



COLLEGE OF BUSINESS

NEW VENTURE CREATION

MGT-709

Fall, 2007

Monday, 7:00pm-9:45pm, FDH105

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Office Hours: Monday 5:00-7:00pm, Thursday 5:00-7:00pm

Course Description

The goal of the New Venture Creation course is to take students from the idea stage to the startup of a new venture. The Managing Entrepreneurial Organizations course examines the growth phase of a company from startup to exit (often in the form of an IPO or acquisition). It is recommended that students take the New Venture Creation course before Managing Entrepreneurial Organizations.

The key output from the course will be a business plan for a new venture that can be taken to investors for funding. The plan will be assessed on two criteria – attractiveness of the opportunity and viability of execution. The business plan will also be eligible for entry into the 2008 Donald W. Reynold's Governor's Cup – a statewide business plan competition for Nevada college students with a \$20,000 first prize. Students are strongly encouraged to make the plan as realistic as possible.

The course also relies heavily on case studies (20 in total), which document a wide range of entrepreneurial situations and experiences. While nothing can replace the experience of learning by doing, social learning (learning from others) can also help to foster the diffusion of best practices and the avoidance of costly errors.

Course Materials

- Rob Adams, 2002, *A Good Hard Kick in the Ass: Basic Training for Entrepreneurs*. Crown Business: New York.
- Steven E. Phelan, 2007, *New Venture Creation: Readings*, Primis Custom Book
- Steven E. Phelan, 2007, *New Venture Creation: Cases*, Primis Custom Book

Course Assessment

Case Analyses (x10)	30%
Feasibility Presentation	10%
Deal Structure	10%
Plan Presentation	10%
Business Plan Document	40%

COURSE SYNOPSIS

Week	Date	Topic	Text	Case
Week 1	8//27	On Entrepreneurs		
Week 2	9/3	<i>Labor day recess</i>		
Week 3	9/10	On Ideas <i>(Elevator Pitches)</i>	1	Icedelights Eastwind
Week 4	9/17	On Customers	2	JuiceGuys RelayHealth
Week 5	9/24	On Speed to Market	3	R&R Zipcar
Week 6	10/1	On Bootstrapping	4	NanoGene Dragonfly
Week 7	10/8	On Investors	5	Room for Dessert Walnut (A)
Week 8	10/15	Feasibility Plan Presentations		
Week 9	10/22	On Entrepreneurial Finance	6	Allen Lane Walnut (D)
Week 10	10/29	On Entrepreneurial Marketing	7	Icebreaker Keurig
Week 11	11/5	On Selling	8	CardioThoracic InPart
Week 12	11/12	<i>Veteran's day recess</i>		
Week 13	11/19	On Corporate Venturing	9	Fortis Venturing IMTrader
Week 14	11/26	Final Thoughts	10	RightNow Kendle
Week 15	12/3	Business Plan Presentations		
Week 16	12/10	Business Plan Presentations (if required)		

ASSESSMENT DETAILS

Case Analyses (10 x 3%)

At the start of the course, the class will be split into two groups – A and B. Group A will analyze the first listed case each week and Group B, the second. You are required to submit a one-page analysis of your assigned case (Times New Roman, 10 or 12 point, single spaced) every week *before* case discussion begins – no exceptions.

Each of your analyses should contain three sections:

<i>Issues</i>	What are the major issues in the case?
<i>Solutions</i>	What are the solutions to the issues identified in the first section?
<i>Lessons</i>	What did the case teach you about what you should do (or not do) when starting or running your own business?

The grading system is:

Superior analysis	3%	Identifies all major issues, presents superior solutions, and reflects deeply on lessons learned
Standard analysis	2%	Identifies major issues, flags workable solutions, provides reasonable reflection on lessons learned
Inferior analysis	1%	Misses issues, develops unrealistic solutions, and/or has limited reflection on lessons learned
No analysis	0%	

Feasibility Presentation (10%)

In Week 8, you will have 15 minutes to present your preliminary plan to the class for feedback. Your grade will depend on your level of preparation and the professionalism of your presentation. Note that you are *not* required to have developed a full-blown business plan at this stage. Your presentation should cover the first four bullet points of the full plan presentation below. Allow 10 minutes for presentation and 5 minutes for feedback.

Deal Structure (10%)

Select a team other than your own and analyze their valuation claims from the Week 8 feasibility presentations. Make a short case (1-3 pages) for a more realistic valuation and create a deal structure that maximizes your likely return on a \$1 million investment in the venture (be sure to provide a capitalization table). Provide a copy of your analysis to the other team. The grade will be awarded based on the overall quality of your analysis (including whether the other team adjusts their valuation in response to your critique). The report is due in class on Week 11.

Plan Presentation (10%)

In Weeks 15 and 16, your team will have 30 minutes to present a plan to a panel of academics, entrepreneurs, and venture capitalists. You should allow 20 minutes for your presentation and 10 minutes for questions and answers. You should discuss:

- The product. Discuss how your idea creates a differentiated product/service offering with regards to your existing and potential competition.

- The market. Provide a clear articulation of the market need and how the product/service offering meets those needs, including the percentage market share that can be sustained and the projected annual market growth. Provide market verification that your proposed product/service offering is attractive to your market segment (i.e. feedback from 2- 3 actual customers that are representative of your targeted segment). Discuss how you will attract customers to your product.
- Operations. Describe your sourcing, ordering, and distribution systems and how they are capable of offering the services that your customers demand in a cost effective and scalable way.
- Finances. Present financial statements including cash flows that demonstrate the ability to produce earnings (positive net income) within three to five years (if not earlier) with some kind of regularity. Calculate the NPV of your venture.
- Team. Be prepared to discuss the top management team, organizational structure and culture, and hiring requirements, particularly in the top management team.
- Milestones. Discuss the milestones to be met over the next 12 months including revenue targets, new customer accounts, and internal goals such as hiring the required staff levels
- Investment. Describe the amount of money you require from investors in the form of debt and/or equity and the amount of cash that will be raised from other sources. Describe what you intend to do with the investment (i.e. Market development, purchase equipment, staffing..etc) and the cost of funds.

Business Plan (40%)

The business plan should be delivered no later than the end of Week 16 and should be no longer than 25 pages (excluding appendices).

The report should use the following format:

- Executive Summary
- Description of Proposed Product or Service Offering
- Market & Competitive Analysis
- Marketing and Sales Plan
- Operational and Technological Issues (including sourcing and distribution)
- Human Resources Plan (including team, structure, culture, policies)
- Finance
- Bibliography
- Appendices

The opportunity should have a demonstrated potential to create wealth for the founders by Year 5. This is evidenced by generating an annual net income to the owners of over \$1 million dollars per annum or triggering an exit event (acquisition, IPO) that realizes at least \$10 million. The business plan will be evaluated on two dimensions: *attractiveness* and *viability*.

Note: Real estate development ventures, restaurants, investment funds, not-for-profit organizations, and management consulting ventures should generally not be considered.

DETAILED SCHEDULE

Week 1 On Entrepreneurs

Optional Readings

The promise of entrepreneurship as a field of research
Prior knowledge and the discovery of entrepreneurial opportunities.
An experimental study of entrepreneurial exploitation

Activities

Entrepreneurial Quotient
Exploitation Game
Global Entrepreneurship Monitor (<http://www.gemconsortium.org>)

Week 2 *Labor Day Recess*

Week 3 On Ideas

Text Ch. 1 “Good ideas are a dime a dozen”

Readings

Questions Every Entrepreneur Must Answer
Creativity, the Business Idea, and Opportunity Analysis

Cases

Icedelights

Three second-year students at the Harvard Business School decide to buy a company. The case focuses on their thoughts about an entrepreneurial career, their search process, and the evaluation of an Icedelights (an ice cream/cafe) franchise.

Eastwind Trading Co. (A)

Two professional women are contemplating a business venture. They must assess the nature of the opportunity, what options it opens if they are to pursue the venture, and how they might finance the new business.

Activity Elevator Pitches

Week 4 On Customers

Text Ch. 2 “You don't know your customers as well as you think you do”

Readings

Entrepreneurial Marketing: Learning from High-Potential Ventures

Cases

Juice Guys (A)

The case explores who the customers are for a new beverage product, their desires as customers for this product, and their desires when ordering this product from a local specialty store location.

RelayHealth

RelayHealth provides secure, online communication for doctors, patients, and health plans. The company's services include online consultations, prescription renewals, and appointment scheduling. RelayHealth's business model derives subscription revenue from doctors and licensing fees from health plans. RelayHealth recently completed a successful pilot study and has been able to sign on a number of high-profile health plans and physician groups. The company is struggling with ways to spur growth and drive usage and adoption of its product among its three market segments: physicians, patients, and health plans.

Week 5 On Speed to Market

Text Ch. 3 “Don't wait to ship a killer product – Get to market fast”

Readings

Legal Forms of Organization

How Entrepreneurs Craft Strategies that Work

Cases

R&R

Outlines alternative mechanisms for getting into business. Shows the means by which an experienced entrepreneur can gain control over the necessary resources in order to lower the fixed costs of business entry. Provides a mechanism for discussing the role of experience, credibility, and contacts in the development of a nonbusiness venture.

Zipcar: Refining the Business Model

Zipcar is a start-up organized around the idea of “sharing” car usage via a membership organization. This case describes several iterations of the Zipcar business model and financial plan. These iterations include a very early version and a version developed just prior to the launch of the business, as well as data from the first few months of operations. Students are called on to analyze the underlying economics and business model for the venture and to see how these assumptions are holding up as the business is actually rolled out.

Week 6 On Bootstrapping

Text Ch. 4 “You don't need the big bucks right out of the gate”

Readings

Note on Attracting Stakeholders

Bankruptcy: A Debtor's Perspective

Cases

NanoGene Technologies, Inc.

Describes a company during the start-up phase and focuses on the founders' decisions around splitting the equity and compensation and about establishing policies and practices that will set the tone for the company as it grows. Has a number of specific action issues, including: how equity and compensation should be split among the

founding team and follow-on employees, design of compensation and hiring practices for the young firm, deciding what the corporate culture should be and how to institutionalize it, and whether to hire a senior-level employee -- the first nonfounder employee -- at a salary higher than, and equity allocation similar to, the founders.

Dragonfly Corp.

A husband and wife team started a clothing business with all of their savings and money borrowed from the wife's parents. After two years sales have grown, but the hope of profits and cash are receding. The landlord is demanding payment of back rent, the long hours are straining family life and the future is at best a question: Should they hang on or declare bankruptcy? If so, when and how?

Week 7 On Investors

Text Ch. 5 “Investors fund great teams – not business plans”

Readings

Note on Business Model Analysis for the Entrepreneur
Some Thoughts on Business Plans

Cases

Room for Dessert

Summarizes the business plan for a concept restaurant focused on late evening dessert service as well as its subsequent rollout plan.

Walnut Venture Associates (A)

Describes the Walnut Group's investigation of the RBS Group, a young software company. Includes the RBS business plan and asks students to analyze which issues/assumptions are critical, and how they can be resolved.

Week 8 Feasibility Plan Presentations

Week 9 On Entrepreneurial Finance

Text Ch. 6 “Investors will wait for quality returns – from quality companies”

Readings

How Venture Capitalists Evaluate Potential Venture Opportunities
Note on Valuation of Venture Capital Deals
Valuation, Financing and Capitalization Tables in the New Venture Context

Cases

Allen Lane

Describes Allen Lane's search for a business to buy. The case explores several failed attempts and the ethical, business, and tax issues that surround the acquisition business. Ends with a description of a new acquisition candidate, an independent valuation report of this business, and with Allen Lane preparing his bid.

Walnut Venture Associates (D): RBS Deal Terms

Kent Dauten, a former general partner at the Chicago private equity firm of Madison Dearborn Partners, has engaged in a search to personally sponsor a buyout in which he can play an active management role. He has received a selling memorandum for Record Masters, a records storage company providing management and retrieval services for active medical records to health care institutions. The case presents excerpts from the selling memorandum and asks students to assess the attractiveness of the opportunity, key risks, valuation, and deal structuring.

Week 10 On Entrepreneurial Marketing

Text Ch. 7 “Advertising and marketing are not synonymous”

Cases

Icebreaker

Jeremy Moon, CEO of Icebreaker, merino wool, outdoor apparel manufacturer, believed the company could be a big hit in the United States, despite the presence of entrenched rivals. But Icebreaker clearly needed a new distribution approach. One option was to position Icebreaker as a brand selling fashionable sportswear. A second option was to mirror the strategy that had been effective in New Zealand — distributing through outdoor and snow sports retailers. A final option was to delay U.S. retail distribution and sell exclusively over the Internet, using direct-to-customer advertising.

Keurig

Nick Lazaris becomes Keurig's third CEO in three years, after one founder was fired and the other decided to leave the company. He inherits a company that has made several abortive attempts to launch its new coffee brewing system. Now, problems with crucial suppliers threaten the next proposed launch plan.

Week 11 On Selling

Text Ch. 8 “Nobody else can sell your product for you”

Readings

Selling as a Systematic Process

Cases

CardioThoracic Systems

Describes the marketing challenges that face CardioThoracic Systems (CTS), a company that has developed a new system for performing heart surgery on a beating heart. Discusses the numerous reasons for the system's low penetration (including existing techniques, surgeon resistance, and a challenging reimbursement environment) and asks for recommendations in developing a new sales and marketing strategy.

InPart

Stacey Lawson, HBS 1996, started a CAD parts representations database company to help designers and engineers with the design process. The company has completed its product and is starting to sell the product. The case examines issues involving the organization of the salesforce and the pricing of the product.

Week 12 *Veteran's Day Recess*

Week 13 On Corporate Venturing

Text Ch. 9 “Big companies need to act more like startups”

Readings

The Ambidextrous Organization

The Future of Corporate Venturing

Cases

Fortis Venturing (A): Building the Fighting Spirit

Investigates the genesis of an idea and its champion within the Fortis Group, how Fortis Venturing ended up “hosting” it, and the fate of the venture.

Furgan Nazeeri and the IMTrader (TM) Spin-Out

Furgan Nazeeri is looking to spin out a promising set of products and technologies from an established financial services firm. Designed as an exercise in negotiation. Includes material from the original business plan, and it is possible to simulate a negotiation around key issues involved in the spin-out: timing and financing, equity distribution, asset transfer, personnel transitions and roles of key players, customer retention, CEO selection, and new board formation.

Week 14 Final Thoughts

Text Ch. 10 “This one's yours to give in the marketplace”

Cases

RightNow Technologies

The founder and CEO of a CRM software start-up must decide between an attractive acquisition offer and the opportunity to go public. Discusses the growth of the company — including a lengthy discussion of entrepreneurial bootstrapping — as well as an aborted IPO attempt in 2000. The central question is whether the company will create more value by staying independent or by joining a larger organization.

Kendle International Inc.

Candace Kendle and Christopher Bergen, the CEO and COO of Kendle International, Inc., are reviewing ways to finance the growth of their privately owned company. Kendle is a contract research organization that conducts clinical drug trials for pharmaceutical and biotechnology companies. To compete more effectively, Kendle plans to grow through international acquisitions. It is now time to decide whether to go ahead with a full program of two European acquisitions, a large debt financing through Nationsbank, and an initial public offering to repay the debt and provide cash for future acquisitions. The falling stock prices of Kendle's competitors add pressure to the situation.

Week 15/16 Business Plan Presentations

ADDITIONAL COURSE POLICIES:

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Academic integrity is a legitimate concern for every member of the campus community; all share in upholding the fundamental values of honesty, trust, respect, fairness, responsibility and professionalism. By choosing to join the UNLV community, students accept the expectations of the Academic Misconduct Policy and are encouraged when faced with choices to always take the ethical path. Students enrolling in UNLV assume the obligation to conduct themselves in a manner compatible with UNLV's function as an educational institution. An example of academic misconduct is plagiarism: "Using the words or ideas of another, from the internet or any source, without proper citation of the sources." See the "Student Academic Misconduct Policy" (12/05, in the approval process).

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The Disability Resource Center (DRC) coordinates all academic accommodations for students with documented disabilities. The DRC is the official office to review and house disability documentation for students, and to provide them with an official Academic Accommodation Plan to present to the faculty if an accommodation is warranted. The DRC strongly encourages faculty to provide accommodations only if and when they are in receipt of said plan. Faculty should not provide students accommodations without being in receipt of this plan.

UNLV complies with the provisions set forth in Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1990, offering reasonable accommodations to qualified students with documented disabilities. If you have a documented disability that may require accommodations, you will need to contact the DRC for the coordination of services. The DRC is located in the Student Services Complex (SSC), Room 137, and the contact numbers are: VOICE (702) 895-0866, TTY (702) 895-0652, FAX (702) 895-0651. For additional information, please visit: <http://studentlife.unlv.edu/disability/>.

For additional information about the DRC and procedures to follow when students ask for exemptions or exceptions based on their disability claim, refer them to the DRC website. For all faculty and staff (professional and classified) ADA accommodation determinations, please contact Marc Cardinali, Assistant General Counsel and Administrative Code Officer, Flora Dungan Humanities Building (FDH), Room 320, 895-1879.