

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

***ENTREPRENEURSHIP AND
VENTURE INITIATION
Management 801 Section 3***

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

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 your 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 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.

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.

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 text:

The Entrepreneurial Mindset MacGrath and Macmillan Harvard Press 2000

Other required readings: Included in the bulk pack

Recommended readings:

The Profit Zone. A. Slywotzky and D.J. Morrison, Times Business, 1997.

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, students are asked to bring their 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 four different **presentations** that are expected as follows:

A. TEAM PRESENTATIONS OF VENTURE CONCEPTS

Due Date:

This requirement is due September 30th. During that class session, one member from each team will make a maximum five-minute presentation including set up time.

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 a decision for the term. You should therefore make sure that all team members are committed and dedicated to exploring the selected idea. During this class meeting, each team will be asked to **present** and **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 **BEFORE ITS PRESENTATION** a typed, double-spaced, and stapled, one page write-up describing the venture idea.

**Note: Restaurants, Management consulting service businesses, investment fund businesses will not be permitted for this course.*

B. FINAL PRESENTATION AND BDP SUBMISSION

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

Written Submission Due Date:

Wednesday December 4th

BDPs have to be submitted in final form.

Submission Requirements:

Each team needs to submit the following:

- One copy of the BDP.
- IN ADVANCE of your presentation, a stapled hard copy of the presentation.
- Late submissions will NOT be accepted. No excuses.

BDP Format Requirements: (any deviation from these requirements will result in a discretionary grade penalty)

- The BDP should have 1.5 spacing (Font: Times Roman; Size: 12 pt.), 1" margins, stapled, pages numbered sequentially, etc. No fancy covers, for I will steal them.
- While there are no minimum length requirements, the final BDP must not exceed 30 double spaced pages including all tables, charts, and appendices.

PRESENTATION:

During the final two class sessions (December 4th and 9th) 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, as well as information on the functioning of YOUR venture team throughout the semester.

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.

Steve Bowman of BizClarity, Inc. will be guest lecturing on the topic of presentation skills and will make himself available during the term to help interested teams in formulating an effective presentation. Steve will also be present during the last class to help evaluate your presentations.

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. You will get a weighted mark for your BDP. The initial concept will be worth 10%, the feasibility analysis 20%, the final BDP 70%. 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</i>

		<i>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>Readability, 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>

- 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
So if the team mark was 50 points then:				
A would get 1 x 50 = 50				
B would get 1.25 x 50 = 62.5				
C would get .75 x 50 = 37.5				

- 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:

Individual grades are then determined as follows:

- Team performance as evaluated by the above team grade accounts for 35% of the final individual grade.

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:	
Social Security Number:	
Team Member's Name	% Effort (scale 1-100%)
DO NOT RATE YOURSELF.	

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. 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.

SESSION 1

Monday September 9

Introduction—Course Overview and Content Who is an Entrepreneur?

Read:

McGrath & MacMillan: chap. 1 & 2

“The Road Well Traveled” HBS note.

“The Dark side of Entrepreneurship” HBR

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

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

OPPORTUNITY RECOGNITION

Readings:

“The Questions Every Entrepreneur Must Answer” by Amar Bhide, HBR Nov-Dec 1996.

Timmons, Jeffery A. (1994) “Opportunity Recognition”, Chapter 3, New Venture Creation. To be handed out in class.

SESSION 3

Monday September 16

How to play the game

Case study: R & R

Study Questions:

- 1) What are the industry characteristics that may make this an attractive opportunity?
- 2) What makes this an attractive opportunity for Reiss?
- 3) How did Reiss attract the stakeholders to the venture?
- 4) Why was the game a success?

SESSION 4

Wednesday September 18

Another look at a startup

Case Study: Heather Evans

Study Questions:

1. Evaluate the opportunity.
2. Evaluate Heather’s efforts to date.
3. What do you think of the business plan?
4. What should Heather do?
5. What is the appropriate valuation for the business?

SESSION 5

Monday September 23

Discovery Driven Planning DDP

Read:

McGrath and MacMillan: Chapter 10

How to use DDP as a business- planning tool will be the topic of the lecture.

SESSION 6

Wednesday September 25

PLANNING FOR DEPARTURE

Read: How entrepreneurs craft strategies that work” HBR (Bhide)

Case Study: Ruth M. Owades

Case Preparation Questions:

1. What is required to transform this idea into a viable business?
2. Evaluate Ruth’s efforts to raise capital.
3. Is the deal proposed appropriate given the current stage and value of the company?

SESSION 7

Monday September 30

Team presentation of their venture concept

At the end of the session all teams must submit 2 copies of their new venture concept.

SESSION 8
Wednesday October 2.
VALUATION IN THE VENTURE SETTING

Read:
"A Note on Valuation in Venture Settings" HBS 9-295-064.
"A Method for Valuing High-Risk, Long-Term Investments" HBS 9-288-006

SESSION 9
Monday October 7
VENTURE AND ANGEL CAPITAL

Readings:
"How venture capital works" HBR (Zider, 1998)
Contracting and Control in Venture Capital
Venture Capital Negotiations: VC versus Entrepreneur

Case Study: Apex Investment Partners (A): April 1995
Case Preparation Questions:

1. Is AccessLine an attractive investment opportunity? Why or why not? What are the key risks associated with the investment?
2. How has AccessLine financed itself to date? Why have they chosen this strategy? What have been the implications for the firm?
3. Why is Dan Kranzler now considering raising funds from Apex investment partners?
4. How attractive are the terms that AccessLine has proposed to Apex for the Series B financing?
5. How does the deal structure address the risks of the investment? What issues, if any, should concern Apex?
6. What is an appropriate valuation for AccessLine? Do analyses using the discounted cash flow and venture capital methods suggest similar or different values?

SESSION 10
Wednesday October 9
THE BUSINESS PLAN: FIRST LOOK AT THE BASICS

Readings:
"How to write a great business plan" HBR (Salman)
"Developing Start-up Strategies" by Bhidé HBS 394-067
"Some Thoughts on Business Plans" by Sahlman HBS 897-101
"How to Write a Winning Business Plan" by Rich and Gumpert

Discussion topic: The Business Plan: Structure and Content of Feasibility Analysis and Plan

DUE: The Market analysis section of your BDP.

SESSION 11
Monday October 14
ANOTHER LOOK AT VALUATION: REAL OPTIONS

Read:
The Entrepreneurial Mindset: Chapter 8 pp 163 – 195
"Capital Projects as Real Options: An Introduction" HBS Note 9-295-074

Case Study: Penelope's Personal Pocket Phone HBS Case 9-299-004

Study Questions:

1. What is the NPV of Penelope's first generation phone if we ignore the possibility of investing in a second-generation project?
2. What valuation methodology would you use to arrive at a value? Does it seem appropriate for the first stage?
3. How large does the current expected value of the second stage project need to be in order to justify a \$10 million investment in the first year on the first generation

SESSION 12
Wednesday October 16
Real option management continued

Case study: Laura Martin: Real Options and the Cable Industry.

Study Questions:

1. In what way is the stealth tier like a call option?
2. Would you purchase Cox Communications based on her analysis?

Due: The industry section of your BDP

SESSION 13
Monday October 21
STRATEGIC DIFFERENTIATION

Read: **The Entrepreneurial Mindset:** Chap. 3,4 & 5

The lecture will deal with designing product entry strategies to achieve sustainable differentiation.

Session 14
Wednesday October 23
NEW VENTURE STRATEGY: TIMING OF ENTRY; MODE OF ENTRY; HOW TO COMPETE

Read:

"The Right Game: Using Game Theory to Shape Strategy" HBR (Brandenburger and Nalebuff)
"Judo Strategy" HBR (Yoffie and Cusumano)
"Creating New Market Space" HBR (Kim and Mauborgne)
"Innovation in Industry" The Economist, February 20, 1999.

McGrath & MacMillan: Chapter 9

Case Study: Parenting Magazine

Study Questions:

1. Assess the opportunity;
2. What are the preferred sources of capital?
3. What are the key factors in making this deal?
4. Is the Time deal fair?

SESSION 15**Monday October 28****Timing of Entry; Mode of Entry; How to Compete****Case: Spinnaker Software**

Study Questions:

- 1) Articulate and evaluate Spinnaker's strategy.
- 2) Have they been successful to date?
- 3) What issues must Bowman address? What should his priorities be?
- 4) What options are contained in the investment from TA's perspective?

Due: the Marketing Plan of your BDP**SESSION 16****Wednesday October 30**

Guest lecture: Steve Bowman
Topic: BDP Presentation skills

SESSION 17**Monday November 4****Setting standards in an emerging industry**

Read:

"The Art of Standards Wars" California Management Review 140; 1/1/99

Case: *Vinod Khosla and Sun Microsystems*

Study Questions for Sun Microsystems:

- 1) Does Khosla have a real chance of changing Computer vision's decisions?
- 2) How should Khosla respond to Computervision's President?
- 3) What are the consequences of not doing this deal?

Due: The Strategy section of your BDP**SESSION 18****Wednesday November 6****A look at an acquisition****Case Study: Clarion Optical**

Questions:

1. Compare debt and equity options
2. Do a sensitivity analysis of the Rebel deal
3. How does this affect Jerry? Iris?
4. What are the alternative financing options

SESSION 19**Monday November 11****Corporate venturing**

Read: "The Politics of New Venture Management" by MacMillan. HBR Nov/Dec 1983.

Case: Xerox Technology Ventures HBS

Case 295-127

Study Questions:

- 1) Contrast Xerox's motivation in establishing XTV with the formation of ARCH.
- 2) Does the structure of the XTV partnership make sense? Which terms and conditions are most problematic? How does it compare to the proposed terms of the ARCH Venture Partners II?
- 3) What do you think about the investment process at XTV? How does it differ from the process at traditional private equity firms?
- 4) Should Adams take advantage of the opportunity to invest in the divisions being spun off by Xerox?
- 5) How successful has XTV been to date? What challenges will XTV face if the ventures are successful?
- 6) Should XTV serve as a model for other corporations interested in boosting innovation? Should the model be modified.

SESSION 20**Wednesday November 13****PUTTING YOUR TEAM IN PLACE****Case Study: Balance, Inc. A**

Study Questions:

1. Evaluate the terms of the proposed employment agreement between Hahn and Balance, Inc. Be specific.
2. Imagine that you are Fitzgerald and you intend to hire Hahn. What salary, equity stake, and employment terms are you willing to grant?
3. What negotiating strategy would you employ to reach that outcome?
4. In light of the agreement that you, as Fitzgerald, hope to reach with Hahn, what compensation package should you offer to Knappmann and Treiber?

SESSION 21**Monday November 18****Cash Flow Management****Case Study: MIPS Computer Systems**

Study Questions:

1. What is about MIPS that would attract Miller?
2. What do you think about Miller's philosophy of role models and commitments?
3. What was the impact of the \$8 million revenue goal in 1986?
4. What would you do to save MIPS if you were in charge?

Due: the financial assumptions and the milestones used to test them.

SESSION 22
Wednesday November 20
Establishing A Corporate Culture

Read:

“The Challenge of Growth” HBS Note
“What Holds the Modern Company Together?” HBR
“Entrepreneurship Reconsidered: the Team as Hero”
HBR

Case: Momenta Corporation A, B & C

Study Questions:

- 1) Is it worthwhile to have spent time formally planning a corporate culture at Momenta?
- 2) What are the challenges facing Momenta?
- 3) Evaluate the culture Momenta that appears to be developing
- 4) What do you think of Kamran’s management style?

Due: The Management and Staffing Section of The BDP

Session 23
Monday November 25
Team meetings with instructor

SESSION 24
Wednesday November 27
Open session TBD

SESSION 25
Monday December 2
Did we learn anything?

Case: Florida Air

Study Questions:

- 1) Evaluate Florida Air’s search for capital.
- 2) What should they do after losing investors – identify the risks of each alternative.
- 3) If you were an advisor from the inception, what specific steps, in what order, would you have recommended to start and finance Florida Air?

SESSION 26 & 27
Wednesday December 4 and December 9
Final Presentations
Steve Bowman will attending

Two copies of the BDPs due at the beginning of class. No late submissions. No excuses.

1. The Dark Side of Entrepreneurship” HBR 85609
2. “The Road Well Traveled”, HBS N9-396-277
3. Heather Evans, HBS Case 9-384-079,
4. Timmons, Jeffery A. (1994) “Opportunity Recognition”, Chapter 3, New Venture Creation.
5. R & R, HBS case 9-386-019, Rev. 11/15/87
6. Ruth M. Owens HBS case 9-383-051
7. “A Note on Valuation in Venture Settings”, HBS Note 9-295-064.
8. “A Method for Valuing High-Risk, Long-term Investments” HBS Note 9-288-006.
9. Clarion Optical, HBS case 9-384-120
10. Apex Investment Partners A and B HBS cases 9-296-028 and 9-296-029
11. “Contracting and Control in Venture Capital” HBS 9-298-067
12. “Venture Capital Negotiations: VC versus Entrepreneur HBS 9-800-170
13. “How to write a great business plan” HBR (Salman)
14. Spinnaker Software HBS case 9-385-252
15. “How venture capital works” HBR (Zider, 1998) reprint 98611
16. Parenting Magazine, HBS Case 9-291-015, rev. 10/30/90
17. “The Right Game: Using Game Theory to Shape Strategy” HBR reprint (Brandenburger and Nalebuff)
18. “Judo Strategy” HBR reprint (Yoffee and Cusumano)
19. “Creating New Market Space” HBR reprint (Kim and Mauborgne)
20. “Innovation in Industry” The Economist, February 20, 1999.
21. Balance, Inc. (A) HBS Case 9-801-169
22. “Capital Projects as Real Options: An Introduction” HBS Note 9-295-074
23. Penolpe’s Pocket Phone HBS case 9-299-004
24. Xerox Technology Ventures HBS case 295-127
25. Vinod Khosla and Sun Microsystems (A) HBS case 9-390-049
26. “The Art of Standards Wars” California Management Review 140; 1/1/99
27. MIPS Computer Systems Stanford University Case SB-112
28. “The Challenge of Growth” HBS note
29. “What Holds the Modern Corporation Together?” HBS note
30. “Entrepreneurship Reconsidered: The team as Hero” HBS note
31. Momenta Corporation (A), HBS Case 9-392-013, 8/30/91.
32. Momenta Corporation (B), HBS Case 9-392-014, 9/10/91.
33. Momenta Corporation C, HBS Case 9-392-048, 12/11/91.
34. Florida Air, Inc Stanford University Case SB-149 11/95
35. “What it takes to start a startup” by Brian O’Reilly, Fortune, June 7, 1999, pp. 57-60
36. “The Questions Every Entrepreneur Must Answer” by Amar Bhidé, HBR Nov-Dec 1996
37. “Developing Start-up Strategies” by Bhidé HBS 394-067
38. “Some Thoughts on Business Plans” by Sahlman HBS 897-101
39. “How to Write a Winning Business Plan” by Rich and Gumpert
40. Laura Martin: Real Options and the Cable Industry. HBS Case 9-201-004
41. “The Politics of New Venture Management” by MacMillan. HBR Nov/Dec 1983.