Chapter 1. Introduction

Questions and Problems

1. Briefly describe the difference between replicative and innovative entrepreneurship. For both categories, provide three examples of ideas or companies. Now provide an example of a not-for-profit or social venture that fits each category.
2. Consider a coffee start-up, Blue Vessel, that roasts and markets specialty coffee to customers online. Because their marketing is exclusively online, they need to find a way to convey their special expertise about coffee through their website. Formulate (state) a hypothesis regarding the assumptions underlying their business model. In other words, to reach new customers what must be true? How would you go about testing the hypothesis?
3. Why do you think greater uncertainty about the future is likely to increase the importance of real options and hypothesis testing? Support your reasoning with an example/illustration.
4. How is maximizing the value of a new venture to an outside investor 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. Referring to Figure 1.4, identify several countries for which there are large differences between "ease of doing business" and "ease of starting a business." What institutional features could explain these differences?
6. Search the Internet or alternative 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 hypotheses that you would like to test to more accurately assess the commercial value of the product?
    c. Based on (b), identify milestones that you might want to use as bases for staging your investment and evaluating the progress of the venture.
    d. Referring to Figure 1.5, 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 1.6, how would you propose to demarcate (i.e., identify the boundaries between) 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 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 a venture, 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. What kinds of considerations might affect an entrepreneur's decision to seek debt financing as opposed to outside equity?