

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.
- T. 16. “Salary-replacement” firms provide their owners with income levels comparable to what they could have earned working for much larger firms.
- F. 17. “Entrepreneurial ventures” are firms that allow owners to pursue specific lifestyles while being paid for doing what they like to do.
- T. 18. An entrepreneur may start a number of different types of businesses, including salary-replacement firms, lifestyle firms, and entrepreneurial firms or ventures.
- F. 19. A sound business model is a plan to generate investor interest, make profits, and grow asset investments.
- T. 20. Once conceptualized, a new idea should be examined for its business feasibility.
- F. 21. The process of moving from entrepreneurial opportunities to new businesses, products, or services begins with ideas, then moves to the preparation of a business plan, and finally ends with a feasibility study.
- T. 22. A SWOT analysis is an examination of the strengths, weaknesses, opportunities, and threats to determine the business opportunity viability of an idea.
- F. 23. A SWOT analysis focuses on strengths (S), worries (W), opportunities (O), and treats (T).
- F. 24. A “venture opportunity screening” is the same thing as preparing a business plan.
- T. 25. A SWOT analysis should consider as potential strengths or weaknesses whether there are unfilled customer needs and the extent to which intellectual property rights exist.

- F. 26. A SWOT analysis should consider as potential strengths or opportunities the extent of existing competition and the likelihood of substitute products or services.
- T. 27. Best practices of high-growth, high-performance firms applied in the marketing practices area include “developing new products or services that are considered to be the best.”
- F. 28. Best practices of high-growth, high-performance firms applied in the marketing practices area include “preparing detailed monthly financial plans for the next year and annual financial plans for the next five years.
- T. 29. Best practices of high-growth, high-performance firms applied in the financial practices area include “preparing detailed monthly financial plans for the next year and annual financial plans for the next five years.
- T. 30. Best practices of high-growth, high-performance firms applied in the management practices area include “assembling a management team that is balanced in both functional area coverage and industry/market knowledge.”

Multiple-Choice Questions

- c. 1. A sound business model provides a plan which includes all of the following except?
- generates revenues
 - makes profits
 - retains all its earnings
 - produces free cash flows
 - 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?
- borrowing costs
 - non-cash depreciation
 - taxes
 - investment in assets
- d. 3. A venture’s value is determined by
- the size and timing of its future free cash flows
 - time value of money
 - its net income
 - a and b*
 - 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 not 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

- e. 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. all of the above
 - f. a, b, and d

- 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 IndicatorTM 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 IndicatorTM 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
- d. 31. Determine the return on assets (ROA) for a venture with the following financial information: revenues = \$500,000; net profit = \$70,000; and asset turnover = 2.00 times.
- a. 10%
 - b. 14%
 - c. 20%
 - d. 28%
 - e. 34%
- b. 32. Determine the dollar amount of total assets for a venture with the following financial information: revenues = \$500,000; net profit = \$70,000; and asset turnover = 2.00 times.
- a. \$100,000
 - b. \$250,000
 - c. \$375,000
 - d. \$500,000
 - e. \$650,000
- c. 33. Determine the dollar amount of net profit for a venture with the following financial information: revenues = \$500,000; return on assets = 20%; and asset turnover = 2.00 times.
- a. \$10,000
 - b. \$25,000
 - c. \$50,000
 - d. \$60,000
 - e. \$75,000
- a. 34. Determine the dollar amount of revenues for a venture with the following financial information: net profit = \$60,000; assets turnover = 1.5 times; and return on assets 30%.
- a. \$300,000
 - b. \$500,000
 - c. \$800,000

- d. \$1,000,000
 - e. \$1,200,000
- d. 35. When moving from entrepreneurial opportunities to new businesses, products, or services, which one of the following is not considered a component?
- a. ideas
 - b. feasibility
 - c. business plan
 - d. harvest of venture
- c. 36. A SWOT analysis does not focus on which of the following components or areas?
- a. strengths
 - b. weaknesses
 - c. new ideas
 - d. opportunities
 - e. threats
- e. 37. A SWOT analysis focuses on which of the following components or areas?
- a. strengths
 - b. weaknesses
 - c. opportunities
 - d. threats
 - e. all of the above
 - f. *a, b, and d*
- e. 38. When conducting a SWOT analysis, “unfilled customer needs” are examined in terms of:
- a. strengths
 - b. weaknesses
 - c. opportunities
 - d. threats
 - e. *a or b*
 - f. *c or d*
- b. 39. A SWOT analysis does not focus on which of the following components or areas?
- a. strengths
 - b. failures
 - c. opportunities
 - d. threats
- b. 40. Firms that allow owners to pursue specific lifestyles while being paid for doing what they like to do are referred to as:

- a. salary-replacement firms
 - b. lifestyle firms
 - c. entrepreneurial ventures
 - d. rapid value creation firms
- d. 41. U.S. small businesses are predominately:
- a. salary-replacement or entrepreneurial firms
 - b. lifestyle or entrepreneurial firms
 - c. entrepreneurial ventures
 - d. salary-replacement or lifestyle firms