FOUNDATIONS OF ENTREPRENEURSHIP B65.3335.01

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COURSE DESCRIPTION

This course seeks to explore the many dimensions of new venture creation and growth and to foster innovation and new business formation in independent and corporate settings. The course will integrate both an academic and practitioner view of the challenges facing entrepreneurs and investors involved in entrepreneurial, venture capital, and private equity investment activities.

The course draws on a variety of disciplines, including management and finance, to develop frameworks and techniques that are needed to plan, start, evaluate, and successfully operate ventures.

Course Themes

The course focuses on eight principal themes:

Defining entrepreneurship
Creating and evaluating opportunities for new ventures
Conducting due diligence
Acquiring needed resources (human and financial)
Generating sales and marketing initiatives for new ventures
Managing the growing business
Identifying and overcoming challenges in new ventures
Harvesting the venture

Course Methods

Class assignments and discussions are designed to develop the critical thinking, communication and managerial skills necessary to successfully plan, start, operate or invest in ventures. Each class will include discussion of readings, case analysis and group activities. Students will analyze cases with an action orientation, for example, what steps should we take to further the development of the venture? What are the venture’s risks and how should they be managed? How should the company be financed? How should the deal be priced and structured? What tactics might be utilized in order to secure a more favorable deal? We will adopt the perspective of different roles in all case discussions (for example, the issuer versus the financier, corporate investors versus fund operators and angels). A brief lecture and discussion of the assigned readings will follow the case analyses.
**Classroom Contributions.** The learning experience in a course like this one depends heavily on each student being prepared to actively participate in every class session. We all have expectations that will enrich the topic and direction of discussion in the course. This means that you need to be fully acquainted with the readings and cases for a given session. Positive participation includes attendance, active involvement in all in-class exercises and discussions, and maintenance of a classroom demeanor that encourages the participation of others. You will be evaluated on the quantity as well as the quality of your contribution and insights. Quality comments possess one or more of the following attributes: (a) Contribute to moving the discussion forward; (b) Offer a different, unique and relevant perspective on the issue; (c) Build on other comments of others; and (d) Include some evidence or analysis of inherent tradeoffs, i.e., demonstrate reflective thinking.

**Attendance Policy.** Attendance at all sessions is expected. Absences will significantly impact the class participation grade.

**Laptop Policy.** Laptops, cell phones and other electronic devices may not be used during class.

**Written case analyses.** Students will be required to prepare a written case-related analysis of “Eclipse (A)”. This individual assignment is due on September 24 at 9 AM. It should be a maximum of 5 pages, excluding exhibits. The case analysis papers consist of an in-depth written analysis and application of techniques and methods to a venturing situation. The paper should address the questions assigned in the syllabus. The case assignment will be graded for content and format. You are required to turn in papers that conform to professional standards of organization, grammar, punctuation, spelling, and paragraph/sentence structure. You may not discuss the case or share your work with anyone. Late papers will receive a grade of F.

**Honor Code.** Students must adhere to the MBA Honor Code. All students are obligated to report to the instructor any suspected violations of the Code (see http://w4.stern.nyu.edu/scorp/committee.cfm?doc_id=4797).

**Student With Disabilities.** If you have a qualified disability and will require academic accommodation during this course, please contact the Moses Center for Students with Disabilities (CSD, 998-4980) and provide me with a letter from them verifying your registration and outlining the accommodations they recommend. If you will need to take an exam at the CSD, you must submit a completed Exam Accommodations Form to them at least one week prior to the scheduled exam time to be guaranteed accommodation.

**Business Plan Proposal.** See herein.

**Delivery.** Reports should be sent by email to each of the following two addresses: gokun@stern.nyu.edu and gokun@optonline.net. Students must send two separate emails (not one in which the other address receives a copy upon delivery). Do not compress files. Please only use Word and Excel programs to produce and present your work.
Required Materials.

Cases and Readings Packet
The Entrepreneurial Venture (Sahlman et. al.)

Grading Plan. The course grade will be based on the following components and weights:

Classroom Contributions (including exercises): 20%
Case Report 1: 40%
Group Project: 40%
Instructor

Glenn A. Okun is Clinical Professor of Management and Entrepreneurship at New York University Stern School of Business where he teaches courses in entrepreneurship, private equity, venture capital, investment management and corporate finance. Mr. Okun advises corporations on financial and investment matters. He was President of Mitchum, Jones & Templeton, a merchant bank and broker dealer headquartered in San Francisco, California from 1998 to 2001. He previously served as a Director of Allen & Company Incorporated in New York. Mr. Okun invested in early and later stage financings of private companies in various industries. He also ran a small cap emerging growth stock hedge fund and a special situations portfolio. Mr. Okun has advised corporate clients on mergers, acquisitions and restructurings and has underwritten public offerings and private placements of securities. Mr. Okun began his investment career at the IBM Retirement Fund where he invested in mezzanine private placements, real estate, public emerging growth equities and oil and gas assets. Mr. Okun holds JD and MBA degrees from the joint degree program of Harvard University and a BA degree from Wesleyan University.
SCHEDULE

September 8  Defining Entrepreneurship

Session #1
Case:  “Emmet Stephenson: Profile of an Entrepreneur”
Reading:  *A Perspective on Entrepreneurship* (Stevenson)
Question: What makes Stephenson an entrepreneur? What entrepreneurial characteristics does he possess? Why has he been successful?

Session #2
Case:  “Magdalena Yesil”
Reading:  *The Road Well Traveled* (Bhide)
Questions: Should Magdalena join USVP? What are the position’s advantages and disadvantages?

September 13  Creating and evaluating opportunities for new ventures

Session #3
Case:  “ICEDELIGHTS”
Questions: Evaluate the opportunity. How effectively have Paul, Mark and Eric pursued the opportunity? What are the critical risks faced by the business and by each of the individuals? What are the potential rewards? Evaluate the deal structure. What should they do?
Reading:  *Questions Every Entrepreneur Must Answer* (Bhide)
*Developing Start-up Strategies* (Bhide)

September 15  Session #4
Case:  “Martin Smith”
Questions: Which deal should Martin recommend that his organization pursue? Evaluate the investment process.
September 20  
Session #5

Case:  “Zipcar: Refining the Business Model”
Reading:  “A Note on Business Model Analysis for the Entrepreneur”
Questions:  What is the business model? How has it changed over time? What does the data indicate about the business model’s effectiveness? How should Chase react to the operating results? Prepare an elevator pitch for Zipcar.

September 22  
Acquiring needed resources (human and financial)

Session #6  The Entrepreneur’s Perspective

Case:  “R&R”
Readings:  Bootstrap Finance (Bhide)  
“Deal Structure”  
“The Legal Forms of Organization”
Questions:  What factors created an opportunity for Bob Reiss and the “TV Guide Game”? What risks and opportunities had to be overcome in order to successfully pursue the venture? How were the required resources obtained for the venture?

September 27  
Conducting Due Diligence

Session #7

Case:  “Eclipse (A)”
Reading:  “Some Thoughts on Business Plans”
Questions:  What issues require investigation after analyzing the Eclipse business plan? How do you propose acquiring or developing the information in order to understand the open issues and to perform a risk assessment for the business?
September 29  
Session #8
Case:  “Eclipse (B,C,D)” (to be handed out)
Reading:  *Venture Capital (Bagley), Chapter 13*  
*The Entrepreneur’s Guide to Business Law (Thomson)*
Questions:  As a founder, how do you assess the attractiveness of having PEP as an investor? How do you respond as the entrepreneur to the additional analytical requests by PEP?

October 4  
Group Exercise

Groups representing Eclipse and PEP will negotiate and submit a revised draft term sheet for the financing. Your document is due at 9PM by email.

October 6  
Business Planning and the Business Model

Review “Some Thoughts on Business Plans”. Please bring your questions to class.

October 11  
Session #9
Case:  “Palm Computing”
Readings:  *Legal Protection of Intellectual Property (Roberts)*
Questions:  What are Jeff’s most significant risks at this point in the venture? What strategy should be adopted for accelerating the development of Palm?

October 13  
Session #10
Case:  “Ockham Technologies: Living on the Razor’s Edge”
Reading:
Questions:  Assess Jim’s effectiveness with his start-up. What board-related considerations should be factored into the financing decision? How should Jim handle his relationship with Mike?
October 18  Finance for Entrepreneurs: Almost Everything a Founder Needs to Know

Readings:  “A Note on Pre and Post Money Valuations”
“A Note on Private Equity Securities”
“Valuation of Venture Capital Deals”
“A Note on Valuation in Private Equity Settings”

October 20  Session #11

Case:  “Eclipse (E)”

Readings:

Questions:  Compare the two offers and recommend a course of action. Assess the firm’s fundraising effort.

October 25  Session #12

Case:  “Palm Computing 2”

Readings:  “Alternative Sources of Financing”
“Securities Law and Private Financing”

Questions:  What is your recommendation? Evaluate each of the proposals carefully, assessing the advantages, disadvantages and risks of the proposals for both the business and for the founders.

October 27  Generating sales & marketing initiatives for new ventures

Session #13

Case:  “Granny’s Goodies”

Questions:  How scalable is the company’s sales approach? How effectively has the company assessed its market and positioned Granny’s Goodies?

November 1  Session #14

Case:  “Vinod Khosla and Sun Microsystems (A)”

Questions:  How important is the CV order to Sun? Recommend a course of action.
November 3  Session #15

Case: “Beenz”

Questions: Evaluate the business model and strategy. Recommend a course of action.

November 8  Managing the growing business

Session #16

Case: “The Johnsonville Sausage Company”

Readings:
- “The Five Stages of Small Business Growth”
- The Challenge of Growth (Roberts)
- Managing Transitions in the Growing Enterprise (Roberts)
- Building the Self-Sustaining Firm (Bhide)

Questions: Evaluate Johnsonville’s alternatives. What is your recommendation? Assess the advantages, disadvantages and risks of the alternatives for both the business and for the founders.

November 10  Session #17

Case: “Managing Segway’s Early Development”

Readings:

Questions: Evaluate Kamen’s approach to attracting strategic resources. What problems do DEKA and Ginger face? What should Kamen do about the 1999 bonuses and DEKA stock awards?

November 15  Planning for growing the business

Session #18

Case: “ThermoLase”

Readings:

Questions: Prepare a plan for the venture.
November 17  Business Valuation for Entrepreneurs

Reading:  *Purchasing a Business: The Search Process (Roberts)*
“A Note on Valuing Private Businesses”
“An Introduction to Cash Flow Valuation Methods”
“LBOs for Smaller Companies”

November 29  Acquisition Strategies for Growth

Session #19
Case:  “Kendle International Inc.”
Reading:

Questions:  What strategic choices does Kendle face? Should the firm be sold in early 1997? Compare the sale price to the company’s stand-alone value. Do the target acquisitions make sense? What course of action do you suggest?

December 1  Session #20  Acquisition Strategies

Case:  “Sirona”
Reading:  “Technical Note on LBO Valuation (A)”
“Technical Note on LBO Valuation (B)”

Questions:  Evaluate Schroeder Ventures’ pursuit of this deal. Propose and defend, with spreadsheet models, growth and cost reduction assumptions as well as an acquisition price. Advocate deal terms and a transaction strategy.

Harvesting the venture

December 6  Session #21

Case:  “Teleswitch (A & B)”
Readings:  “A Note on the Initial Public Offering Process”

Questions:  Should the firm go public? Assess the valuation approaches used by the competing underwriters. Recommend a course of action.
December 8  Session #22
Case: “Nantucket Nectars”
Readings:
Questions: Recommend a course of action. Should the founders remain independent, sell or go public? What is the value of the firm? Structure a process for realizing value for the founders.

December 13  Session #23
Case: “Beta Golf”
Questions: Why does Beta Group exist? What is its business model? How is innovation translated into value? What is a sensible development plan for the technology? What are the choices for exploiting the technology?
Business Plan Evaluation Project

The major assignment for the course will be a group project that involves assessing an early stage company in which a venture capital or private equity organization might want to invest. The objective of this group assignment is to write an evaluation of the firm’s existing business plan, presenting your analysis of the plan and the venture concept as well as suggested revisions to the strategy and implementation. Groups will be expected to address the following questions and issues:

- Evaluate the assigned firm and its opportunity.
- What are the strengths, weaknesses and risks of its current business plan?
- How effectively has the firm utilized its resource set to create shareholder value?
- What changes would you recommend in order to increase shareholder value?

Please present your business plan with specific information regarding the risks, required resources and necessary deals as well as the timing involved. Describe and explain the value enhancement that you believe that your business plan will create. Substantiate your recommendations with analysis.

Written Report. Your report is due, by 9 AM, December 11. Late papers will receive a grade of F. Each group should submit two copies of its final report.

Text. The report should not exceed 20 double-spaced typed pages with normal margins, excluding exhibits, tables, figures, appendices, and references. The name of the firm analyzed, the names of the team members responsible for the report preparation, the date, and the course number should be on the front page.

Exhibits. Exhibits should contain specific types of analyses, such as financial ratio analyses, break-even charts, decision tree analyses, organization charts, etc. In general, exhibits should contain any information that is relevant, but would take up too much space if included in the body of the paper. Exhibits should not be used as strictly an extension of textual material.

References. Footnotes should be used to acknowledge sources quoted in the text. The bibliography should list all the sources referenced or quoted in the body of the text in alphabetical order by author.

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