

NEW YORK UNIVERSITY
Stern School of Business
C40.0251.01
New Venture Creation – Fall 2004
Monday and Wednesday - 9:30 A. M. and 2:00 PM

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Office Hours: 3:30 to 4:30 on Monday and 12:30 to 1:30 on Wednesday **CLASS-ROOM: LC-10**
Or by appointment (Please call 212-998 0522)

Note: Office Hours are a great way to clarify issues, to discuss assignments, etc. It is also a great way for me to learn more about your interests and concerns. I hope that everyone will take advantage of office hours on at least two occasions during the course.

Overview of the Course

This course focuses on the creation or start-up of a new company or non-profit organization. It also considers the case of acquiring an existing firm. Particular emphasis is placed on the actual developing of new product ideas and testing at several stages of the new product development process. We will discuss topics such as: gaining initial customers, gaining distribution, obtaining financial support and managing the new organization. This is a “hands on” course where students are encouraged to develop some new product ideas and prototypes, conduct various types of research and write partial business plans. We expect to have a few guest speakers who have either started their own firm or have been closely connected to the process.

The course will cover a lot of material, go at a rapid pace and will require a lot of work on your part. This is not unlike what is required for success in a new enterprise. If this is what you would like to do, welcome to the course. If you are not prepared to work in this way, other courses may be more appropriate.

This is a four-credit course. The fourth credit will be granted for completing an “Industry Fact Book” for the Product/Market you are considering. This book is a three ring binder that will contain all kinds of background information about your product/market. For example, if you and your partner are contemplating the start of a “Bubble Tea” restaurant in Forest Hills Queens with a target market of young adults, you could assemble information such as the following: census data on your local market area, rents, wage rates, property tax information, estimates of demand for competitors, licenses required, size of investment, equipment required, etc. We will discuss more on this in class. This is due on December 8. It will be graded as pass/fail. You just supply articles and a Table of Contents. No writing on your part. The information can come from reading newspaper articles, the chamber of commerce, annual reports, web searches, interviews, etc. The business librarians at Bobst may be able to help you in collecting this secondary information.

Hint: It is much easier and more efficient to compile the Industry Fact Book on a continuous basis throughout the course than to compile it just before it is due. The contents of your Fact Book can be used in your reports and will help you advance your project in a meaningful way.



Due Dates and Times

In order to keep on schedule and in order to have good class discussions, it is necessary to complete assignments on time. Late assignments will either not be accepted or will be reduced by two points. (E.g.

a B would become a D). If you know that you will have to miss class due an emergency of some type, call the instructor **in advance** of the assignment to make the necessary arrangements. Many of the class sessions will involve discussing the assigned readings for that day.

Arriving On Time for Class is Important

This class starts at 9:30 A. M. or 2:00 P.M. and you should be in your seat and ready to go by one of those times. If you arrive late, this disrupts the class and is not fair to your fellow classmates. It is understood that once or twice per semester you might be late due to factors beyond your control. On time attendance will be considered in the class participation part of your grade. Being on time is good training for industry. Many people in industry (bosses or customers) will not be pleased if you are late for meetings or assignments.

Graded Assignments:

Mid-Term Exam	20 points
Final Exam	20 points
Term Project, step 1	25 points
Term Project, step 2	25 points
Class Participation (participating in class discussions and cases)	10 points
TOTAL POSSIBLE POINTS	100 points

Grading

Points will be given on each assignment rather than letter grades. In addition I will provide the distribution of scores across the class. Letter grades will be assigned at the end of the course based on the total points earned for the term. The expected distribution of grades is: A (30%), B (50%) and C or less (20%). However, if the performance of the class is exceptionally strong (or weak), I will raise (or lower) the mix of grades. In the grading of written assignments such as the project, I will take into account both **the content** and **the communication of the content**. **My standard will be what is considered good or excellent work in the business world.**

At the end of the term I will ask each member of the teams to rate the percent of work done by each team member. In almost all cases this will result in a 50/50 rating. However, if one person does a very large fraction of the work, this will be reflected in the final grades on the project. The rating sheet is at the end of this outline. Please turn this in on Mon April 26.

Required Text, Readings Book, and Cases

Text: *The Portable MBA in Entrepreneurship* 3rd edition, edited by William Bygrave and Andrew Zacharakis, published by Wiley. This is an excellent book for this course. The book has a good glossary at the back of the book and an extensive list of references for each chapter.

Set of Harvard Business School Cases: We will be preparing some fairly difficult cases. Discussion questions are listed to guide your preparation. Most students find that it takes several readings, **detailed calculations** and lots of good thinking to gain full benefit from these real- world cases. Some of the exam questions will be based on the assigned cases. On the day that a case is discussed, you must hand in a typed paper (maximum of two pages long, double spaced) that addresses the discussion questions. These papers will be graded (as pass or fail) as part of your grade on class discussion. You are encouraged to discuss the cases with other students prior to writing your paper, but the writing must be done on an individual basis.

Project



The general idea of the project is to gain experience in identifying ideas for new products or services, to determine which ideas are good business opportunities, to identify the relevant competitive products/services and to estimate the potential levels of sales for the product at certain points in the future. In particular, we shall go through the following steps.

Note, for purposes of this course, I strongly advise you to restrict your search for products that would have a target market that is easy for you to interview. This will make it much easier to conduct market research for your product. Some groups that are easy to interview include: fellow students at NYU or neighbors who know you.

If you decide to focus on a different target market, that is OK, but it may prove much more difficult to complete your market research. In your written reports, include a complete description of **exactly** what you did. For example, how many did you interview, what was your sampling frame, what was your introduction, etc. Include a blank questionnaire form as part of your report. The raw data and completed questionnaires do not need to be included, but could be included if you think this will help the reader.

Your project must be based on a **new firm** that you and your partner are starting *after the start of this course*. You are **NOT** permitted to study a firm that has already been started. The exercises we will be doing will not work correctly if you are working on a firm that has already been started.

Starting Point: By the third class, hand in a piece of paper with the following information:

- a) Names and email addresses for you and your partner (or just yourself if doing it alone)
- b) Brief description of your Product Class **AND** your target market (e.g. rental business attire for male college students in the area of Washington Square) or (production and sale of guitars with built in amplifier and speakers for beginning guitar players within the U.S. Market). Please note that a product class is not the same as the product. For example, liquid detergents is one example of a product class and Tide detergent is one brand within this product class.
- c) Brief description of your most direct competitors (e.g. Mens' Department at Macy's 34th Street, Wal-Mart in xxx, JC Penney at zzz). Where would people spend their money if your new firm did not exist? E.g. if we did not have Wendy's, their customers would probably buy similar food at McDonald's or at Burger King.
- d) Brief description of the relevant distribution channels (e.g. UPSTREAM: we will buy our suits and shoes from various manufacturers and wholesalers, rent retail space, pay for various services and hire certain employees. DOWNSTREAM: rent our clothing to college students in NYC). Show Upstream and Downstream parties.

Step 1 Apply three specific procedures that others have found useful for developing ideas for a new product or service and make a sales forecast. The three procedures are: A Discrepancy Analysis, an Attribute

Analysis and a Concept Test. The item can be new to the world, new to our local area, or new to your organization. The four parts of Step 1 are:

- a) Discrepancy Analysis, (collecting data on the problems or complaints that potential buyers have with the existing brands in your product/market.) Consider what product or service people would buy if your product did not exist and determine the problems that consumers have with these existing products.) Do not make any reference to your new product. We want to discover the complaints or problems with the **existing products/services** of your competitors. List all of the complaints, in the “original” language and show the frequency for each complaint. Provide a brief discussion on what you discovered and concluded from this discrepancy analysis. Remember, our goal is to identify some common complaints that we can act on. We need to find the important complaints of people we interview.
- b) Attribute analysis (list the important attributes for a product and then think of all the ways that the product can differ on each attribute. For example, one attribute of a telephone is its weight. The weight could be: less than 6 ounces, 6-12, 13 to 24 and over 24 ounces). Based on the information from the attribute analysis, propose three new ideas or “concepts”. Our goal here is to think of meaningful ways in which we could modify existing products to produce a better product or service. Attempt to stretch the boundaries. Here is your great chance to be creative!
- c) Conduct a concept test. Use the results from the Discrepancy Analysis and Attribute Analysis to create two or three new concepts that you think might be important improvements over existing products and services. In addition, include two or three existing brands as benchmarks. In your concept testing, do not attempt to “tilt” the questioning just to make your idea be a popular one. Each concept should be placed on a *separate* index card and be “equal” in terms of length and enthusiasm. Be fair. Usually you will want to show the prices on the cards. If appropriate, you may want to show a picture or sketch. Show how **each subject** rated and ranked the five concepts. Discuss the implications of your concept test results for your sales forecast. In some cases you might want to include a sketch of each of your concepts or a sample to taste or feel. Your objective is to have the subjects rank and rate your concept statements in the same order they would choose the items in the real world marketplace.
- d) After you have done **a, b, and c above** then you should prepare four separate forecast numbers. These are: unit sales (number of shoes or meals) and dollar sales for year one of your operation and year two. Start counting time from the date of your first major commitment such as renting the space or starting to do your R and D or quitting your full time job. Note, we are asking for a forecast of sales, **not profits**. You should not include your costs at this point.

Preparing these four sales forecasts is often not easy. Try to be objective and realistic. The method you use is up to you and is likely to vary depending upon your industry, your new enterprise, amount of investment, etc.

Some factors that you may want to consider in your forecast are: Number of competitors in your relevant market area, the number of potential customers and the amount they buy per year of similar products, the sales level of your local competitors , your expected market share in your relevant target market, the percent of retail stores that will agree to sell your product, the advantages of your product or service relative to the competitive offerings, your prices relative to competition, your relative quality, the number of potential customers who will be aware of your new offering, the size of your sales force, amount of advertising or promotion dollars.

In developing your forecast, state your assumptions and indicate the steps you have taken to develop these four forecasts. The highest credit will be given for the most credible forecasts, not the highest forecasts. If appropriate you could also include a range. E.g., your most likely forecast, minimum level of sales expected and maximum level expected. We will do some examples in class, but this step will largely rely on your common sense and good original thinking. In all cases you will want to use the output of the concept test (part c above) in making your forecast. Avoid making statements such as the following: “In order to be conservative, we will assume that at least 0.1% of the population will buy our product”

Note: Steps a and b above can be done in parallel. Step C can only be done after steps a and b. **Step d will usually rely on information from step C and other inputs.**



Some thoughts on collecting your data via interviews. (Step 1)

It is often necessary to create a formal written questionnaire in order to do a good job of collecting data from people in the market and conveying this information to others. Inclusion of the questionnaires in your report is also the easiest way to let the reader know what you did in order to collect your data. You must produce and include a formal and complete questionnaire for steps a and c above. Show the target market, sample frame, introduction to subjects, screening questions, skip directions, and exact wording of your questions as part of your questionnaires.

Here are some general thoughts on creating questionnaires. Remember to indicate (a) the target market and (b) the procedure you used to obtain your subjects.(e.g. I approached all fellow students at Stern- who were in LC lounge at noon on Friday Feb 6). The procedure used to select your subjects is called the sampling frame.

1. Provide an introduction; For example, “I am a senior at Stern. We are conducting a study on backpacks. Would you be willing to answer a few questions?”
2. Provide and *USE* some **screening questions** to insure that you are only talking to people who buy or use the product. For example: “Do you use or have you ever purchased a backpack for your own personal use?”

_____ YES (continue with interview)
_____ NO (Say) “Thanks but our study is just for those who use backpacks”. (End interview)

Note: it is important to indicate what you did if the person did not qualify on your screening question.

Example of the Key questions in the Discrepancy Analysis: “What problems have you experienced in using a backpack? Any others?” (Keep probing for many problems). Try to elicit 5 to 10 problems or complaints from each subject that you interview. Use open ended questions. Do not provide a list of problems to the subject as this can bias the responses. Note the discrepancy analysis is based on existing competitive products and services, not your new idea. The total focus is on: **problems, complaints, and deficiencies**. Try to get each subject to mention many problems, complaints, etc. Record the exact wording that your subjects use.

After you have interviewed about 15 people, combine all the problems that were cited into one big list. Use the language of the subjects, not your interpretation. Show the frequency for each complaint. Eliminate any duplicates. Also show what percent of your subjects listed each problem.

4. Attribute Analysis: This step is done without subjects. You do not need to interview any subjects for this part. There are three stages to this.

Stage 1. List **at least 15** dimensions of your product or service. For example, weight and color are two attributes of a backpack. Researchers have listed about 200 dimensions of a flashlight, so even simple products or services have many attributes.

Stage 2. For each attribute such as weight, **list several levels of that attribute**. For example, the weight could be: (a) ultra light, (b) 1 pound –average material, or (c) heavyweight, extra thick and strong,. For colors it could be red, yellow, blue, green, plus patterns, stripes, polka dots, etc. Be creative and stretch the boundaries. E.g. a yellow colored Ketchup.

Stage 3. Use the information from stages 1 and 2 to **suggest some new products**. You can pick different levels of each attribute and combine them for a new idea. For example, an extra heavy and strong backpack, Khaki color, buttons instead of zippers, space for nametag, and waterproof top. Or a backpack with polka dot colors, a built in cell phone, medium weight and a long thin shape to the pack.

Concept testing: Prepare detailed concept statements, including prices and possibly location for two or three new concepts and for two or three **competing or existing** products. Your concept statements should be “equal” in terms of length and enthusiasm. In most cases you should show the price. You can also show pictures. Put each concept on a *separate index card* and shuffle the cards before showing them to a subject. Show all five concept statements to 10 persons in your target market and ask them to rank order the five concepts in terms of which they would buy. Vary the order of presenting your cards for the concept statements. Show the rank order for each subject in a table and show the distribution of answers for each concept. In addition, ask them to rate each of the concepts on some scale such as: I would definitely buy, I would probably buy, I would probably not buy, I would definitely not buy.

Step 2 is for the second half of the course.

Step 2 is much less specific. In Step 2, you choose how to do further work on your project. A good starting point is to look at some general business plan (e.g. chapter 4) to see all the issues that need to be addressed. You and your partner can then decide what are some **of the most important next pieces to be prepared in your overall business plan**. One good guideline is to imagine that you will be going to some people to ask for funding at the end of the semester. What are some of the major questions that investors are likely to have about your new firm. What research can you do to address their concerns? Some specific ideas of what you **MIGHT DO** are:

- 1) Construct a prototype of your new product or service so that it can be tested
- 2) Perform more in depth marketing research to develop a more accurate forecast of sales.
- 3) Work out the details on any specific parts of your overall business plan. For example you could work on details about your sales force, your methods of physical distribution, methods for raising capital, finding a specific location for your new firm, doing a detailed analysis of your competitors, doing a detailed financial analysis. You could also do research on legal aspects of your new product, brand names, advertising, pricing, raising funds from federal or state programs, franchising, use of the internet and determining who you would hire. You can also interview key people in the distribution chain to get their reactions.
- 4) It is strongly suggested that you consult with the instructor before proceeding too far with step 2.

5) Daily Assignments

Note: Unless specified otherwise, all assignments are due at the beginning of class and will be collected within the first few minutes of the class. Late papers will receive less than full credit. If you know you will be late, contact the instructor **in advance** of the class to receive full credit for the assignment.

DATE	ASSIGNMENT
9/8 Wed	Introduction to the Course. Review of Assignments. Discussion of the Course Project. Example of Starting a Successful Business- McCormack Reaper. What were the steps?
9/13 Mon	Read Chapters 1 and 2 of Bygrave. (in the Portable MBA textbook): The Entrepreneurial Process and Opportunity Recognition Look at current INC. top 10.
9/15 Wed	Read Chapter 11 on Franchising in preparation for the first case. In class assistance with your Project. Examples of Questionnaire Construction and question wording. (hand in the preliminary page as described above under "starting point")
9/20 Mon	Read Chapter 3 of Bygrave. Entrepreneurial Marketing Video on how George Eastman started Eastman Kodak.
9/22 Wed	<p>First Case-Michael Bregman: Be prepared to hand in answers to the following questions:</p> <ol style="list-style-type: none"> 1) What are the principal strategic issues Michael (we) must address in managing the expansion of the business? 2) What strategy should he (we) pursue: regarding franchising? Should he sell franchises or own the units? 3) In light of the above, what should Michael (we) do about the current offer for several McMuffins locations? 4) Is the financial analysis on cash flow sufficiently complete for a prospective franchise buyer to make a good decision on buying a franchise? If not, what is missing? <p>Note for all the cases. Write and discuss as if we are the managers. E.g. say I think that we should raise the prices rather than "they" should raise the prices.</p>
9/27 Mon	Examples of sales forecasts. Class discussion on various ways to estimate demand. What is needed is a valid and unbiased estimate of demand. Fudging to produce an overly optimistic estimate is not helpful to the entrepreneur or to the investors. Learn to be objective at this step. It is sometimes useful to make estimates using more than one approach. Do you believe your estimate? Is it credible to others? What market share would you own?
9/29 Wed	Read Chapter 4: Writing a Business Plan. This is an excellent chapter.
10/4 Mon	Guest Speaker: Mr. Joseph Torter, Stern Graduate and Successful Entrepreneur
10/6 Wed	Read Chapter 14 on Harvesting your Venture. This chapter covers how to compute the present value of Free Cash Flows, see pages 441 -446.

10/11 Mon	Read Chapter 10 of Bygrave on Intellectual Property. Skim read Chapter 9. I am assuming that Chapter 9 is mainly review from your business Law Course. Guest Speaker: Mark Schildkraut from the Law Firm of Kaye Scholer.
10/13 Wed	Hand-in Step #1 of Project. Remember, your score is based on both the content of your report and the communication of your results. The reader needs to understand what you did in order to decide how valid your findings are. Discussion of How to do Step #2. Video on Seed Corn.
10/18 Mon	Present the Highlights of your step 1 to the Class. (Limit of 3Minutes/Team) The presentation is not graded but is good practice for making your final presentation. Suggest you prepare a maximum of 3 slides per team. Strict 3 minute limit. Bring your presentation to class on a "Floppy Disk". Do not use the H, P or Q drives. Can also use transparency slides. Much quicker.
10/20 Wed	Guest Speaker, Mr. Bill Deutsch
10/25 Mon	Chemdex.com Case: (Prepare the case for class discussion. Hand in a short write-up - graded as pass /fail) (1) How would he recruit a critical mass of customers? (2) How much money should be raise? (3) Who should he target in his efforts to raise money?
10/27 Wed	Mid-Term Exam (Based on All assignments to date, including the cases and lecture material). Part A of the exam is closed book, no notes. Part B, on the cases is open notes and cases. Bring Cases and Calculator.
11/1 Mon	Re-read Chapter 5 of Bygrave. Importance of Cash Flows for a new enterprise. Potential for negative cash flow despite profits in every period. Practice exercises.
11/3 Wed	Introduction to a Method of Analysis that is common for products with repeat purchases such as catalogs, magazine subscriptions and many services. Useful for the Ruth Owades Case. This is called Cohort Analysis (follow one group over their lifetime experience with your firm)
11/8 Mon	Session #1 on Direct Marketing: How do direct marketers operate? What are the key success factors? Application of these principles to many types of business.
11/10 Wed	Case #3. The Knot. Discussion questions. Does this firm have strong prospects for the future? What are some of the best decisions they have made in the past? What if any are weak spots for this firm?
11/15 Mon	Read Chapter 6 of Bygrave. Sources of Equity Capital for a new Firm.
11/17 Wed	Read article by Messinger and Narasimhan "has Power Shifted in the Grocery Channel?" Article to be delivered in Class. An excellent article to understand distribution channels
11/22 Mon	Hand in Step # 2 and Present Step # 2 (3 slides per team) "Other" member of team presents this time. If you are a solo team, you only need to present on one occasion.

11/24 Wed	Read Chapter #7 of Bygrave. Sources of Debt Financing and Chapter #8, External Assistance for Startups and Small Businesses.
11/29 Mon	Championship Round for the “best” new venture for this semester in this section. Three teams will be asked to present for about 10 minutes each. This is not part of your grade, but small awards will be given to these top three teams. I will attempt to get one or more outside judges.
12/1 Wed	Case #4. Prepare the Heather Evans Case for Class Discussion: Be prepared to answer the following questions: Is there a good opportunity for Heather Evans? How would you evaluate her efforts to date? How good or bad is her business plan? Evaluate each of the financing alternatives. Who should she approach and on what terms? How should she set the “price”? Hint: see the prospectus for a competitor to determine the PE ratio for this industry. Lots can be learned from reading the Liz Claiborne Prospectus closely. (Hand in write-up)
12/6 Mon	Read Chapter 13 in the text. Managing a growing Business. Also read the Article by Riquilme and Watson, “Do Venture Capitalists’ Implicit Theories on New Business Success/Failure have Empirical Validity? Inter Small Business Journal, Nov 2002. Pay particular attention to the tables and figures.
12/8 Wed	Review Session. Turn in your rating sheet for the Term Project. (Last Page of course outline.) Turn in your Industry Fact Book. 20 pages are adequate if you have some good relevant material. Focus on quality material, not the quantity of pages.
TBA	Final Exam: (About 90 minutes) Covers Material Since the Mid-Term. Part A is closed book and no notes. Part B is open cases and notes. Bring the last two cases and a calculator.

Rating Sheet for the Term Project

Please fold or return in an envelope

This is a confidential form. The instructor will not reveal the ratings to anyone.

You should be honest and fair, both to yourself and to your partner. If both of you did about the same amount of work, you should fill in 50% below for both students. However if one student on the team did most of the work, that student should report a high percent, say 90% for himself or herself and report say 10% for the partner. The person who did 10% of the work should report the same facts.

Your name _____

Name of your partner _____

In the process of doing our joint term project, my estimate is that I did _____% of the total work and my partner did _____% of the total work.