

MM 80401
ENTREPRENEURIAL FINANCE

Tuesdays
7:00 - 9:30 pm
Spring, 2011

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Course Objectives

When the economist Joseph Schumpeter applied "entrepreneurship" to economics in 1911, he did so as a way to acknowledge the role of a group of people that held great significance to flourishing economies: these people were *the innovators* in the world of enterprise, in devising new ways of creating value. Today, the importance of that role is as crucial as ever. Where before entrepreneurship was deemed an unpredictable, innate characteristic of a few people, it is now viewed as a concept that can be taught, nurtured, and developed like many of the other managerial arts.

As much as one-third of the difference in national economic growth among countries may be due to differences in entrepreneurial activity. Each year in the U.S., 600,000 - 800,000 new companies are launched. That's a birth rate of 14-16 start-ups for every 100 existing businesses. Another two million U.S. businesses are begun each year as self-employment ventures, or businesses without employees. As many as 8.4 out of every 100 U.S. adults-- 16 million Americans in all-- are right now trying to start businesses of their own.¹ In 2005, six times as much classic venture capital was invested in the U.S.A. as in all the European nations combined.²

In the United States, only 17,000 firms, out of 5.7 million, have more than 500 employees. In statistical terms, small firms represent about 99% of employers, employ about half of the private sector workforce and generate between two thirds and three quarters of the net new jobs.³

You may not be sure what you want to be "when you grow up," and it may take some bad experiences at different companies that others have started to convince you that you'd be better off launching a venture on your own. Even having a decent job doesn't guarantee that you'll end up feeling satisfied with it. This sort of tension has always existed when young, smart employees run up against an entrenched system. The decision to start a company should involve some pretty serious soul-searching, however.⁴ Fewer than one third of all new ventures will still be operating after three years.⁵ You'll need to be your own general manager, conversant in all company disciplines, or have the ability to objectively assess your own strengths and weaknesses, and outsource and/or hire for the areas in which you, or your management team, are deficient.

Instead of founding your own company, perhaps your calling is to join the management team of a rapidly growing start-up. You'll have the opportunity to flex your entrepreneurial muscles by wearing a wide variety of "hats," and receive the added bonus of experiencing how businesses are built and run first-hand. Although you'll be learning on someone else's "nickel," your job will often involve 60 or 70-hour work weeks on a regular basis.

¹ Global Entrepreneurship Monitor, 1999 Executive Report, section II. Business Week, "The New Economy," Introduction (1/31/00).

² Global Entrepreneurship Monitor, 2005 Executive Report

³ Small Business Economic Indicators for 2003, SBA Office of Advocacy, pg 3

⁴ Adapted from "Upstart Start-ups," by Ron Lieber, Chapter 1, c 1998.

⁵ Starting New Ventures, BU School of Management MG852 syllabus, pg 2.

Regardless of which career path you choose, a comprehensive understanding of finance is an essential ingredient in the "recipe" for business success. No longer can the assumptions underlying financial projections be treated as "black boxes." In many cases, the answer is less important than the analytical process used to calculate it. This course is designed for students who may at some point be interested in pursuing managerial careers in the entrepreneurial sector, and covers the development of financial and business skills to identify, evaluate, start and manage new ventures.⁶

Course Approach and Timing

Readings for the course will primarily be in the form of case studies, and will be supplemented by guest speakers, presentations, and readings from academia and industry.

As budding entrepreneurs, I'm interested in watching you think-on-your-feet, instead of regurgitating information from reading assignments. I want our time each week to be in a discussion format, with a constant challenging of viewpoints from the instructor and students alike. Most importantly, you should gain an appreciation of how entrepreneurial businesses are built, run and financed, and *have fun learning* in the process.

The first half of each class (7:00 - 8:20 pm) will be spent discussing the case. One student will be randomly selected at the beginning of each session to open the case, and provide a 3-5 minute overview of the basic case facts.

After taking a short bio break, we'll reconvene at 8:30 pm. The second half of each class will often include mini-presentations on specific topics, other guest speakers, and/or a discussion of the supporting reading assignments.

Although each class will generally follow the pattern above, scheduling issues with guest speakers, etc. might necessitate changes.

⁶ Entrepreneurial Finance Syllabus, Harvard Business School. Other material in this syllabus has been adapted from the Harvard MBA course.

Grading

For the purpose of grading, assignments will be weighted as follows:

Class Participation	30%
Mid-term Exam	20%
Final Exam	30%
Case Write-up	20%
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TOTAL	100%

1. *Class Participation.* Students are expected to attend every class and participate on a regular basis. Less value will be placed on the quantity of your contributions than on their quality. Absence from three or more classes, or failure to send in your e-mail comments three or more times can result in a failing grade for this course. If you have to miss class for any reason, please notify me in advance. To allow me to get to know you more quickly, please select your seat for the semester at the start of class #2.

2. *Mid-term Exam.* The Mid-Term will be a 15-minute oral analysis of a current business and/or financial event, followed by a 5-minute question-and-answer period. (Feel free to work in teams of up to 3-4 people). We'll do two presentations/class over multiple sessions.

3. *Case Write-up.* In class #6, we'll study a case called Cooper Industries. The exercise will involve a valuation of Nicholson File Company as a possible acquisition. Instead of responding via email to these questions, the answers should be submitted as an individual assignment in writing.

4. *Final Exam.* The Final Exam will be an individual take home case. The exercise will be identical to the case analyses we'll do throughout the semester. It will be due on **May 4th, 2011 (Wednesday), at 12 noon in front of Fulton 226(A) (in the box).** Please submit your paper in hardcopy form, instead of via e-mail. Separate final exam instructions will be provided.

Office Hours/Points of Contact

Office hours are by appointment. I enjoy the opportunity to get to interact with you as much as possible. E-mail has proven very helpful in this regard. Please don't hesitate to contact me if you need assistance in any manner, or have comments, concerns or words-of-praise for some aspect of the course.

I can be contacted as follows:

Office: Fulton Hall, Room 226(A)
Telephone: 617-233-5666
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E-mail: gregory.stoller.1@bc.edu

My home phone # is 781 444 5674. If you need to reach me in an emergency, please call me *before 9 pm at night*.

Syllabus Changes & Updates

The intention is to follow the syllabus as presented. However, changes to both order and content will occur to make the best use of available or new resources (i.e. guest speakers), or to explore in greater detail topics that arise during class discussions. Changes and specific assignment questions will be announced during class, and students that are absent are responsible for obtaining relevant changes from their classmates.

WebCT Access

In an effort to cut down on copying costs, several in-class presentations and articles will be electronically stored on the *WebCT* site for the course. Here's some information on the system:

- a) User Names & Passwords (PIN): As part of your matriculation into this class, Academic Services has issued you a user name and password.
- b) WebCT Online Access: Please use the following URL's to access the *WebCT* system:
 - a. *BC Network Access*: If you're already logged into the BC network, use the pull-down menu in AGORA for *WebCT* access. (might not yet be available for the new CMS system)
 - b. *Internet Access*: If dialing in from outside the BC network, use <http://cms.bc.edu> (note that www is NOT required)
- c) Course Selection: After logging into WebCT, the name of this course is: MM804.01 Entrepreneurial Finance (Stoller) Spring, 2011. Clicking on this link will provide you with access to the course.
- d) Modules: The *WebCT* site has been divided into 3 modules for this course:
 - a. *Study Questions*: *WebCT* also provides a direct link to the study questions for this course, as explained above.
 - b. *Readings*: Here you'll find various reading notes, background material, articles and links related to entrepreneurship and finance.
 - c. *Academic Center*: This section of the site will be used for the course's academic resources. Folders have been created for the class' email list, electronic version of the course syllabus, In-class Lectures & Handouts, and specific course readings.

- e) Troubleshooting: Please keep the following in mind when using the *WebCT* system:

Help: General information and FAQ's (frequently asked questions) about the *WebCT* system is available at: General information and FAQ's (frequently asked questions) about the *WebCT* system is available at: <http://www.bc.edu/elearning>

Please email cms@bc.edu for questions regarding system access and any troubleshooting issues affecting your *individual computer*.

Please visit *WebCT* **at least 2 times/week** to keep current on course content.

Reading Assignment Key

Case	Harvard Business School Case Study or article
Case (*)	Separate case to be handed out in class or in copy packet
STOL	Photocopied chapters <i>or</i> cases from <u>Strategies in Entrepreneurial Finance</u> book
ANAL	Chapter from <u>Analysis for Financial Management</u> (Higgins)
ECON	<i>Economist Magazine</i> article
HBR	<i>Harvard Business Review</i> article
ANGEL	<i>Angel Advisor Magazine</i>
CLAPP	Article from Andrew Clapp
On-line	Refers to presentations and/or content that is stored on the "MM804.01 Entrepreneurial Finance" section of <i>WebCT</i> .

There are also other readings that will be handed out throughout the semester.

Assignments

Class #1: Introduction / Financial Modeling I (Statements) 1/18 (Tue)
Module: Introduction / Modeling

1st half
discussion *Business Planning*

1. What is Entrepreneurship?
2. What is an effective Business Plan?
3. Why is Entrepreneurial Finance so integral to the process?

2nd half
discussion *Financial Modeling I (Statements)*

1. How does one apply finance in practice?
2. How do CFO's *really* read the income statement, balance sheet, and statement of cash flows?
3. How do Venture Capitalists read and interpret those same statements?

Class #2: Financial Modeling II (DCF & VC Methods) 1/25 (Tue)
Module: Modeling

Case: None

Readings: The Process of Financing (STOL)
Financing Participants (STOL)

Online: "A Method for Valuing High Risk, Long-Term Investments:
The Venture Capital Method" (optional)

Class #3: Business Planning 2/1 (Tue)
Module: Financing and Opportunity Assessment

Case: Technical Data Corporation: Business Plan (HBS 9-283-073)

Readings: Introductory Text, Financing and Opportunity Assessment (STOL)

Class #4: Sources of Capital **2/8 (Tue)**
Module: Financing and Opportunity Assessment

Case: Cityspace (HBS 9-899-073)
Info: Cooper's Assignment

Class #5: Opportunity Assessment **2/15 (Tue)**
Module: Financing and Opportunity Assessment

Case #1: Frogtown Cellars (STOL)
Info: Mid-term instructions

Class #6: Valuation **2/22 (Tue)**
Module: Financing and Opportunity Assessment

Case: Cooper Industries (HBS 9-274-116)
Readings: None
Info: Half-Time Feedback Class Evaluation

Class #7: Financial Strategy **3/1 (Tue)**
Module: Financing and Opportunity Assessment

Case: Personal Physicians HealthCare: The Patient is Always Right! (STOL)
Readings: "Managing Growth," (chapter 4, ANAL)
Introductory Text, Managing Growth and Performance Monitoring (STOL)
"House Calls" (Newsweek, 2/7/05)
Due: Mid-Term Topics & Team Assignments (self-selected)

There is no class on March 8th due to Spring Break. Enjoy the time off!

Class #8: Managing Alliances **3/15 (Tue)**
Module: Performance Monitoring

Case: Sesame Workshop: Growing Pains or Midlife Crisis? (STOL)

Readings: "Is your strategic alliance really a sale" (HBR 1/95)

Discussion: What are the advantages and disadvantages of partnerships in any form?

Class #9: Managing Growth **3/22 (Tue)**
Module: Performance Monitoring

Case: East West Mortgage (STOL)

Due: Half Time Feedback Class Evaluation Form

Class #10: Managing Growth **3/29 (Tue)**
Module: Performance Monitoring

Case: Uptix.com (STOL)
Readings: None

Class #11: Making and Managing Deals **4/5 (Tue)**
Module: The “End Game”

Case: The Venture Capital Term Sheet: Learning to Read Between the Lines (STOL)
Readings: “Where’s the Exit?” (ANGEL 1/01)
"Calling All Angels" (Mass High Tech, 2/15/04)
Introductory Text, Business Analysis and Legal Decisions (STOL)

Class #12: International Entrepreneurial Finance
Module: International Business

4/12 (Tue)

Case: Spotfire (HBS 9-899-078)

Readings: Why do Companies Expand Internationally (on-line in class slides)
Introductory Text, International Entrepreneurial Finance (STOL)
“Knowing a Winning Business Idea When You See One” (HBR 10/00)