Chapter 1. Introduction

Questions and Problems

1. If someone asked you whether or not they should start a business during an economic downturn, how would you answer? What are some of the factors they should consider?
2. Briefly describe the difference between replicative and innovative entrepreneurship. For each category, provide three examples of ideas or companies. Now provide an example of a not-for-profit or social venture that fits each category.
3. Why do you think greater uncertainty about the future is likely to increase the importance of real options as determinants of project value?
4. How is maximizing the value of a new venture different from maximizing the value to the entrepreneur? Why might an objective of maximizing value for the entrepreneur result in different decisions than an objective of maximizing shareholder value?
5. What are some of the similarities between launching a rocket and launching a new venture? How are the two endeavors dissimilar?
6. Search the Internet or print media sources to find a prospective invention that may lead to a marketable product in the future (*Popular Science* is a good source, among others: www.popsci.com).
    a. Briefly describe the product.
    b. As a potential investor, identify four milestones that you might want to use as bases for staging your investment and evaluating the progress of the venture.
    c. Referring to Figure 1.4, identify the stage of development at which each milestone would be appropriate.
7. The following table contains financial information from the business plan of a new venture that makes a portable device that uses laser technology for measuring distances with great precision, LaserGolf, Inc. The information in the table is in thousands of dollars.

Month	6	12	18	24	30	36	42	48	54	60
Sales	$0	$0	$100	$500	$1,000	$2,500	$5,000	$10,000	$12,000	$15,000
Profit	($200)	($300)	($500)	($200)	$100	$300	$700	$2,000	$2,500	$3,500
Cash Flow	($1,000)	($500)	($2,000)	($1,000)	($500)	($100)	$300	$1,000	$2,000	$3,000

    a. Using this information and Figure 1.5, how would you propose to identify the stages of new venture development?
    b. How much cash is the venture expected to need in total?
    c. How would you suggest staging the infusions of cash? Why?
    d. What kinds of investors are best suited for investing at the various stages of development?
    e. What would you suggest as useful milestones for evaluating progress?

8. How do you think an entrepreneur might benefit by limiting the amount of cash that an outside investor contributes up-front and by giving the investor the right to abandon the project without making any subsequent investments? Compare this to a scenario where the outside investor makes an up-front contribution of all the cash that the venture might require.
9. "It is foolish to put a lot of effort into preparing the business plan. Everyone knows that the financial projections in the business plan of a new venture bear almost no relation to what actually will happen." What do you think?
10. "The environment we operate in is changing so rapidly and is so unpredictable that we cannot afford to devote time to preparing a business plan." What do you think?
11. "The more personal wealth an entrepreneur has sunk into developing an idea, the more convinced we are that the idea is worth pursuing." Do you agree? Why or why not?
12. "Certification sounds like a good idea, but it costs too much. If I try to bring in a supplier or major customer as an investor, they always want a large share of the equity or some other arrangement that lowers the value of the opportunity. I would rather keep shopping the plan around until I find an investor who sees the true value of the idea." Evaluate.
13. How might a business plan differ in content if the entrepreneur is seeking debt financing versus equity financing? Explain.
14. Match each of the following examples to one of the five "deal killers" described in the chapter:
    a. Aqua Agua Inc. (AAI) sells tap water to a market that considers water a commodity. AAI, which has no cost advantage and no strategy for superior customer service, still believes their product will command superior margins.
    b. In their business plan, Dialects 'R Us, which offers English-language training, states the following: "China has 1.3 billion people and they all want to learn English. Just 0.08% of the market will give us one million customers!"
    c. Frigid Fusion, is convinced there is a huge market for electricity generation using "cold fusion" nuclear technology. The resumés included in their business plan show they all have undergraduate liberal arts degrees from excellent schools and MBAs from top-20 graduate programs.