

*The Wharton School
The University of Pennsylvania
Philadelphia PA 19104*

ENTREPRENEURSHIP AND VENTURE INITIATION

Management 801

Course Syllabus

Fall 2002

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I. OVERVIEW AND PROCEDURES

The purpose of this course is to explore the many dimensions of new venture creation and growth and to foster innovation and new business formations in independent and corporate settings. We will be concerned with content and process questions as well as with formulation and implementation issues that relate to conceptualizing, developing and managing successful new ventures.

The **four main learning objectives** of the course are:

- (1) *“Experience the process”*: identify and pursue a business opportunity in either an independent or corporate setting with a team of motivated peers.
- (2) *“Write a plan”*: develop a business plan for a new venture.
- (3) *“Analyze the problems”*: ponder some fundamental issues related to venturing and learn to assess the risks, challenges and rewards involved in the venturing process
- (4) *“Meet practice”*: learn from the experiences of seasoned entrepreneurs and financiers, get feedback from professionals, and acquire practical knowledge and tools.

The emphasis in this course is on applying and synthesizing concepts and techniques from the functional areas of accounting, finance, managerial economics, marketing, operations management, and organization behavior in the context of new venture development. Further important pedagogical objectives of the course are:

To acquire the knowledge and spirit for venturing

To sharpen your ability to spot and evaluate opportunities for a personal business

To think creatively and to solve problems in highly unstructured situations

To examine the totality of a business proposal rather than concentrate purely on its strategic aspects or financial feasibility

To enjoy the advantages of peer-group review and feed-back during the planning phases of a venture as counter to the “self-encouragement” syndrome

You will be challenged to shift from being a receiver of ideas, facts, concepts and techniques, to a style of generating ideas, identifying problems, analyzing and evaluating alternatives, and formulating workable action plans, thus putting theoretical knowledge into practice.

You will get this hands-on experience in the following ways:

Through the formation and ongoing work of a venture team that will develop a comprehensive Business Development Plan for a selected start-up. Teams are expected to utilize whatever tools or analytical approaches are appropriate for their venture.

Through our lectures and guest lectures which are designed to familiarize you with the many dimensions of entrepreneurship and new venture development. In most classes, we will devote some time (usually the first part of the class session) to lecturing on specialized topics, which are listed in the enclosed syllabus. There will be expert guest speakers on several topics, to be decided depending on the experts' schedules. Details will be announced in class. There will have to be some flexibility in this lecture schedule to accommodate guest speakers' schedules, though we plan to cover all of the listed topics during the semester

Through class discussions on the cases that are included in the course package.

You are expected to come to class well prepared to discuss the case studies that will be assigned periodically.

Through analyzing and constructively criticizing actual business plans. As well, in some class meetings, we may ask selected venture teams to present a progress report to the class. The class will then react and comment on the presentations, serving as a sounding-board of consultants, venture capitalists or executives from a parent corporation.

By the end of the course you should be well equipped to: (i) write an effective and professional first class business plan; (ii) to assess whether the entrepreneurial route is for you; and, if it is, to embark with confidence on the process of converting dreams and aspirations into reality.

The course may not only appeal to individuals who have a strong desire to become entrepreneurs, but also to those who consider joining start-up companies as employees (as an alternative to considering jobs in consulting, investment banking, or

established firms.) Similarly, students who intend to work in the venture capital industry or in professional businesses supporting entrepreneurial firms may benefit from the course. In both the U.S. and Europe, there are growing communities of individuals who provide financial, marketing, strategic, and operational assistance to entrepreneurial businesses.

In this course, a **new venture** is defined as a start-up business with a high growth potential that distinguishes itself from existing companies through innovation – for example, through an innovative product or service, an innovative production process, a new business model, or a new market. You are expected to “stretch yourself” and identify currently unmet or inefficiently met customer needs that your start-up addresses. Your business concept should require careful analysis and definition of, among other things, customer needs, product and service offering, markets and strategy, marketing, operations, financials and financing. In addition, your new venture should have the potential for wealth creation beyond the prospect of providing a “normal” salary for its founders.

The contribution of this course to your management development (i.e., what you can expect to learn or how much you will learn) as well as the usefulness of the course in your ensuing professional career depends, to a large extent, on the following:

- The commitment of your team to the selected venture idea.
- The level of effort you and other members of your team put into turning the idea into a business.
- The cohesiveness of your team (i.e., how well you work together).
- And the overall atmosphere in the class.

You are encouraged to make use of a wide range of information sources available on the internet in order to increase your effectiveness in performing market research and competitor analysis.

II. READINGS

Required readings:

Included in the case packet.

Course Textbook:

Entrepreneurial Mind Set MacGrath and Macmillan HBS press 2000.

III. THE VENTURE TEAMS

Course participants are required to form new venture teams of **five** students whose talents, skills and knowledge (in the ideal case) are complementary. The formation of teams can take part during or before the first two class sessions. **Extensive group work outside of class is an essential part of this course.** Other factors crucial to your team’s functioning are the management and coordination of group effort by appropriate means (telephone, e-mail, sub-group meetings, etc.). Each team will produce a written Business Development Plan as its major final product and will make periodical formal presentations of its progress. Specifics about these presentations are given below.

To ensure that the class is highly interactive, each student is asked to bring the Name Plate to each and every class meeting.

IV. TEAM REQUIREMENTS: PRESENTATIONS AND WRITTEN SUBMISSIONS

As stated above, each student will be a member of a team involved in developing and presenting a comprehensive **Business Development Plan (BDP)** for a new venture. The content and organization of the BDP will be discussed in class. There are three different **presentations** that are expected as follows:

A. VENTURING INTERESTS AND IDEAS: INFORMAL PRESENTATION

Due Date: September 18th.

Description:

In a maximum 5-minute presentation, participants will be given an opportunity to introduce themselves and share with other students their venture ideas. The objective is to attract four other students to join your team. PowerPoint presentations are NOT advised for this presentation– you will get no more than 5 minutes including set up. At the end of the presentation, write a memorable short venture name and your e-mail address on the board.

B. SUBMISSIONS PRESENTATIONS OF VENTURE CONCEPTS

Due Date: September 30th

Description:

Each venture team will be working on a business idea either independently or in cooperation with a company. By choosing a venture concept you make an irreversible decision for the term. You should therefore make sure that all team members are **deeply committed and dedicated** to exploring the selected idea. During this class meeting, is team asked to **submit** a brief description of the venture concept that should include:

The name of the proposed venture

Names, telephone #, e-mail addresses, background and experiences of the venture team (the students in the class). Also, name(s) and phone/fax number(s) of contact person(s) in the company you work with (when applicable)

A brief explanation of the unfulfilled need that will be satisfied, or of the future market that will be created

A brief description of the product/service concept

A brief description of the perceived business and revenue models (i.e. how will you create and capture value)

A brief rundown of the key concerns or risks

Other relevant issues

Submission Requirement:

Each team should submit a typed, double-spaced, and stapled, write-up of up to **three** pages. (Note: One page is acceptable, if it suffices to provide all of the vital information.)

**Note: Restaurants, Management consulting service businesses, real estate development projects, or investment fund businesses will not be permitted for this course.*

C. FINAL PRESENTATION AND BDP SUBMISSION

The final products of each team are the Business Development Plan (BDP) and the final presentation of the proposed venture.

Written Submission Due Date:

December 2nd, 2002 by 12:00 pm (noon)

4 Copies of the BDP must be submitted

Submission Requirements:

Each team needs to submit the following:

- **FOUR** copies of the BDP.
- Late submissions will NOT be accepted. No excuses.
- BDP Format Requirements: double-spaced, Font: Times Roman; Size: 12 or larger, 1" margins, stapled, pages numbered sequentially. **Note: any deviation from these requirements will result in a discretionary grade penalty**
- While there are no minimum length requirements, the final BDP must not exceed 30 double spaced pages including all tables, charts, and appendices.

PRESENTATION:

In lieu of the two final class sessions (**December 4th & 9th**), we have scheduled the following two evening sessions: **December 4th 6-8:30pm & December 9th 6-8:30pm**. Teams will make a formal presentation of the final BDP, which will be followed by a short class discussion. At that time, we will solicit your evaluation of the venture that is being discussed,

In advance of your presentation, you are asked to submit 4 stapled paper copies of your presentation to each of the panel members who will be evaluating your work.

Please note that teams are responsible for arranging all AV equipment needed for their presentation. The maximum length of your presentation is 15 minutes (SET UP TIME INCLUDED), while the ensuing discussion will last no longer than 10 minutes. We have to keep a tight and disciplined schedule in order to accommodate all teams in a fair and equal manner.

D. Interim Submissions

During the term your team will be required to submit drafts of the most important sections of your BDP. Your submissions will be graded for your benefit only, as the grade will not be recorded. However, failure to submit the required sections when they are due will negatively impact your grade for the course. Read the syllabus carefully to understand these requirements, which are intended to help you to achieve excellence.

V. GRADING

Team and individual performance will be measured in determining the final grade of each student. Therefore, individual grades are likely to vary within each team.

Key ingredients in the determination of team grades include:

- The overall quality and cohesiveness of the Business Development Plan will determine the final team grade. The following criteria will be used in marking your final BDP submission:

<i>Executive Summary</i>	10%	<i>Clear, exciting and effective as a stand-alone overview of the venture.</i>
<i>Company, Products and Services</i>	10%	<i>Description of your offerings in terms of customer functions, segments, technologies and distribution channels, features, and benefits, current stage of development, proprietary position, etc.</i>
<i>Markets and Strategy</i>	20%	<i>Description of market opportunities detailed descriptions of your business and revenue models, customer and competitor analyses, industry and competitive analysis. State and justify your overall business strategy, your competitive advantage. Explain how and why you will “make it happen”. Apply analytical techniques.</i>
<i>Marketing and Operations</i>	10%	<i>Plans for production/delivery of product or services, product costs, operating complexity, required resources, marketing and sales.</i>
<i>Management and Organization</i>	5%	<i>Backgrounds of key individuals, ability to execute strategy, personnel needs, Type of business, summaries of staffing requirements; organizational chart.</i>
<i>Financial Section</i>	20%	<i>Presented in summary form and follow GAAP). Complete analyses of financial plan, financing plan and evaluation (quarterly for years 1 to 2, annually for years 3 to 5). Apply analytical techniques.</i>
<i>Offering</i>	5%	<i>Proposal/terms to investors. Indicate how much wanted, for what use, and when it is needed. Elaborate on ROI, the proposed structure of the deal, and possible exit strategies.</i>
<i>Milestone Events and Key Risks</i>	10%	<i>Present realistic schedule of events, their anticipated timing and interrelationships between the major events necessary to launch and grow the venture. Identify and discuss critical events and their impact on your plan. Outline your contingency plan.</i>
<i>Viability, Brevity and Clarity</i>	10%	<i>Is the plan approximately 25 pages with minimal redundancy? Is it cohesive? Concise? Does it flow logically? Do the facts lead to the conclusion? Is the plan credible? Believable?</i>

Individual grades are then determined as follows:

- Team performance as evaluated by the above team grade accounts for 35% of the final individual grade.
- Contribution to the team performance in the conceptualization, development, and presentation of the BDP makes up another 35% of the final individual grade. This is determined through peer review. The peer review scheme is as follows:

You will be asked to rate the contribution of each of the team members by assigning a percentage score to each member. These scores will be used to calculate the weight that will be applied to the individual's teamwork as illustrated by the example below:

Percent given		to A	to B	to C
% given	by A	NA	100	65
	by B	85	NA	55
	by C	75	100	NA
Average		80	100	60
Grand Avg. = (80 + 100 + 60) / 3 = 80				
Weighting — Avg./Grand Avg.:		80/80	100/80	60/80
		1	1.25	.75
<p>So if the team mark was 50 points then:</p> <p>A would get 1 x 50 = 50</p> <p>B would get 1.25 x 50 = 62.5</p> <p>C would get .75 x 50 = 37.5</p>				

- Class participation throughout the semester determines 20% of the final individual grade.
- The quality of class presentations made by individual team members will be worth 10% of the final individual grade. This includes organization, logical flow, keeping the presentation within specified time limits, clarity of the presentation. The specifics include:

Formal Presentation

- Content, analysis, conclusion, & recommendations.
- Materials presented in clear, logical form.
- Ability to maintain class interest.
- Quality of visual aids.

Questions and Answers

- Ability to understand inquiries.
- Appropriately respond to inquiries with substantive answers.
- Use of time allocated (minimal redundancy).
- Poise and confidence (think effectively on your feet).

In summary, the following weights determine the final course grade:

35% of your grade will be based directly on the grade given to the team as a group

35% are based on your contribution to the team effort (and thus indirectly depend on the group grade)

30% are based on individual class participation and presentations.

TEAM MEMBER EVALUATION FORM (to be submitted on the last day of class)	
Team Name:	
Your Name:	
Team Member's Name	% Effort (scale 1-100%)
<i>DO NOT RATE YOURSELF.</i>	

Important note:

The instructors will take great care to grade as fairly as possible and will NOT discuss grades at the end of the course.

VI. Management 801 Course Outline At A Glance

Session Number	Date	Topic	Case/activity	Submissions Due
1	Sep 9	Course Introduction	Video	
2	Sep 11	Options reasoning		
3	Sep 16	Opportunity identification & evaluation	Chemdex	
4	Sep 18	Individual presentations of venture ideas		
5	Sep 23	Opportunity evaluation	VIP Companies	
6	Sep 25	Opportunity evaluation	VIP Companies	Venture Teams Have Been Formed, e-mail to Instructor the names, e-mail addresses, & contact information of each team member
7	Sep 30	Business Plan Content & Structure		Due: venture concept write-up – see Syllabus for details
8	Oct 2	Discovery Driven Planning Basics		
9	Oct 7	Discovery Driven Planning Simulation		
10	Oct 9	Is the market real? Market analysis	G-Wiz	
11	Oct 14	Is the product real? “The Attribute Matrix”		
12	Oct 16	Can we win? Competitive Analysis		
13	Oct 21	Business & Revenue Models	Webraska	
14	Oct 23	Business design- Consumption chain		Due: Is The Market Real?
15	Oct 28	Is it worth it? Funding New Ventures		
16	Oct 30	Venture Capital Financing		
17	Nov 4	Linking Theory with Practice	Guest Speaker: VC	
18	Nov 6	Legal issues for ventures	Guest Speaker: Lawyer	Due: Is The Product Real?
19	Nov 11	Venture strategy – mode & timing of entry		
20	Nov 13	Corporate ventures		Due: Can We Win?
21	Nov 18	Managing rapid growth		
22	Nov 20	Presenting a Business plan	<i>Guest speaker: Communication Expert</i>	Due: financials & organization
23	Nov 25	Team consultations with Faculty		
24	Nov 27	Team consultations with Faculty		
25	Dec 2	Franchising	Guest speaker: Bergman	Due: Business Plan
26	Dec 4	Presentations	Evening session 6-8.30pm	
27	Dec 9	Presentations	Evening session 6-8.30pm	

VII. DETAILED COURSE OUTLINE

Below is a week-by-week plan for the course. You should expect changes as the semester unfolds. Lecture notes will be posted periodically on the class web site in PDF format. To read (or download) these notes, you'll need to install Acrobat reader on your PC.

SESSION 1 Monday September 9

Introduction—Course Overview and Content Who is an Entrepreneur?

Read:

McGrath and MacMillan: Chapters 1 and 2

"A Perspective on Entrepreneurship" by Howard H. Stevenson, HBS Case 384-131.

"Entrepreneurship Reconsidered: The Team as Hero" by Robert B. Reich, HBR May-June 1987.

"The Dark side of Entrepreneurship" HBR

"What it takes to start a startup" by Brian O'Reilly, Fortune, June 7, 1999, pp. 57-60

Video: half.com

Topics:

- * Who are entrepreneurs and what do they do?
- * What is entrepreneurship?
- * What distinguishes entrepreneurs from non-entrepreneurs?
- * Can **you** become an entrepreneur?
- * Why are we here?

SESSION 2 Wednesday September 11

Options Reasoning

Read:

McGrath and MacMillan: Chapter 8

"Assessing technology projects using real options reasoning" MacMillan and McGrath. Research – Technology Management. July-August 2000: Volume 43, No. 4, pp. 35-49.

SESSION 3 Monday September 16

Opportunity Identification and evaluation

Read:

"The Questions Every Entrepreneur Must Answer" by Amar Bhidé, HBR Nov-Dec 1996.

Prepare: Chemdex.com (HBS Case 9-898-076, revised: June 22, 1999)

Case preparation Questions:

1. How would you describe the opportunity that David Perry identified?
2. Prepare an **overhead slide** that summarizes the criteria that you would use in general for assessing an entrepreneurial opportunity. What would you (as entrepreneur; as investor) look for in a start-up business?
3. Imagine you are considering an investment in Chemdex. How would you assess this opportunity? Please prepare an **overhead slide** with your arguments

NOTE: Hard copies of your slides will be collected at the end of the class. Please ensure therefore that each slide is clearly marked with your name. Please do not prepare more than two slides. You may be asked to make a brief presentation.

SESSION 4 Wednesday September 18

Individual presentations of venture concepts

Read:

"Criteria used by venture capitalists to evaluate business plans" *Journal of Business Venturing*

SESSION 5 Monday September 23

Opportunity Evaluation

Participants in the Wharton **Venture Initiation Program (VIP)** will present their Venture concepts and the class will discuss these opportunities

Jimmy Thomson, VIP Director, will facilitate the dialogue

SESSION 6
Wednesday September 25

Opportunity Evaluation (Continued)

Participants in the Wharton **Venture Initiation Program (VIP)** will present their Venture concepts and the class will discuss these opportunities

Jimmy Thomson, VIP Director, will facilitate the dialogue

SESSION 7
Monday September 30

The Business Plan: Structure and Content

Read:

"Developing Start-up Strategies" by Amar Bhide, HBS Case 394-067.

"Some Thoughts on Business Plans" by William A. Sahlman, HBS Case 897-101.

"How to Write a Winning Business Plan" by Rich and Gumpert, HBR May-June 1985.

"How to write a great business plan" HBR (Salman)

DUE: Submit a brief description of the venture concept. See timing, content and format of this submission in section IV B on page 4 of the Syllabus

SESSION 8
Wednesday October 2

Discovery Driven Planning Basics

Read:

"Milestones for successful venture planning," Block and MacMillan. Harvard Business Review, Sept/Oct 1985

McGrath and MacMillan: Chapter 10

How to use DDP in business planning will be the topic of the lecture.

SESSION 9
Monday October 7

Discover Driven Planning Simulation

Read:

McGrath and MacMillan: Chapter 11

SESSION 10
Wednesday October 9

Is the market real?
Market Analysis

Case: Global Wizard International (G-Wiz) Business Plan

Preparation questions:

1. Evaluate the market opportunity faced by G-Wiz?
2. Evaluate the effectiveness of the business plan? What is missing? What is unnecessary? Which sections would you rewrite and how?
3. As a potential Investor, would you invest in this company? Why or why Not?

SESSION 11
Monday October 14

Is the product real? "Attribute Matrix"

McGrath and MacMillan: Chapters 3, 5, 6

SESSION 12
Wednesday October 16

Can We Win? Competitive Analysis

Case: Class Project example

Read:

McGrath and MacMillan: Chapter 9

How entrepreneurs craft strategies that work HBR (Bihde)

"The Right Game: Using Game Theory to Shape Strategy" HBR (Brandenburger and Nalebuff)

"Creating New Market Space" HBR (Kim and Mauborgne)

SESSION 13
Monday October 21

Crafting and Assessing Business and Revenue Models

Prepare: The Webraska Case

Case preparation questions:

1. Would you consider working for Webraska? Would you invest in the company?
2. Do Webraska's choices of business and revenue model at various points in time make sense to you? Why or why not? What drove the evolution of the company's business & revenue model?
3. What value drivers did Webraska leverage at each stage of its business model evolution, and what were the resulting value propositions? Are they convincing? Why or why not?
4. How would you advise Jean-Michel Durocher and the management team if they asked you the following questions: (a) Should Webraska become a vendor of software platforms? (b) What are the likely implications of becoming such a vendor for various aspects of the business, and how could they be managed?

SESSION 14
Wednesday October 23

Business Design: Consumption Chain

McGrath and MacMillan: Chapter 4

DUE: Is The Market Real Section of your Business Plan

SESSION 15
Monday October 28

Is it worth it? Funding new ventures

Read:

"Attracting Stakeholders" by Bhide and Stevenson, HBS Case 389-139.

"Bootstrap Finance: The Art of Start-ups" by Amar Bhide, HBR Nov-Dec 1992.

"The Financial Perspective: What Should Entrepreneurs Know?" by William A. Sahlman, HBS Case 293-045.

"Aspects of Financial Contracting in Venture Capital" by William A. Sahlman, Journal of Applied Corporate Finance, Summer 1998.

"Strategy vs. Tactics from a Venture Capitalist" by Arthur Rock, HBR Nov-Dec 1987.

SESSION 16
Wednesday October 30

Venture Capital Financing

"The Economics of the Private Equity Market A Note on the Valuations in the Private Equity Settings" (HBS)

"How Venture Capital Works" HBR (Zider, 1998)

SESSION 17
Monday November 4

Linking Theory with Practice

Guest Speaker: Venture Capitalist

SESSION 18
Wednesday November 6

Rules of The Road: Legal Issues of New Ventures

In this session, an expert will discuss the key legal issues of entrepreneurship.

Guest: David King

DUE: Is The Product Real Section of your Business Plan

SESSION 19
Monday November 11

**New Venture Strategy
Timing and Mode of Entry**

"First-mover Advantages" by Lieberman and Montgomery, *Strategic Management Journal* (1988), Summer Special Issue, 9, pp. 41-58

SESSION 20
Wednesday November 13

Corporate Ventures

"The politics of new venture management," by MacMillan. *Harvard Business Review*, Nov./Dec 1983.

"The advantage chain: antecedents to rents from internal corporate ventures" by McGrath, Venkataraman and MacMillan. *Journal of Business Venturing*, Vol. 9, No. 5, September 1994.

DUE: Can we win section of the Business Plan

SESSION 21
Monday November 18

Managing Rapid Growth

“Stumblers and stars in the management of Rapid growth” by Hambrick and Crozier. *Journal of Business Venturing*, Vol. 1 (1), Winter 1985.

SESSION 22
Wednesday November 20

Business Plan Presentation, Content, and Form

Guest Speaker: Steve Bowman
Title of Talk: How to Present Your Business Plan Effectively.

DUE: Financial Section and Organization Section of the Business Plan

SESSION 23 & 24
Monday November 25 and
Wednesday November 27

Consulting Session

Teams meet with the instructor to review the BDP

See schedule Posted on Web cafe

SESSION 25
Monday December 2

Franchising

Read:

“A Note on Franchising”

Case Study: Michael Bregman (HBS Case Study 9-383-107. Rev. Nov. 1, 1998)

Issues:

Types of franchising; start-up versus franchising; franchisee-franchiser relationship

Case Preparation Questions:

- 1) What are the principal strategic issues Michael must address in managing the expansion of his business?
- 2) What strategy should he pursue: (a) regarding franchising and (b) regarding Mmmuffins versus Michel's Baguette?
- 3) What are the key factors that Michael must manage in order to make his strategy successful?

DUE: 4 Hard Copies of the Business Plan are Due by end of Class – NO LATE SUBMISSIONS ACCEPTED – Full Compliance with ALL format requirements is expected.

SESSION 26 & 27
Wednesday December 4 and
Monday December 9

Class will meet between 6-8:30 pm in lieu of regularly scheduled class time for Final Presentations for the Expert Panel