at the heart of many of these frameworks:

1. Is it doable? (technical feasibility; market feasibility)
2. Is it worth doing? (financial feasibility)
3. Can *I* do it? (Who else do I need? Organizational feasibility)
4. Do I *want* to do it? (Why do I want to do it? Motivational and exit feasibility)

If answers to all four are positive, the entrepreneur can confidently proceed.

The first two elements have to do with external factors such as the technology of the time and the market environment for the business idea. The last two are internal, depending on the personal circumstances and motivations of the entrepreneur making the decision. Below is a list of questions within each of the four quadrants of **Figure 1**. Among the techniques recommended for answering these questions are market research based on surveys, focus groups, interviews and demand forecasting, and so forth; risk evaluation and risk reduction strategies; and financial pro formas with sensitivity analyses and the like.

Figure 1. Framework for assessing whether a new venture idea is a good opportunity.

	FEASIBILITY	VALUE
MARKET	Is it doable? Technical feasibility Market feasibility	Is it worth doing? Financial feasibility
YOU	Can I do it? What will it take to do it? Who else do I need?	Do I want to do it? What turns me on about it? Why do I want to do it?

Is it doable?

Technological feasibility

- Is the technology for your product already available, or is it still in development?
- If the latter, what stage of development is it in and what can go wrong?
- If the former, is anyone else using it to develop the same product/service as you?
- If not, why has no one done so yet?
- If so, who are they and how does that affect your prospects?
- What kind of entry barriers for the future does your technology provide?
- How long would those entry barriers last should your idea prove to be a high potential opportunity?
- What are your technological risks? List reasons why the end user might not want to use your technology even though your product/service might be technologically superior.
- What other nascent technologies might become competition in the future—one year from now, five years from now, a few decades from now?

Market feasibility

Product

- What exactly are you selling?
- Is it a technology looking for a market or vice versa?
- How do you define your niche?
- How is the need being filled now?
- Who/what is the competition?
- Advantages/disadvantages of the product/service
- Why your product? (differentiation/uniqueness/proprietary)

Customer

- Who is your customer? (a typical profile)
- Will the customer pay enough? Can you charge enough?
- What critical factors will lead you most quickly to your customer base?

Market

- How large is the market?
- What is its structure?
- How fast is it growing?
- Where could future competition come from?

Economic feasibility

- Are there any obvious roadblocks from the government—both local and national?
- Is the international situation likely to change?
- What is your exit strategy?

Timing

- Are you in the path of a paradigm shift?
- Are you too far ahead of the times?
- What is the shape and duration of the “window” for this opportunity?

Is it worth doing?

Financial feasibility

- What are the initial outlays of funds required?
- What would convince an investor to contribute those funds?
- If you personally owned those funds, would you invest them in this idea?
- How is the financing connected to the timing issue? (breakeven, burn rate)
- Develop a set of financial forecasts.
- State the primary financial assumptions for your projections.
- How sensitive are your projections to changes in price, technology, competition, and your own growth?
- Develop best-case and worst-case financial scenarios.

Can I do it?

What is it going to take?

Every idea is different in terms of exactly what it would take to build it into a business. But some general negative expectations might include:

- Long and often unpredictable work hours
- Setbacks and disappointments along the way including the possibility of major failures
- An arduous and sometimes awkward learning process with regard to dealing with people—including hiring and firing
- Negotiating tough contracts
- Dealing with rejections of various types
- Sustaining the best stakeholders through bad times such as cash crunches

A realistic understanding of some of the negative experiences, combined with a strong positive motivation is considered the essential recipe for long-term success in entrepreneurship.

Why you?

- What special strengths do you bring to this enterprise?
- What are your relevant weaknesses and how will you overcome or compensate for them?

Do I want to do it?

- Does it turn you on?
- Why do you want to do this—*really*?
- What are your exit strategies?

The established myth about the motivation of entrepreneurs is that they want to make money. And in many cases, entrepreneurs do start out with the idea of making money. Indeed, entrepreneurs are very good at keeping their eye on the bottom line at all times. Yet, most entrepreneurs quickly face the fact that making money is but one necessary condition—not even the most necessary condition—for successful entrepreneurship. Rather, making money is a positive side effect of bringing together and managing resources and people to accomplish something realistically doable and worth doing. Therefore, in building a robust business organization, an entrepreneur has to want more than merely to make money. He or she has to find more immediate reasons for getting up in the morning and facing the daily tasks of entrepreneurship.

Some common motivations mentioned by successful entrepreneurs include:

- A desire for independence: “I did it my way” or “I do not want to work for someone else”
- Fulfilling needs in the world: making a positive contribution to society
- Lifestyle: For example, a successful couple from Wall Street who give up high-paying jobs to start a bed and breakfast in Vermont
- A sense of accomplishment: “I did it because I could” or “I wanted to prove to myself I could do it.”

While the framework discussed here is both useful and valuable in thinking through whether to invest in a new venture idea or not, it might be important to also ask the question: *to what extent do actual entrepreneurs use such frameworks in starting new ventures?* Moreover, what does research tell us about how *expert* entrepreneurs came up with the ideas that have resulted in enduring companies?

Ideas and Opportunities: What Research Tells Us

One clear fact emerging from research into entrepreneurial expertise as well as early-stage histories of new ventures is that it is not possible a priori to know with any certainty that an idea will actually turn out to be a good business opportunity. In fact, successful entrepreneurs and experienced investors state that there is only one way to determine beyond doubt whether a given idea is a good business opportunity—and that is to go ahead and implement it creatively at very low levels of investment and either find real customers who actually buy the product or service at a reasonable price, or to locate partners willing to commit real resources to the venture early on, or ideally, both of these. That implies that opportunity assessments cannot merely consist of secondary market research or pure armchair analyses. Instead potential entrepreneurs have to talk to customers and other potential stakeholders directly, understand them viscerally, and bring them on board as soon as possible.

This insight from entrepreneurship research is consistent with what we know about new product development and organic growth in established companies. Eric von Hippel at MIT examined the sources of *successful* invention in large corporations. And even there he found that the overwhelming majority of new ideas that actually turned out to be profitable product lines came not out of R&D departments, but out of customer inputs such as complaints and suggestions piped in through support and service departments. Similarly, most enduring new ventures did *not* come from the original ideas upon which they were founded. For example, FedEx began with the idea of delivering spare parts, RealNetworks began as an interactive television channel, and at first it did not strike the founders of Starbucks to even brew a cup of the exotic coffee beans and ground coffee they were trying to sell. In fact, most successful entrepreneurs find that they have to abandon the opportunity they first perceived and be willing to change their “vision” in response to external feedback and stakeholder negotiations, both in the early stages and as they grow.

In general, expert entrepreneurs emphasize action rather than analysis. The history of entrepreneurship includes several examples of entrepreneurs whose ideas were not considered blockbuster opportunities, but who went ahead with mundane ideas and built successful businesses simply by *doing* the next thing and the next thing and the next. Expert entrepreneurs are means-driven and not goal-driven in formulating their venture models. The more experienced they are, the better they become at using readily available bits and pieces of ideas and resources—the bird in hand—to create amazing new possibilities they themselves had not dreamed about, including new strategies, new business models, rapid responses to changes in the environment, valuable new applications for mundane technologies, and even new markets that no one quite knew existed or could exist.

The Bird-in-Hand Principle

In a cognitive science–based investigation into the thinking processes of founders of public companies, ranging in size between \$200 million and \$6.5 billion, whose résumés included more than 15 years of multiple startups, it was found that subjects started with a given set of means, rather than a predetermined goal or an opportunity to which they were strongly committed. That was the case even when they were provided with strong market research data supporting a clearly defined opportunity. In fact, starting with exactly the same “opportunity,” the 27 expert entrepreneurs ended up building a variety of different ventures in 18 completely different industries!

Three categories of “means” emerged from the data: their identity, their knowledge base, and their social networks. In simpler words, each expert entrepreneur started with: (1) Who am I? (2) What do I know? and (3) Whom do I know?

To see how this means-driven process works, consider some examples from the history of entrepreneurship. One of the earliest and most enduring brands created by an entrepreneur (in the modern sense of the word) dates back to 18th-century potter Josiah Wedgwood. Pottery, of course, had existed since the dawn of history. And being born into a potter family, there was nothing sensational about Wedgwood’s becoming a potter. But early illness made him less suited to the hard work of actually making pots and forced him instead to work on design and decoration. This then led him to develop a taste for innovation, and over several years of accumulated knowledge, the ability to produce high-quality pottery. When laid up with a broken leg, his doctor introduced him to the “gentleman-philosopher” Thomas Bentley. Wedgwood and Bentley had great chemistry and became good friends. Over time, through their myriad conversations, they began to understand the importance of “social mobility”—the dawning realization in 18th-century England that peasants or other commoners need not die in the class in which they were born. Inspired by the possibilities of pushing this reform agenda, Wedgwood set out to make his pots the quintessential symbol of social mobility. Through a variety of painstaking strategies they got royalty to buy and endorse their wares. Then they got English men and women to see that they could own the very same vases and plates the nobility owned, thus taking a tiny but crucial step out of the station into which they were born. Wedgwood’s brand embodied the deepest aspirations of their customers—and the venture thrived and became one of the most enduring companies in the world.

Similar stories populate the recent history of entrepreneurship as well. Be it Sears, Staples, Starbucks, or CNN, the entrepreneurs who founded them worked closely with their means to shape step by step the great opportunities they ended up with. The beginnings of those opportunities, however, were usually rooted in the way entrepreneurs wove together the mundane realities of who they were, what they knew, and whom they knew into doable projects that they personally believed were worth doing. Those enduring ventures tended to start small, without elaborate market analyses. The entrepreneurs then continually added on to their original projects, pushing them outward, reshaping them to work with new stakeholders, stretching

themselves—just a bit at a time, to reach higher and thrust farther—until eventually they had transformed both their means and ends into unimagined new possibilities.

Sticking very closely to who you are, what you know, and whom you know not only tells you what to do, it is also very useful in telling you what *not* to do. The problem with most novice entrepreneurs is not that they do not have great new ideas for ventures, it is that they have too many. They see opportunities everywhere and feel tempted to expand product lines too soon or jump into too many new market segments all at once. Especially if they have some initial success, it is easy to feel prescient (i.e., to believe they can clearly predict the future) as well as omnipotent (i.e., to believe they can achieve the improbable).

The bird-in-hand principle does two things: (1) It tells you that you need not wait for the blockbuster idea or the multibillion dollar opportunity to come your way. You can begin with a simple problem for which you see an implementable solution—or even something that you simply believe would be fun to attempt—and go for it; and (2) it also tells you not to run after all kinds of imagined “fantastic” opportunities that require you to chase money you do not have, work with people you are not sure you like, or deal with technologies and markets about which you know little and so have to run breathlessly to keep up with. In other words, when you use the bird-in-hand principle, starting a new venture is no longer an incredibly risky act of heroism. It is something you can do within the constraints and possibilities of your normal life. You can start a new venture *anytime* you want. You can get started *now*.

DO NOT