



London School of Economics/Peking University

**MG 102 MANAGEMENT AND ENTREPRENEURSHIP
COURSE MATERIALS**

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Business Plan Outline

The following outline should provide you with insights into what is most commonly found in a business plan and how business plans are traditionally structured.

I. Cover page

- a. The cover page should include the following items:
 - i. Identify the business name and the fact that it is a business plan
 - ii. Name of entrepreneurs
 - iii. Address and other contact information
 - iv. Business plan copy number (allows you to keep track of who has which version of the plan and assures that investors don't distribute to other individuals)

II. Executive Summary

- a. The Executive Summary should include a **brief** description of the following:
 - i. Business
 1. What business are you proposing?
 2. What is the business form (LLC, INC, LTD, etc.)?
 3. What is the mission of your business (i.e., what do you aim to be and accomplish)?
 - ii. Business opportunity (from market research)
 1. Why is there an opportunity right now?
 2. How long will the opportunity last?
 3. What external challenges will you face?
 - iii. Strategy
 1. What is the business strategy (low cost, differentiation, focus, etc.)?
 - iv. Competitors
 1. Who are the main competitors in this industry?
 2. What is the current structure of the industry and which forces are affecting it the most (i.e., Porter's five forces)
 - v. Competitive advantage/Core competencies
 1. What are the competitive advantages that the company will have?
 2. What core competencies does the business and its resources have?
 - vi. Team
 1. Who is asking for money?
 2. What experience does the team have for the opportunity being pursued?
 - vii. Economics of the business
 1. What margins do you expect?
 2. How long until breakeven is reached?
 3. How long until positive cash flow is reached?
 4. What profits do you expect to make?
 - viii. Proposed exit strategy
 1. How do you plan to harvest the business?
 - ix. Proposed offering
 1. How much money are you asking for?
 2. What will the money be used for?
 3. What ownership are you willing to give up?

4. How do investors get their money out? How do they get repaid?
5. What are the expected returns for investors?

III. Section One: The Business. You should include the following sections and information:

- a. Description of the business
 - i. What is your mission statement?
 - ii. What type of business are you in (service, product, wholesale, importer, etc.)?
 - iii. Why will your team be successful?
 - iv. What is special about your business?
- b. Product/Service that you are providing
 - i. What exactly are you selling?
 - ii. What are the benefits (not features) of what you are selling?
 - iii. How does your product/service differ from the competition? What exactly makes it different?
 - iv. Why will customers buy from you?
 - v. Are there any proprietary aspects of your product/service?
- c. Industry Analysis
 - i. Industry analysis (i.e., Porter's Macro-environmental analysis and Porter's Five Industry Forces analysis; search on Google.com to find analytical model)
 1. How do you define your industry?
 2. How is the industry segmented?
 3. What are the current trends and important developments?
 4. Who are the largest and most important players?
 5. What problems is the industry experiencing?
 6. What are the growth forecasts?
- d. Market Analysis
 - i. Who are your target markets? You should define this very specifically and include:
 1. Size of market
 2. Projected growth in market
 3. How is the market segmented?
 4. What companies currently service this market?
 5. Percentage of market you hope to capture
 6. Fierceness of competition in the market
- e. Customer Analysis
 - i. Who are the customers in this market?
 - ii. How is your niche segmented?
 - iii. What benefits are your customers looking for when they buy from you?
 - iv. What alternative products/services are they buying?
 - v. Who makes the purchasing decision?
 - vi. On what cycle are customers likely to buy from you?
 - vii. What are the alternative customer groups?
- f. Competitor Analysis
 - i. Who are your five closest competitors?
 - ii. How have their businesses been performing?
 - iii. How are their operations similar/dissimilar to yours?
 - iv. What have you learned from observing them?
 - v. How will your operation be better than theirs?
 - vi. Who are your indirect competitors?
 - vii. What is the size, location, target market, and other important characteristics for these competitors?
 - viii. For your direct competitors, identify their products or services, price, quality, features, distribution, and other important attributes.
 - ix. At what price do you plan to offer your product/service? How does this compare to the competition? What is your pricing decision based on?

- x. What problems or concerns do customers have with these competitors?
- g. Marketing Strategy
 - i. Product/service strategy
 - 1. What specific product/service design characteristics meet the needs of your customers?
 - 2. What differentiates your product from that of your competitors?
 - 3. Why will customers switch to or select your company for products/services?
 - ii. Pricing strategy
 - 1. What is your pricing strategy and why?
 - 2. How does your pricing strategy compare with the competition?
 - 3. What evidence do you have that your target market will accept your price?
 - iii. Distribution strategy
 - 1. How will you distribute your product or service?
 - 2. What distribution channels will you use? Why?
 - 3. How will you gain access to these channels?
 - iv. Advertising and promotion strategy
 - 1. How will you advertise and promote your product or service? Why?
 - 2. How will you communicate with your customers? Advertising? Public relations? Personal selling? Printed materials? Web-based? Other means of promotion? Why?
 - 3. Why will this strategy be effective in reaching your target markets?
 - v. Sales strategy
 - 1. How will your product or service be sold? Personal selling? Infomercials? Direct mail? Other?
 - 2. Who will do the selling? An internal sales force? Manufacturer's representatives? Telephone solicitors? Other?
 - 3. How will you recruit, train, and compensate your sales force?
 - 4. How will you support your sales force? (e.g., internal staff, service operations, etc.)
- h. Operations
 - i. How will you produce and deliver your product/service?
 - ii. What will you do in-house, and what will you purchase (make vs. buy)?
 - iii. What comparative advantage do you have in your operational design?
 - iv. What will your relationship be with vendors, suppliers, partners, and associates?
 - v. Operations strategy
 - 1. How will you use operations to add value for the customers in your target market?
 - 2. How will you win in the marketplace on the dimensions of cost, quality, customer responsiveness, efficiency, and innovation?
- i. Research and Development
 - i. What are the important stages of development of your product or service?
 - ii. What factors need to come together for your new venture?
 - iii. What are the technological, cost, competitive, and other risks?
 - iv. What is your development timeline?
 - v. What will development cost?
- j. Location of the business
 - i. Describe the location and the pros and cons for placing the business there.
- k. Competition. Here you go into greater depth than above.
- l. Management
 - i. Personal history of the principals. Strengths and weaknesses.
 - ii. Related work experience
 - iii. Duties and responsibilities
 - iv. Salaries
 - v. Resources available to the business

- m. Key Personnel
 - i. What are the personnel needs?
 - ii. What skills are needed? Are people with these skills available? Where and at what price?
 - iii. Will employees be salaried or hourly?
 - iv. Will you have to train these employees? If so, at what cost (time, money, interrupted work flow)?
- n. Application and expected effect of capital (if needed)
 - i. Why will this money make the business more profitable?
 - ii. Provide bare bones, reasonable, and optimal levels estimates of expenditures. Be as specific as possible for each item needed by the company (i.e., model #, supplier, price, etc.)

IV. Section Two: Financial Data. You should include the following sections and information:

- a. Sources and uses of funds
- b. Capital equipment list
- c. Balance Sheet
- d. Breakeven analysis
- e. Assumptions for financials
- f. Sales forecast
- g. Pro Forma Income Statements
 - i. Detail by month for first year
 - ii. Detail by quarter for second and third years
 - iii. Specific notes and explanations
- h. Pro Forma Cash Flows
 - i. Detail by month for first year
 - ii. Detail by quarter for second and third years
 - iii. Specific notes and explanations
- i. Sensitivity analysis

V. Section Three: Supporting Documents. You should include the following sections and information:

- a. Personal resumes of all key entrepreneurs, managers, employees, and advisors
- b. Job descriptions
- c. Market research
- d. Positioning maps
- e. Geographic maps (location of business)
- f. Tables comparing your company to competitors
- g. Abell's Framework – defining the business
- h. Competitive Advantage Building Blocks
- i. Porter's Five Forces Analysis
- j. Boston Consulting Group Matrix
- k. Any other documents that support your plan



EVALUATING THE CORE SKILLS AND EXPERIENCE OF TEAM MEMBERS

One of the most critical steps for entrepreneurial teams is to identify and evaluate the core skills and experience that each individual brings to the team. The following exercise will assist your team in identifying these core skills and experiences in order to help you identify which businesses your team might be most likely to succeed. You should complete this exercise using a separate sheet of paper.

Step 1

Generate a list of the jobs that you have held and the personal experiences that you have had that might be useful in a business environment. For each job you should clearly indicate the tasks that you were responsible for. It is important to be as specific as possible. For example, if you worked in marketing, you might want to indicate what type of projects you worked on (i.e., for large or small companies) and the relevant skills you acquired (i.e., Web design). After you have done this, indicate what functional area your skills would be best suited for in the new venture (i.e., marketing manager).

Step 2

Compare the list that you generated with the lists created by your team members. Where are there overlaps in terms of functional expertise, experience, industry, geographic location, etc.? You might want to use this information at a later date to divide up responsibilities for researching and writing the various portions of your business.

Step 3

Based on your discussion in Step 2, generate a list of the specific functional areas that each team member will most likely focus on. These are tentative and can be changed at a later date but give you a good place to start. Also realize that pursuing an entrepreneurial venture requires a great deal of teamwork. As such, realize that just because you are the finance person it doesn't mean that you won't be working on some of the marketing issues as well. The team must be fully integrated.

Step 4

The majority of successful entrepreneurial ventures focus on industries or products/services that the entrepreneurial team has experience with. With this in mind, generate a list of possible industries or products/services that team members have experience with. This list will provide some guidance during our next exercise that will focus on idea generation.



GENERATING IDEAS FOR YOUR ENTREPRENEURIAL VENTURE

Entrepreneurs and scholars of entrepreneurship are often asked, “How do entrepreneurs think of such great ideas for their businesses?” The answer is, there are a number of ways. The most common ways in which entrepreneurs come across their business ideas is through personal experience either at work or at home. The following exercise is designed to help you identify potential business ideas based on your experience and that of your team members. Complete each of these steps using a separate piece of paper.

Step 1

Based on your discussion during the “Evaluating the core skills and experience of team members exercise” generate as many new venture ideas as possible. A good way to start this is to think of any unmet or poorly met customer needs that have resulted from changes in the environment. These changes can include: regulatory changes (i.e., the EU), technological changes (i.e., the Web), knowledge and information gaps (i.e., in the medical care industry), and any other changes that have occurred recently that have not been addressed by industry competitors. Also think about who the competitors are in the industry and how well their products meet the needs of consumers. Do you perceive any gaps or weaknesses in these companies and their products/services?

Step 2

Expand your list even further to include what you are really interested in doing with your life. As you are doing this step you might want to consider what you think you do very well, what you think you know a lot about, etc.

Step 3

Discuss the list of businesses with your friends, family, and then with your team members. Ask them for their insights into the industries and products/services that comprise your list. This should be an ongoing process. You might also want to go out into the field and personally observe customers purchasing or using these goods and services. When you do this be sure to write down your observations.

Finding the Right Idea!

One of the most common questions that I hear from students at the beginning of an entrepreneurship course is, “How do I come up with a good idea for a business?”. Unfortunately, there is no single answer to this question. Instead, there are several sources of good business ideas. The main goal is to find an idea that you are passionate about.

There are several articles and chapters in books that discuss the sources of business ideas. In this document, I offer some of the advice that I’ve come across in these articles and books and in my personal experience as well. I hope that this provides a useful starting point for you to consider the full spectrum of business opportunities available to you.

You should also note that the Entrepreneurship course is really about learning how to identify opportunities in the marketplace, analyze that opportunity, and then present your analysis in a business plan in order to attract investors and/or secure loans or grants. Hence, don’t worry if your current idea does not turn out to be “the one” that you end up launching. Instead, focus on the process and learning how to identify and analyze opportunities. With that said, here’s some preliminary direction regarding finding a business idea.

1. Identify a compelling unserved need – Think about your own experience and what unserved needs in your market should be addressed. For example, throughout Europe several low cost airlines have flourished to meet the needs of travelers desiring to travel within continental Europe.
2. Identify an irritation – Develop a list of the things that really bother or annoy you and your friends, family, and acquaintances. This could range from poor service, limiting features of an existing product (i.e., six-pack holders that have room for 6 beers instead of 4 or 8, etc.), waiting in line for anything that you could purchase via a vending machine, higher prices on products or services as compared to other markets, etc.
3. Look for manufacturing or production businesses that have byproducts or refuse that are not used and/or discarded yet may have some marketable value – For example, the Bula company used scrap materials from making jams (a pair of shorts made out of Hawaiian print cloth for surfers) to make head bands, sunglass straps, etc. Alternatively, you could look at service oriented companies and consider how to utilize their resources during down times. For example, ski areas have added summer alpine slides, mountain biking, etc. in order to generate revenues during the off-season.
4. React to a product or service being offered that you wish you had been the first to offer – There are many ideas for products and services that already exist. The goal here is to find something that you can be at least as good, if not better, at providing to customers. Sometimes this means taking an idea from one market (i.e., country, city, state) and bringing it into a new market before the competition does.

5. Find a new technology or new application for an existing technology – In the past twenty years we have seen a number of new technologies enter the market. But you should rest assured that there will be at least as many introduced in the next twenty years. Are you the one to introduce a new technology? You may also see applications of technology that others have overlooked. Can you develop an idea for applying an existing technology in a new way?
6. Imagine something that may seem impossible but would represent a big breakthrough – For example, there is a company in Boston right now that has developed a three dimensional television. Can you think of something that you'd like to see available to consumers (and yourself)?
7. Identify something that would make consumers say “Wow!” – This entails allowing yourself to realistically assess your most creative and innovative ideas. For example, one company in Seattle has been working on developing a communication device that would translate from one language to another in real time. This would allow an English speaking person to call someone in China and translate what they said in English into Chinese for the person on the other end of the phone and vice versa.

Examples of Business Plan Ideas

Below you will find a variety of product and service business ideas from my students over the past several years. These are meant to provide you with some insights into the types of businesses that students have explored in the past. You may also want to visit the following websites for other business ideas:

<http://www.bplans.com/sp/businessplans.cfm>
<http://www.businessplans.org/businessplans.html>

Remember, the business ideas presented on those websites and below are only meant to provide you with some insights into the realm of possibilities. The goal is to develop your own idea.

Product Business Ideas

Business Ideas	Description
NavigatEar	A handheld Global Positioning System (GPS) device that provides audible directions for blind and seeing impaired individuals living in cities.
3rd Eye – Car mirror	An exterior mirror mounted on the right front quarter panel of an automobile that takes away the blind spot for drivers.
BreakFast Cookie	A nutritional cookie to meet the breakfast needs of busy adults and children.
Touring CD's	An audio CD for tourists with tracks corresponding to mile markers or historical

	reference points.
Bio diesel company	Bio diesel production equipment designed for farmers to convert a portion of their crops into inexpensive usable fuel for farming equipment.
Tire recycling plant	A tire recycling plant focused on producing usable outputs such as crumb rubber that is used in gym mats and artificial turf fields.
Micro-brewery	A strategically located micro brewery that serves high consumption markets with an alternative to traditional beer produced by national competitors.
DVD rental machine	A vending machine designed for distributing DVDs and strategically located in high traffic, high density areas on university campuses.
Glass aggregate company	A glass aggregate production company that recycles glass and uses the output for applications such as landscaping, artesian wells, etc.
Herbal atomizer	A uniquely designed atomizer that dispenses homeopathic herbs and other natural ingredients in its mist to provide several health-related benefits.
Sunburst Systems	A sophisticated submersible electronic device used to monitor critical characteristics of the water used in fish farms.
Rocky Mountain Truss Company	A high-quality, high volume truss manufacturing company aimed at meeting the increasing needs of construction companies in rapidly growing markets such as the Northwestern United States
Guarana Energia	A company that produces energy lozenges using all-natural ingredients such as guarana.

Service Business Ideas

Business Idea	Description
Genetic testing clinic	A private genetic testing clinic aimed to meet the growing demand in Saudi Arabia for couples to assess their genetic compatibility relative to bearing children.
Guides to go	A company that provides travelers with high-quality, qualified, and rigorously selected guides for adventure and/or outdoor oriented trips.
Executive Club Chain	A company that provides executive clubs at

	locations in major cities throughout the world in which executives can access computers, faxes, and administrative assistance.
TaxiAd	A company that provides plasma screens for the back seats of taxi cabs and then sells advertisements to be played while customers are riding.
Executive Retreat Center	An executive retreat center located in the mountains of Montana and providing a combination of in-class course and outdoor leadership and team building seminars.
Theme Restaurants	A variety of theme restaurants have been explored by students.
Angel and VC Consulting Firm	A consulting firm that provides due diligence and other research services for angel investors and venture capitalists who are examining potential companies in which to invest.
Comfort Cam	A company that installs video cameras in daycare facilities and provides parents with online access to live video so that they can watch their children from their desktops at work.
Concierge Now	A personal assistant service company that offers busy professionals with assistance in planning dinners, getting work done on their home, arranging travel plans, etc.
Grizpad.com	An online company designed to meet the specific needs of college students who are involved with finding an appropriate rental unit.
Home Theatre installation	A company that addresses the growing number of homeowners interested in having a complete home theatre system installed in their home.
Outsource Your Accounting	A company that matches the accounting needs of small to medium sized businesses with stay at home mothers who possess relevant skills yet represent slack and/or unused employment resources in a community.
Recruitinfo.com	An online venture that provides athletes and other “recruited” students with access to more detailed inside information regarding the schools they are interested in.



Venture Opportunity Profile Exercise

Criterion	Score	Highest potential = 10	Lowest potential = 1
<u>Industry or Market</u>			
Market: Need	_____	Market driven; identified; recurring revenue niche	Unfocused; one-time revenue
Customers	_____	Reachable; purchase orders	Loyal to others or unreachable
User benefits	_____	Less than one year payback	Three years plus payback
Value added	_____	High; advance payments	Low; minimal impact on market
Product life	_____	Durable	Perishable
Market structure	_____	Imperfect; fragmented competition or emerging industry	Highly concentrated or mature in declining industry
Market size	_____	\$100+ million to \$1 billion sales potential	Unknown, less than \$20 million or multibillion
Growth rate	_____	Growth at 30 to 50% or more	Contracting or less than 10%
Market capacity	_____	Undercapacity	At near or full capacity
Market share attainable (Year 5)	_____	20% or more; leader	Less than 5%
Cost structure	_____	Low-cost provider; cost advantages	Declining costs
<u>Economics</u>			
Profits after tax	_____	10-15% or more; durable	Less than 15%; fragile
ROI potential	_____	25% or more; high value	Less than 15-20%; low value
Capital requirements	_____	Low to moderate; fundable	Very high; unfundable
Internal rate of return potential	_____	25% or more per year	Less than 15% per year

Free cash flow characteristics	_____	Favorable; sustainable; 20-30%+% of sales	Less than 10% of sales
Sales growth	_____	Moderate to high (15-20+%)	Less than 10%
Asset intensity	_____	Low/sales\$	High/sales\$
Spontaneous working capital	=====	Low, incremental requirements	High requirements
R&D/capital expenditure	_____	Low requirements	High requirements
Gross margins	=====	Exceeding 40% and durable	Under 20%
Time to breakeven – cash flow	_____	Less than 2 years; breakeven not creeping	Greater than 4 years; breakeven creeping up
Time to breakeven – P&L	=====	Less than 2 years; breakeven not creeping	Greater than 4 years; breakeven creeping up

Harvest issues

Value-added potential	_____	High strategic value	Low strategic value
Valuation multiples and comparables	_____	p/e 20+ x; 8-10+ x EBIT; 1.5-2+ x revenue; free cash flow 8-10+ x	p/e 5+ x; 3-4+ x EBIT; .4 + x revenue
Exit mechanism or strategy	_____	Present or envisioned options	Undefined; illiquid investment
Capital market context	_____	Favorable valuations, timing, capital available; realizable liquidity	Unfavorable; credit crunch

Competitive Advantage Issues

Fixed and variable costs	_____	Lowest; high operating leverage	Highest
Control over costs, prices, and distribution	_____	Moderate to strong	Weak
Barriers to entry: Proprietary protection	_____	Have or can gain	None
Response/lead time	_____	Competition slow; napping	Unable to gain edge
Legal, contractual advantage	_____	Proprietary or exclusivity	None
Contacts and networks	_____	Well-developed; accessible	Crude; limited

Key people	_____	Top talent; an A team	B or C team
<u>Management Team</u>			
Entrepreneurial team	_____	All-star combination; free agents	Weak or sole proprietor
Industry and technical experience	=====	Top of the field; super track record	Underdeveloped
Integrity	_____	High standards	Questionable
Intellectual honesty	_____	Know what they do not know	Do not want to know what they do not know
<u>Fatal-flaw issue</u>	_____	Non-existent	One or more
<u>Personal Criteria</u>			
Goals and fit	_____	Getting what you want; but wanting what you get	Surprises
Upside/downside issues	_____	Attainable success/limited risks	Linear; on the same continuum
Opportunity costs	_____	Acceptable cuts in salary, etc.	Comfortable with status quo
Desirability	_____	Fits with lifestyle	Simply pursuing big \$
Risk/reward tolerance	_____	Calculated risk; low R/R ratio	Risk averse or gambler
Stress tolerance	_____	Thrives under pressure	Cracks under pressure
<u>Strategic Differentiation</u>			
Degree of fit	_____	High	Low
Team	=====	Best in class; excellent free agents	B team; no free agents
Service management	_____	Superior service concept	Perceived as unimportant
Timing	_____	Rowing with the tide	Rowing against the tide
Technology	_____	Groundbreaking; one-of-a-kind	Many substitutes or competitors

Flexibility	_____	Adaptable; commit and decommit easily	Slow; stubborn
Opportunity orientation	=====	Always searching for opportunities	Operating in a vacuum; napping
Pricing	_____	At or near leader	Undercut competitor; low prices
Distribution channels	_____	Accessible; networks in place	Unknown; inaccessible
Room for error	=====	Forgiving strategy	Unforgiving; rigid strategy



Writing a Mission Statement Exercise

Construct your own draft of a mission statement by filling in the blanks below. As you customize this “generic” mission statement, you will force yourself to think about the fundamental vision and purpose of your business.

_____ [produces or provides] _____
name of company *what you do*

for _____. Our geographic market is _____.
general customer type *place*

and our customers are _____. Our first priority is _____.
specific customer type *priority*

We are superior to our competitors because _____.
What, specifically, makes you superior

Our [product or service] is _____. It is
Product or service

exceptional because _____.
What, specifically, makes it exceptional

In providing our [product or service], our primary goal is _____.
Choose one *company goal*

We will achieve this goal by _____.
How, specifically, you will achieve your goal

A **strategic position** is a general indication of how this business will behave in its attempt to achieve its overall mission and secure a competitive advantage. It is management’s overall plan of action for running the business in response to external opportunities and threats, based on awareness of its market, assessment of its strengths and weaknesses, and the business’s set of distinctive competencies. The strategic position grows directly out of the final part of the mission statement: it develops the basic “real world action” theme.

Often, small businesses fail to give specific attention to a strategic position and instead emphasize short-term goals. In this situation, the firm’s strategic position evolves as a reflection of past actions: it describes what the firm has done rather than defines what the business will do. Such a position fails to reinforce the sense of direction generated by the mission statement’s vision.



Location, Location, Location Exercise

To assist you in making a location decision, you should use a site rating sheet such as the one recommended by the Small Business Administration. It will help you evaluate the factors and come up with the highest rated location.

Grade each factor: 1(lowest) to 10 (highest)

Weigh each factor: 1(least important) to 5 (most important)

- | | | |
|---------------------------------------------------------------|-------|-------|
| 1. Centrally located to reach my market. | _____ | _____ |
| 2. Raw materials readily available. | _____ | _____ |
| 3. Quantity of available labor | _____ | _____ |
| 4. Transportation availability and rates | _____ | _____ |
| 5. Labor rates of pay/estimated productivity | _____ | _____ |
| 6. Adequacy of utilities (sewer, water, power, gas) | _____ | _____ |
| 7. Local business climate. | _____ | _____ |
| 8. Provision for future expansion. | _____ | _____ |
| 9. Tax burden. | _____ | _____ |
| 10. Topography of the site (slope and foundation). | _____ | _____ |
| 11. Quality of police and fire protection | _____ | _____ |
| 12. Housing availability for workers and managers. | _____ | _____ |
| 13. Environmental factors. | _____ | _____ |
| 14. Estimate of quality of this site in five years. | _____ | _____ |
| 15. Estimate of this site in relation to my major competitor. | _____ | _____ |



Market Opportunities and Marketing Exercise

Take a few moments to discuss each of the following questions with your group and write down your answers. You should explain in detail each response.

What are the characteristics of the industry and competitors for your new venture?

What are the characteristics of the customers that you are trying to attract?

Product decisions (justify each response):

What are the tangible attributes of your product or service (quality, style, packaging, branding, other features)?

What are the extended features that you are planning to provide (guarantees, warranties, services, etc.)?

Distribution decisions (justify each response):

What types of distribution channels/middlemen will you use?

Where will operations be located? What will be critical for determining the location?

Will you require any significant additional storage areas?

What are the transportation and logistics issues that you will need to address?

What service levels for distribution will you require?

Pricing decisions (justify each response):

What are the specific objectives for determining your price (i.e., discourage entrants, increase sales, discourage price cutting)

To what extent is there flexibility in pricing?

What will your pricing strategy be (i.e., day-to-day, price stability, etc.)?

Which of the following will you use: markup pricing, break-even pricing, target return pricing, going-rate pricing, demand-modified breakeven pricing, perceived-value pricing, skimming, or penetration? Why did you select this type of pricing strategy?

Promotion decisions (justify each response):

What type of sales promotion do you plan to use?

What type of advertising do you plan to do and where?

What is the potential for using publicity as a form of promotion?

Will your business require personal selling? How will you do this?



**What type of financing are you seeking?
What type of financing will you need later?**

Given the various stages of financing, create a financing plan for your company. This should include what types of financing you will seek and when.

Seed financing

- Small amount to prove concept
- Market research, product development

Startup financing

- Product development and initial marketing complete
- Business plan and management team in place

First-stage financing

- Expended initial capital
- Funds needed to go full-scale in manufacturing and sales

Second-stage financing

- Provides working capital for expansion of company that is producing and shipping and has growing accounts receivable and inventories

Third-stage financing

- Major expansion for firm that has increasing sales and is at breakeven or profitable
- Funds used for marketing, working capital, plant expansion, or development of improved product

Bridge financing

- Between stages, plans to go public in next 6 months



Debt of other forms of financing exercise

Whether requiring initial startup capital, funds for growth, or working capital, entrepreneurs find a variety of sources for internal and external funding along the way. The businesses that you are currently working on will have a wide range of financial needs at different stages. This exercise is designed to have your group fully consider the range of resources available to you. Please read through the questions and refer to the Bygrave book if necessary to develop a comprehensive plan for where you might acquire the necessary funds.

Part I: Initial sources of funding

Initially your business will probably use the personal resources of the founders. Discuss these sources with your team and complete the table provided below:

Team member	Personal savings	Credit card possible	Immediate family	Other family/friends	TOTAL
1.					
2.					
3.					
4.					
5.					
6.					
TEAM TOTAL					

Part II: Working capital from receivables

Working capital is defined as current assets minus current liabilities. If a new venture experiences more rapid growth in current liabilities than in current assets, the new venture may be in jeopardy. Therefore it is important that the founders carefully monitor these flows. The problem is that many entrepreneurs fail to recognize the fact that accounts receivable cannot always be considered a current asset. Ventures that build up large accounts receivable with collection periods longer than creditors extend on accounts payable will also be in jeopardy. Obviously, the key is understanding these flows before you end up in a cash crisis.

Consider the following questions:

1. Will your business be extending any credit to customers (including credit card sales and credit accounts)? If your answer is no, skip down to question 6.
2. How long will it take for you to receive cash for these credit sales?
3. What percentage of all sales do you expect to be credit versus cash?
4. What does this translate to in terms of a dollar amount? For example, if your sales are \$120,000 per year and you receive payment every 30 days and all sales are credit, then you would be carrying \$10,000 in accounts receivable ($1/12$ year X \$120,000).
5. How will this affect the amount of time you hope that your suppliers will extend to you on your accounts payable?

If you extend credit you can skip the next question.

6. If you are not extending credit to your customers, why aren't you? Do your competitors extend credit? How will this affect your sales?

Part III: Inventories

Nearly all ventures require some type of inventory. Inventories tie up a significant amount of resources and also incur carrying costs such as providing storage areas, insuring inventories, and protecting inventories from theft and deterioration. Think about the business that you are entering and answer the following questions.

How large of an inventory will you be required to carry? Provide a general list of the items and estimate the cost of purchasing these items.

Now, discuss with your group how much the carrying costs will be for maintaining this inventory?

What are the positive and negative impacts of carrying a lower inventory than this?

Part IV: Cash from short-term bank loans

Consider the possibility that your business falls into a cash crisis.

What would the value of your accounts receivable be to a finance company if you pledged them?

What would the value of your inventory be to a finance company if you pledged it?

Part V: Cash from trade credit

Entrepreneurs often turn to trade credit as a low-cost source of cash. Basically what the entrepreneur is doing in this case is to delay payment to suppliers for 10, 30, or even more days. Think about the suppliers for your company.

Would it be advantageous to extend the payment cycle to suppliers? How much more working capital could you gain from this?

Unfortunately, many entrepreneurs take this too far and suppliers take action. What are some of the actions that your suppliers could take?

What are the chances that your particular suppliers would take such action?

What are the long-term implications that such actions might have on your business?

In general, are there any advantages that you might be forgoing by not paying on time? Think about the discounts for on time payment that your suppliers might offer.

Part VI: Bank loans through accounts receivable

There are many options that ventures have for using accounts receivable as a source of acquiring bank loans.

Briefly define what pledging entails.

Would it be likely that your business would have to engage in pledging? If so, under what circumstances would it be favorable?

Briefly define what factoring entails.

Would it be likely that your business would have to engage in factoring? If so, under what circumstances would it be favorable?

Part VII: Obtaining loans against inventory

Briefly define each of the terms below and indicate whether it might be applicable to your business and how.

Chattel mortgage –

Floating lien –

Field warehousing –

Public warehousing -

Part VIII: Traditional loans from banks

Will bankers consider your business to be an attractive candidate for a loan?

What will it take for banks to consider your business attractive – proven success over time, equity investment, personal investment, capital assets, etc.?

What type of interest rate might you expect to get on a short-term loan?

What would you expect to get regarding the interest rate and term of a long-term loan?

What type of collateral might you expect to put up in order to secure a loan from a bank? Does anyone in your group possess such collateral?

How much money could you expect to get in a short-term and long-term loan for your business?

Part IX: Conclusion

Given your group's discussion of the issues surrounding financing, are there any changes that you would make in terms of where you might expect to get money and how much money you might expect to get? Take some notes about what you have learned.



How much is your company worth?

One of the most important steps for gaining venture capital funding is to determine how much your company is worth at each stage. Determine how much your company is worth using a variety of valuation techniques. Some of these techniques are listed below.

Asset valuations

Book value
Adjusted book value
Liquidation value
Replacement value

Earnings valuations

Three basic kinds of earnings: historical, future earnings under present ownership, future earnings under new ownership
Example: 7 times projected attainable earnings
Price-earnings multiple

Cash flow valuations

Operating cash flows
Terminal value
Tax benefits



Legal and Tax Issues

There are several issues that must be considered when deciding what form of business entity your new venture will take. This exercise has been designed to make sure that you fully consider the issues involved. Please consider each of the following forms of businesses in your responses: Sole Proprietorship, Partnership, Corporation, Subchapter S Corporation, Professional Corporation (PC), Limited Liability Corporation (LLC), Limited Partnership, and Non-profit Entity.

Control Issues

What form of business would be the best for you in terms of control issues?

What control are you giving up based on the form of business that you have selected?

Personal Liability Issues

What type of personal liabilities might you face in your business? What form of business would protect you the most in terms of personal liabilities?

What are the liabilities that you might still be concerned with given your choice of the form of business that you will be?

Taxation Issues

What tax issues will you be concerned with regarding your new business venture?

Given your choice of business form, how will taxes be handled (i.e., what will the personal and corporate tax issues be and how will you manage these?)?

Naming your business

What are the legal issues that you will have to address given the form of business that you have selected?

Employment issues

What employment issues will be important to address before starting your new business venture?

Insurance

List all the types of insurance that you will need to acquire for your business and explain the need for each.

Exiting the company

Eventually one of the founders is bound to leave the company. Are there any legal issues that should be addressed up front regarding such departures? Explain.