**Management 295A**

**ENTREPRENEURSHIP AND VENTURE INITIATION**

**Spring 2013**

Professor Jeff Scheinrock

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**Brief Description:**

This course provides a broad overview of the process of starting a new company. With newly revamped curriculum, Jeff Scheinrock will help you analyze and evaluate ideas for startups with a feasibility framework that you can use for many years to come. You’ll cover important aspects of starting, developing, and growing a new enterprise. The quarter begins by defining and providing perspective on entrepreneurship. We then move to a discussion of the recognition, evaluation, and exploitation of opportunity through a newly created feasibility framework. The quarter concludes with a discussion of exit opportunities, from mergers and acquisitions to IPOs.

**Course Objective:**

To familiarize students with entrepreneurship, the venture initiation process, business plans and major frameworks useful in the analysis and evaluation of the venture opportunities.

**Required Readings:**

* Course reader.
* Feld, Brad. *Venture Deals: Be Smarter Than Lawyer and Venture Capitalist*. 1st ed. Wiley Publishing, 2011.

**Recommended Additional Reading:**

* Bagley and Dauchy, *The Entrepreneur’s Guide to Business Law*, South-Western College Publishing (3nd Edition), 2007.
* Bygrave and Zacharakis, *Portable MBA in Entrepreneurship*, 4th edition, John Wiley, 2009.
* Mullins, John. *The New Business Road Test: What Entrepreneurs and Executives should do before writing a business plan*. 2nd Ed. FT Press, 2004.
* Ries, Eric. *The Lean Startup: How Today’s Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses*. 1st ed. Crown Business, 2011.
* Blank, Steven. *The Four Steps to the Epiphany: Successful Strategies for Products that Win*. 2nd Ed. Cafepress.com, 2005.
* Timmons and Spinelli, *New Venture Creation: Entrepreneurship for the 21st Century,* 8th edition, Irwin/McGraw, 2008.

**Web Sites**

You are encouraged to access web sites focusing on entrepreneurial issues. There are many such resources, including:

<http://www.eventuring.org> (Kauffman foundation’s guide for entrepreneurs)

[www.pwcmoneytree.com](http://www.pwcmoneytree.com) (Venture capital investment activity)

[www.startup.wsj.com](http://www.startup.wsj.com) (Wall Street Journal center for entrepreneurs)

<http://money.cnn.com/smbusiness> (CNN Money small business center)

[www.sba.gov](http://www.sba.gov) (Small Business Administration)

<http://www.uspto.gov> (Patent & Trademark Office)

[www.bplans.com](http://www.bplans.com) (Sample business plans)

[www.startupbiz.com](http://www.startupbiz.com) (Business plans & forms)

**Case analyses (Team)**

You are expected to analyze all cases prior to their discussion in class. Use the assigned questions as guidelines for analyses. Students are expected **to submit five written cases.** Case write-ups should be done in a study team consisting of no more than four members. The written case analyses are due at the beginning of the class session when the case is discussed. Each case write-up should be about five pages. **Even though cases are written up as a team effort, students should conduct independent research and be prepared to present your analysis (for all cases) in class**.

List of cases:

* R&R
* Vermeer Technologies
* Zipcar
* Room for Dessert
* Mason & Shepherd
* NanoGene Technologies
* Kendle International
* RightNow Technologies
* Beta Golf
* Onset
* Keurig

**Other Written Assignments**

###### Midterm Entrepreneurial Report (Individual, Due February 4, 2013)

Entrepreneurship is learned through mentoring. Find an entrepreneur who either succeeded or failed and find out what happened. Learn from that entrepreneur’s experience. You can pick members of your family, but you CANNOT pick other current Anderson students. Anderson alums are permitted. Make sure the person you pick has lessons for you -- either sobering or inspiring.

Describe the business and the entrepreneur. Why did this person start the business? Focus on the personal and situational characteristics or factors that led to the formation of the venture. How was the business financed and staffed? What made the entrepreneur think this was feasible? What were some key tradeoffs the entrepreneur had to make? What were the hard decisions the entrepreneur made? What was the biggest obstacle the entrepreneur confronted and overcame? If the business succeeded, what were the key success factors? If the business failed, what were the fatal flaws? You should focus on the very early stages of the startup, when the entrepreneur was struggling to make the leap and gather the resources.

You can use the framework and perspective developed in RS Chapter 1 to guide your investigation. Prepare a five page written report and be ready to present your investigation to the class.

Feasibility Study (Team, Due March 11, 2013)

Explore the feasibility of an entrepreneurial opportunity of interest to you. Prepare a paper (with supporting exhibits) that follows the feasibility framework covered in class. This will address issues such as the following:

* The concept
* The market, including a calculation of the TAM
* Target customers
* Competition
* Sales and marketing plan
* Your competitive advantage
* Expected funding requirements

This assignment is **due on March 11, 2013**. You must turn it in at the beginning of class.

**Course grade:**

Course grades are determined as follows:

Attendance & Participation (individual) 25%

Midterm Report (individual) 15%

Five Graded Case Analyses (team) 25%

Feasibility Study & Presentation (team) 35%

*Note: Since a significant part of learning takes place during class sessions, attendance, active case preparation and class participation are all expected. If you have any unexcused absences, your final grade will be lowered.*

**Schedule**

**Session 1: Feasibility Framework**

**January 7 ,2013**

Readings:

Perspective on Entrepreneurship

Lecture :

* Course introduction, administration, team formation
* What is entrepreneurship?
* Overview of a feasibility study
* Discussion, Q&A of feasibility analysis
* Focus on gross margins

Case Assignment: R&R

1. What factors created an opportunity for Bob Reiss and the "TV Guide Game?”
2. What risks and obstacles had to be overcome in order to pursue the opportunity successfully? How did Bob Reiss accomplish this?
3. Would this approach have worked for Parker Bros., or Milton Bradley?
4. How successful (financially) was Reiss? Why was he successful?
5. As a result of this success, what should Reiss do now?

**Session 2: Philosophy of an Entrepreneur**

**January 14, 2013**

Readings:

Some Thoughts on Business Plans

Lecture:

* Rule #1
* You are wrong
* Nothing happens until somebody sells something
* Contain risk as early as possible
* First who, then what
* FOCUS – Follow One Course Until Successful
* Ask the tough questions
* One big science experiment
* What’s your why?
* Be attached to the problem, not a particular solution
* Get in over your head
* Learning from failure
* You only have 15,000 days left

Case Assignment: Vemeer Technologies (A)

1. What decisions did Charles Ferguson make, and what actions did he take, from late 1993 through January 1995 to build an enterprise that attracted an offer from a group of venture capital firms to invest $4 million for 51% of the company
2. As Charles Ferguson, would you agree to the proposed deal?
3. In January 1995, what can go right and what can go wrong for Vermeer? As Charles Ferguson, what would you do to seize the opportunities and mitigate the risks?

**Session 3: Financials and Business Models**

**Friday, January 25, 2013**

Readings:

Note on Business Model Analysis for the Entrepreneur

Lecture:

* Financial feasibility for startup
* The right way to build a pro forma
* Financial analysis, unit economics
* Most important financial indicators for feasibility analysis
* What is a business model?
* Overview of business models
* Lifestyle versus growth business
* Financial issues for startups

Case Assignment: Zipcar: Refining the Business Model

1. Evaluate this potential venture and the progress that Chase has made?
2. What is the business model, and how has it changed between December 1999 and May 2000? What do the data from actual operations in September say about how the business model is playing out in practice? Does this data give you comfort or concern?
3. What actions should Chase take as a result of the September operating results?
4. What is the strongest argument Chase could make to a potential investor about the attractiveness of the venture? What, specifically, should her elevator pitch be at the Springboard forum?

**Session 4: Product and Marketplace**

**January 28, 2013**

Lecture:

* Minimum viable product
* Value proposition - is it a vitamin, a pain killer, or a cure?
* Effective market research
* How big is your market? Determining market size
* The key questions to ask about product and competition
* Why competition is a good thing
* Building a competitive matrix
* Differentiation and why it’s important

Case Assignment: Business Plan for Room for Dessert

1. How do you rate the business plan for RFD? How do you rate the business plan itself? (Use a 1 to 5 scale, 1 being very weak and 5 being very strong.)
2. Who is the audience for the plan, what are their needs, and how well does the plan meet those needs?
3. Evaluate the key strengths and weaknesses of the business idea being proposed. What are the key drivers of the economics of the business?
4. Who are the core customers for the business and why might they value the RFD offering relative to alternatives?
5. What are the minimum launch criteria that Conforti and Moore should set for the business prior to actually committing to the venture?

**Session 5: People & Midterm Reports**

**February 4, 2013**

Assignment:

Midterm entrepreneurial report is due. Be prepared to present your interview.

Lecture:

* How to pick your team
* Partnerships
* Three kinds of people in a startup
* Equity & founders
* Hire slowly, fire fast
* Build before you partner
* Founder & employee vesting

Case Assignment: Sheila Mason & Craig Shepherd

1. Evaluate the situation in which Mason and Shepherd find themselves with respect to their existing employees. What legal and ethical issues do you see, and how would you advise them to proceed?
2. Evaluate the non-disclosure agreement and its potential impact on venture capitalists considering an investment in Intelisoft. Do you think it is reasonable to expect potential investors to sign such an agreement? As a VC, why would or wouldn’t you sign? What are the effects of the “residuals clause” suggest in Exhibit 4? Should Mason & Shepherd agree to this?
3. Do Mason & Shepherd need a lawyer? If so, how should they select one?
4. What actions should Mason & Shepherd take in order to terminate their employment relationship with their current employers?

Case Assignment: NanoGeno Technologies, Inc.

1. Evaluate the founders’ decisions regarding the split of equity and compensation level. As a potential venture investor in the company, would these decisions concern you?
2. Evaluate the size the composition of the founding team. What is the difference between being a “founder” and an early employee?
3. Evaluate Paige Miller as an addition to the team, and assess her compensation demands. Would you hire her on the terms she seeks?
4. Assess the company’s progress on each of the specific issues discussed in the last section of the case; the hiring process; a compensation policy; the company’s culture. Specifically, in each of these areas, what should the company do?

**Session 6: Intellectual Property, Valuation, Term Sheets**

**Friday, February 15, 2013**

Readings:

The Legal Protection of Intellectual Property

Lecture:

* What is intellectual property?
* Why IP is important to early-stage companies
* How to leverage IP to build sustainable competitive advantages
* Overview of a term sheet, with sample term sheet
* How early-stage companies are valued
* The truth behind startup valuations
* Negotiating a term sheet with potential investors

Case Assignment: Kendle International

1. How does the CRO business work? How is Kendle doing?
2. What strategic choices does Kendle face? Can it survive as a privately owned domestic company or does it need to become a much bigger firm with operations outside the US?
3. Should Candace Kendle and Christopher Bergen consider selling their firm to another company in early 1997? How does the potential sales price of the firm compare to its underlying economic value as a stand-alone firm?
4. Do the acquisitions of U-Gene and gmi make sense? Are the proposed deals priced fairly?
5. What strategy would you recommend? Proceed with both acquisitions now or do one followed by an initial public offering (IPO) and the second acquisition later?

Case Assignment: RightNow Technologies

1. Evaluate the progress of the company and its situation at the year-end, 2003.
2. Based upon the data in the case, what is a fair value for RightNow? If the company hits its forecasts, what could the company be worth in the future?
3. As Gianforte, what is the lowest price you would sell at? As the venture capital (VC) investors? If these answers are different, how should Gianforte’s views and desires be weighed against those other board members/investors?

**Session 7: Sales & Marketing**

**February 18, 2013**

Readings:

Valuation, Financing and Capitalization Tables

How Venture Capitalists Evaluate Potential Venture Opportunities

Lecture:

* Every entrepreneur is a salesperson
* How to pitch your startup
* Identifying your target market
* Building a roll-out plan
* Compensation for sales reps
* Financial implications for sales strategies
* Benefits versus features
* PR and Advertising

Case Assignment: Beta Golf

1. Why does Beta Group exist? What economic function does it serve? What is the business model for Beta? What does this tell us about translating innovation into value?
2. What is a sensible development plan for the HXL technology? Of the various choices for exploiting the technology, which would you choose? Why? In what order?
3. Given the response from Callaway, what should Zider and Krumme do next?
4. What would happen to this project if it were developed inside an existing industry competitor? What would a venture capitalist do with Beta Golf?

**Session 8: Investors**

**February 25, 2013**

Readings:

New Venture Financing

Deal Structure and Deal Terms

Lecture:

* The two things professional investors invest in
* 3 F’s – Family, Friends and Fools
* How to get investors interested in your company
* The current outlook on venture capital
* Find the VCs that invest in your industry
* Cap table overview & discussion
* Discussion on business plans for investors

Case Assignment: How Venture Capitalists Evaluate Potential Venture Opportunities

1. Before reading the chapter/case, develop your own set of criteria for evaluating a potential new venture.
2. Based upon the case, as well as your own model developed above, develop a fully-fleshed out model of the criteria that should be used. On what criteria do the VCs seem to be in agreement with each other, and on which do they differ? In what ways does their model differ from your own?
3. To what degree do you believe that the feasibility study (studies) you are considering for this course conforms to the fully-fleshed out model for venture capital investing you developed in question 2?

Case Assignment: Onset Ventures

1. What is Onset’s model for the factors that create an attractive opportunity?
2. Do you agree or disagree with each of the elements of the model?
3. How much should Onset raise in this latest fund?
4. Evaluate Onset’s actions with respect to TallyUp so far. How should the firm deal with the issues presented at the end of the case?

**Session 9: Startup Primer – How to Build a Company**

**March 4, 2013**

Readings:

Managing Risk and Reward in the Entrepreneurial Venture

The Legal Forms of Organization

Managing the Growing Venture

Lecture:

* Financial growth pains of an early-stage company
* Growth cycles of a maturing company
* Get used to hearing “No”
* How to build your brand
* You can’t do everything yourself – knowing when to delegate
* Keep the main thing the main thing
* Fire yourself – your company will outgrow you
* Will the dogs eat the dog food?
* Review of a feasibility analysis

Case Assignment: Keurig

1. How attractive is the Keurig system to each of the following participants in the Office Coffee market?
   1. Typical office coffee distributor
   2. Coffee roaster (use Green Mountain as typical)
   3. Keurig
   4. Typical office manager
   5. Coffee drinking employee

It will help class discussion to use some common assumptions:

* Number of brewing units in offices = 1,937,000 (Exhibit 6)
* Number of cups consumed per brewing unit per day = 43
* Number of work days per year = 250
* Number of cups consumed per year in offices = 20.8 billion (product of three assumptions above)
* Current average cost of cup consumed = $0.125 per cup (Exhibit 6)
* Profit to Keurig per K-cup produced = $.04
* Output per year for packaging line = 16.125 million K-cups (needed to support 1,500 brewers)
* Price per K-cup to office coffee distributor = $.25
* Price per K-cup to office manager = $.50

1. What advice do you have for Nick Lazaris concerning his dealings with MTS, the current vendor for the packaging line, and the other potential vendors? Be specific: What price goal would you have for the negotiation and what would you negotiating strategy be?
2. What advice do you have concerning the selection of the vendor for the brewing machine?
3. What actions should Keurig take to penetrate the office coffee service market? Be specific: How should they price the brewing machine to the OCS distributors? How rapidly should they plan to grow and what should they do to avoid constraints on this growth plan?
4. What should they do about the home coffee segments? How soon should they plan to enter, and what actions should they be taking now to facilitate this entry?

**Session 10: Feasibility Study Presentations**

**March 11, 2013**

Assignment:

Feasibility study report is due. Be prepared to present your findings as an *elevator pitch*.

More details later in the quarter about expectations.

**Session 11: Feasibility Study Presentations Continued**

**March 18, 2013**

Session held on an as-needed basis.