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CHAPTER 2

FROM THE IDEA TO THE BUSINESS PLAN

True-False Questions

T. 1. For ventures that first get to market or create intellectual property rights, it's common to price new products or services at high markups or profit margins.

F. 2. Lifestyle firms are growth-driven in terms of revenues, profits, and cash flows and also performance-oriented as reflected in rapid value creation over time.

F. 3. Entrepreneurial ventures emphasize survival and providing an acceptable living for their owners with growth being a secondary goal.

T. 4. Business opportunities, because they exist in real time, have a relatively narrow window of opportunity to become a successful business venture. However being the first to market does not guarantee success.

T. 5. A venture opportunity-screening guide, called the VOS Indicator, is used to determine potential attractiveness of venture opportunities as business opportunities.

F. 6. Asset intensity is the net after-tax profit divided by total assets.

T. 7. The compound rate of return that equates the present value of the cash inflows with the initial investment outlay is called the internal rate of return (IRR).

T. 8. Bootstrapping refers to the process of minimizing resources such as the need for financial capital and finding unique sources for financing a new venture.

F. 9. In a typical business plan, the section covering the management team does not need to disclose the expertise and experience of the management.

T. 10. The non-financial option available to managers as the venture progresses through its lifecycle is known as real options.

T. 11. A sound business model should provide a plan to generate revenues, make profits, and produce free cash flows.

F. 12. Mark Twain said: “Like I tell anybody, if you fail to plan, you’re planning to fail.”

T. 13. Ideas that are said to be “ahead of their time” are too early to become viable business opportunities for the inventor or innovator.

T. 14. Venture opportunity screening involves assessment of an idea’s commercial potential to produce revenue growth, financial performance, and value.

F. 15. Free cash flow to equity is the cash flow from producing and selling a product or providing a service.

Multiple-Choice Questions

c. 1. A sound business model provides a plan which includes all of the following except?

- a. generates revenues
- b. makes profits
- c. retains all its earnings
- d. produces free cash flows
- e. all of the above are included

b. 2. Free cash flows, which can be paid back to investors occurs when cash generated from operations exceeds all of the following except?

- a. borrowing costs
- b. non-cash depreciation
- c. taxes
- d. investment in assets

d. 3. A venture’s value is determined by

- a. the size and timing of its future free cash flows
- b. time value of money
- c. its net income
- d. *a* and *b*
- e. *a* and *c*

a. 4. Developing new and delivering high-quality products or services that command higher prices and margins best describes strong

- a. marketing practices
- b. financial practices
- c. operating practices
- d. management practices

e. 5. Effective entrepreneurial management teams should include all of the following except?

- a. provide expertise in the areas of marketing, finance, and operations
- b. have successful experience in the venture's industry and markets
- c. work collaboratively with each other
- d. share the entrepreneurial spirit
- e. in-house accounting, auditing, and tax professionals

b. 6. A viable venture opportunity is characterized by all of the following except?

- a. creating or meeting a customer need
- b. has perceived attraction to prospective investors
- c. provides an initial competitive advantage
- d. is timely in terms of time-to-market
- e. offers the expectation of added value to investors

e. 7. Direct costs of producing a product or providing a service is called

- a. gross profit
- b. gross profit margin
- c. net profit
- d. net profit margin
- e. cost of goods sold

a. 8. Revenues minus the cost of goods sold is called

- a. gross profit
- b. gross profit margin
- c. net profit
- d. net profit margin

c. 9. Dollar profit left after all expenses, including financing costs and taxes have been deducted from the firm's revenues is called

- a. gross profit
- b. gross profit margin
- c. net profit
- d. net profit margin
- e. cost of goods sold

d. 10. Return on assets can be stated as which of the following?

- a. net after-tax profit divided by total assets
- b. net profit margin times asset turnover
- c. net cash flow divided by total assets
- d. both *a* and *b*
- e. both *a* and *c*

a. 11. Free cash flow to equity is the cash available to the entrepreneur and venture investors after all of the following except?

a. net cash flows
b. operating cash outflows
c. financing and tax cash flows
d. investment in assets needed to sustain the venture's group
e. net increase in debt capital

b. 12. In the venture life cycle, moving from the development stage to the startup stage frequently begins with the preparation of a business plan. The business plan is a written document that describes the proposed venture in all of the following terms except:

a. the proposed product or service opportunity
b. the accounting data for the last five years
c. current resources available to the venture
d. financial projections

d. 13. A typical business plan includes all of the following sections except:

a. executive summary
b. business description
c. marketing plan and strategy
d. disclosure of pending litigation
e. operations and support

c. 14. When composing the financial plans and projections section of a business plan, all of the following should be included except:

a. income statements and balance sheets
b. statement of cash flows
c. past and present dividend per share information
d. breakeven analysis
e. funding needs and sources

e. 15. A typical business plan includes all of the following except:

a. management team
b. financial plans and projections
c. risk and opportunities
d. timeline and milestones
e. initial public offering information

a. 16. The first two requirements of a sound business model are:

a. generate revenues, make profits
b. make profits, produce free cash flows
c. produce free cash flows for creditors and owners of the venture
d. generate revenues and produce free cash flows

a. 17. The evaluation of “entry barriers” occurs under which one of the following parts of the VOS indicator?

a. industry/market considerations
b. pricing/profitability considerations
c. financial/harvest considerations
d. management team considerations

b. 18. The process involving minimizing the need for financial capital and finding unique sources for financing a new venture is referred to as:

a. mezzanine financing
b. financial bootstrapping
c. seed financing
d. startup financing

c. 19. The return on assets (ROA) model measures:

a. revenues divided by net profit times the asset turnover
b. net profit margin times the equity multiplier
c. net profit margin times asset turnover
d. net profit divided by total assets multiplied by the asset turnover

d. 20. A sound business model includes a plan to:

a. generate revenues, make profits
b. make profits, produce free cash flows
c. produce free cash flows for the owners of the venture
d. generate revenues, make profits, and produce free cash flows

e. 21. Which one of the following is <u>not</u> a part of the VOS indicator?

a. industry/market considerations
b. pricing/profitability considerations
c. financial/harvest considerations
d. management team considerations
e. location/profitability considerations

b. 22. The definition of an entrepreneurial firm is:

a. survival, high growth
b. high growth, high performance
c. survival, average performance
d. high, growth, average performance

a. 23. A VOS indicator stands for:

a. venture opportunity screening indicator
b. viable opportunity statement indicator
c. venture only success indicator
d. viable assessment screening indicator

f. 24. The factor categories in a VOS indicator are:

a. industry/market considerations
b. pricing/profitability considerations
c. financial/harvest considerations
d. management team considerations
e. *a*, *b*, and *c* above
f. all of the above

b. 25. A written document that describes the proposed venture in terms of the product or service opportunity, current resources, and financial projections is called a:

a. financial plan
b. business plan
c. entrepreneurial plan
d. survival plan

e. 26. In Figure 2.1 that discusses best practices of high-growth, high-performance firms, which of the following practices is not included?

a. marketing practices
b. financial practices
c. management practices
d. production/operations practices

a. 27. Which one of the following components is not a standard component of a sound business model?

a. produce low-cost products
b. generate revenues
c. make profits
d. produce free cash flows

c. 28. A "score" in the range of 2.34-3.00 using the VOS Indicator™ would be considered a:

a. a low score
b. an average score
c. a high score
d. a very, very high score

c. 29. An average score on using the VOS Indicator™ would fall in the range:

a. 0.00-0.99
b. 1.00-1.66
c. 1.67-2.33
d. 2.34-3.00

a. 30. At the end of a qualitative-based venture opportunity screening exercise, the interviewer prepares a subjective assessment and indicates one of the following except for:

a. natural commercial potential
b. high commercial potential
c. average commercial potential
d. low commercial potential