

Syllabus: Entrepreneurship, Intrapreneurship & New Venture Creation©

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Purpose & focus of class: To teach the fundamentals of venture capital, venture creation, entrepreneurship and intrapreneurship (entrepreneurship and venture creation in medium/large enterprises) in developed and emerging market countries. Case material referred back to its relevance to business in Russia.

The class will use case studies as the main instruction method with instructor lectures to support the case study approach. Students will be assigned to groups and conduct a case analysis and class presentation. Instruction will also include guest lectures from entrepreneurs, venture capitalists and business development professionals from the local Russian business community.

This course is an elective in the course curriculum. It prepares students for new challenges in current and new work situations in several ways:

- Understand the entrepreneurial process.
- How entrepreneurship works in the developed and emerging markets, similarities & differences.
- Can intrapreneurship work in the medium size enterprise and large company?
- What are the financing, growth and scale-up issues that face entrepreneurs and intrapreneurs?
- Think about entrepreneurship and success factors in Russia.

Grading will be based on student's participation in case studies (the class project), midterm and final exams.

Classes are Monday & Wednesday, from 19:00-22:00.

Class #1: Background & introductions, course agenda, objectives, purposes & expectations, Q&A. Monday 7 July 2008. Read articles, 'How Venture Capital Works.'

Class #2: The Heart of Entrepreneurship and Venture Capital as the Fuel of Entrepreneurship: Wednesday 9 July 2008.

What is entrepreneurship, how does it work, what are the traits and characteristics of entrepreneurs? Are entrepreneurs free-swinging risk takers, or businessmen who take calculated risks? What is this thing called venture capital; how does it work, and what's its role in venture creation? What are the alternate paths to entrepreneurship? What can individual organizations and governments do to foster conditions that allow entrepreneurship and venture capital to flourish?

A case study will develop student thinking: 'Model E; An Incubated Enterprise.' This case provides a close-up view of an entrepreneurial search for opportunity, the role of incubators in the process, and the development of a viable business concept. It also depicts the changes made to the business concept as new people (with new expertise and experience) are added to the team. The challenge of blending 'old economy' automotive veterans with 'new economy' Internet employees is another important issue raised. Teaching purpose: Developed to illustrate: 1) alternative paths to entrepreneurship (incubator route), 2) the development of an organizing idea (Internet auto delivery) into a business concept (high-end, one-touch subscription service), and 3) challenges of implementation.

Teaching material will be taken from additional documents: 1.) Emmet Stephenson: Profile of an Entrepreneur, the founder of over a dozen successful companies as a model of entrepreneurship and

management; 2.) Vinod Khosla interview; 3.) Palm Computing, 4.) How entrepreneurs craft strategies.

Class #3: Development of the business concept, part #2, hi-tech entrepreneurship in a low-tech country, Africa. Monday 14 July 2008.

‘Picking the best business opportunities.’ It’s easy to point to successful business innovations. But it’s substantially more difficult to spot the best opportunities before they’ve proven themselves. While promising startups tend to cluster in market niches with high uncertainty and low capital and opportunity costs, established corporations are restricted to initiatives that will provide large enough returns to satisfy market expectations. Three keys to keep in mind for those charged with creating new business ventures: 1) Make sure the opportunity fits with your core competencies; 2) Learn to ‘think imaginatively’ about your business model; and 3) Try to identify how a new product or service will change the lives of its customers, instead of getting carried away by its bells and whistles.

This class focuses on the case study, the African Communications Group. It describes the opportunities that confront the African Communications Group, an entrepreneurial organization that plans to introduce a wireless pay-phone system in Tanzania. Provides a foundation for the analysis of value creation and capturing value. The possibility of entry by other companies, the presence of a large supplier, and uncertainties about demand all create important tradeoffs for the new venture. Teaching Purpose: Used to introduce a framework for evaluating a new business based on existing technologies. Principal concepts include value creation and capture, competitor analysis, supplier evaluation, and financial forecasting.

Teaching material also drawn from Adesemi. This American start-up in Africa had tried for six years to blanket the developing world with desperately needed wireless communications services. It raised more than \$15 million in venture capital and launched the world's first fully integrated ‘virtual’ phone system--which incorporated voice mail, pagers, and hundreds of pay phones--in one of its poorest countries, Tanzania. Then Adesemi crashed to earth, leaving its founder, Monique Maddy, with a company that was a shadow of the powerhouse she had envisioned. The company’s demise was personally and financially devastating to Maddy, a Liberian-born entrepreneur who grew up wanting to work for the United Nations and who ultimately trained at Harvard Business School. In this detailed first-person account, she says the failure taught her four important lessons about starting a business in an emerging-market country.

Class #4: Financing and valuation issues in venture creation. Wednesday 16 July 2008.

Financing the enterprise is one of the most important challenges facing entrepreneurial companies that are financed either by venture capitalists or other private equity investors. In this class we’ll discuss: 1) the venture capital method of financing and valuation; 2) the problem of determining the terminal value; 3) the treatment of risk; 4) how to determine the funding requirements and the ways of dealing with multiple financing rounds; and 5) discusses briefly the use of these methods in actual negotiations. Teaching Purpose: To teach students the fundamental issues of valuation in entrepreneurial companies that are financed either by venture capitalists or other private investors.

This class will use the case study on Hotmail: It describes the efforts of Sabeer Bhatia, co-founder and CEO of Hotmail, to finance and grow this business, which is based on free web-based email. The case describes early, successful efforts at raising several rounds of venture capital and presents choices around a next stage of financing. Teaching Purpose: Describes the challenges of financing an early stage Internet business with an unproven business model.

Material also drawn from the case study Return Logic. This case highlights how multiple rounds of financing work in practice and illustrates how terms agreed to in early-stage financing deals have an impact in later financing rounds. Also illustrates ethical issues that entrepreneurs confront as they

build "dot-com" ventures. Teaching Purpose: Designed to help students appreciate how terms agreed to in early-stage financing deals have an impact in later financing rounds. Provides students with the opportunity to role-play negotiations with venture capitalists and evaluate the ethical implications of arrangements made with key customers.

Term sheets from the case, Trendsetter.com, Inc. will be used as supplement material. This case describes two aspiring entrepreneurs who have just received offering documents for venture funding (known as term sheets) from two venture capital firms. With neither of the entrepreneurs having experience in raising capital, they are wondering how to compare the two proposals and which one they should choose. They need to make a decision fast. Contains two complete term sheets. The term sheets are similar in structure but differ in important ways. Both term sheets have advantages and disadvantages for the entrepreneurs. Choosing one over the other requires a careful analysis as well as a certain set of assumptions about the growth of Trendsetter.com, Inc. Teaching Purpose: Most entrepreneurs must compare different sources of equity financing at some point in the course of starting a venture, especially if they seek to raise venture capital. Term sheets are widely used by venture capitalists and increasingly by business angels. This case intends to teach students about the elements and characteristics of term sheets. Also seeks to sharpen students' understanding of how to compare term sheets and how to select the best term sheet given the likely evolution of a venture.

Material also drawn from 'Valuation of a Venture Capital Deal.'

Class #5: Continuation of financing & valuation from Class #4. Monday 21 July 2008.

Class #6: Midterm exam. Wednesday 23 July 2008.

Class #7: Scaling up the organization, updating the strategy & focus, modifying the marketing strategy, hiring and training new staff. Monday 28 July 2008.

What does the company do when it has established a market beachhead, but the market has changed and is too small to support its growth objectives? In this case study, we look at two companies that took different approaches to grow out of their market niche, and the strategic issues it created on their focus, staffing and training of employees.

Case Study: ScreamingMedia, a provider of content syndication and services, must shift its customer base away from Internet start-ups toward larger, more established companies to ensure future profitability. To achieve this goal, the company needs to retool the sales force, develop new products and services to meet the needs of new customers, and change its organizational structure to support the company's evolution. Teaching Purpose: To help students understand the difficult choices that entrepreneurs need to make, often with limited information and sense of urgency. Students will be asked to develop a new market strategy and action plan outlining steps necessary to achieve strategic goals: sales retraining, development of new products and services, and changing the organizational structure.

Material also to be drawn from:

1. TellMe Networks: Describes the founding and rapid growth of TellMe Networks. TellMe Networks is a high profile start-up in the voice directory and network services market. It has made significant strides in executing its business model since its inception in early 1999. By the Fall of 2000, competition in the voice services market was intensifying. TellMe Networks faced a significant strategic decision; should it pursue a 'get big fast' strategy, spending aggressively on customer acquisition? If it decided to pursue an accelerated growth strategy, should TellMe do so in its directory business or both?

Class # 8: Managing Corporate Entrepreneurship. Part #1. Wednesday 30 July 2008. Review for case presentations.

Can medium-size and large companies create a climate of entrepreneurship within the organization to create new business opportunities and new growth for the corporation? What is the role of the 'intrapreneur' (the corporate entrepreneur) in the process to champion the project and get it implemented when resistance exists within the corporation to new ideas and innovation?

The class will use the case on 3M Optical Systems: This case focuses on the decision faced by a middle-level division manager concerning whether he should support an investment request to support a third attempt at launching a new product developed by a struggling business unit. It describes the long, difficult process by which the unit has developed the product--a computer privacy screen--after years of problems and continuing losses, and its absolute faith in the project. Also presents the division manager's concerns about the need for discipline and control, setting up a tension that is focused on the launch decision. Teaching Purpose: Focusing on the role of the first line and middle-level general manager, the subject matter also allows an exploration of the challenge of creating and sustaining entrepreneurship in large organizations--in a company that has managed it with great success for decades.

Material will also be drawn from the case, Guidant. This case describes a potential new approach to treating cardiac disease--radiation therapy. Guidant, a leading medical device maker, faces a choice about whether to pursue this new and risky technology, and if so, with what strategy. Teaching Purpose: Dimensions of entrepreneurship in the larger corporate context.

Information presented will include ideas from the article, 'How Can Big Companies Keep Entrepreneurship Alive?'

Discussion on Class Presentations: Q&A.**Class #9: Managing Corporate Entrepreneurship. Part #2, the leveraged buyout. Group Presentation on Ducati Leveraged Buyout case. Monday 4 August 2008.**

Leveraged buyouts and M&As are established financing structures in the corporate and financial world. Large Russian enterprises are increasingly using M&As as a strategy to grow the business and discussion continues to focus on the use of leveraging techniques to acquire assets in Russia. In this class, we look at the use of leveraging to acquire the assets of an international company by a US LBO firm.

Material drawn from the case study, the Ducati leveraged buyout. It describes the attempt of Texas Pacific Group (TPG), a buyout firm, to purchase a controlling stake in Ducati Motor, the world's leading high-performance motorcycle company, based in Bologna, Italy. Ducati is part of Cagiva Group, a family-controlled industrial group. Cagiva has fallen on hard times and Ducati is the crown jewel in the group. Yet even Ducati is under great financial pressure and short on working capital. Abel Halpern, a partner at TPG, is frustrated because a deal with the owners seems to be an ever-moving target. TPG has negotiated with the seller for almost a year. In spite of costly due diligence efforts by TPG, Abel Halpern is now ready to walk away from the deal. In his decision he needs to consider not only valuation and the feasibility of hiring new management to turn the company around but also the feasibility of an eventual exit via the public markets in Italy. Teaching Purpose: To teach students about valuation and buyout financing in entrepreneurial settings; to examine the country context for entrepreneurship, financing, and corporate governance in Italy; to illustrate working capital dynamics in manufacturing firms; and to examine the feasibility of brand expansion beyond a core product.

Note to Students: The remainder of the course is devoted to special situations in venture creation. These next set of classes deals with venture creation in non-profit organizations and the emerging markets including Russia.

Class #10: Entrepreneurship in a non-profit world: Group Presentation on Artists for Humanity. Wednesday 6 August 2008.

How does entrepreneurship develop in a non-profit company, where profits and wealth creation are not the factors driving the entrepreneur? And how does the entrepreneur raise the capital to finance the business when the financial rewards are not available for the management team and investors?

Material is drawn from the case, Artists for Humanity (AFH). AFH is a nonprofit that hires 30 to 40 teenagers each year for after schoolwork and training in the arts and entrepreneurship. The young artists, working in six different studios, make and sell the art they produce. AFH was started in 1990 by local artist Susan Rodgerson and six middle school students in a Boston garage studio; in 1993 they were able to expand and move to two floors of a wharf-area warehouse. At the time of the case, Rodgerson, the executive director, is weighing issues of expansion, staff turnover, and a capital campaign to raise money to secure a building (the warehouse lease runs out in 2001). The case showcases the challenges that face many small nonprofit organizations, and outlines some of the particular characteristics that describe nonprofit organizations that also have an entrepreneurial arm. Teaching Purpose: Understanding social entrepreneurial model of nonprofit development.

Class #11: Entrepreneurship in Russia: Guest Speaker, Cameron Sawyer. Group Presentation on Zhulebeno Plaza case. Monday 11 August 2008

Material drawn from the case study, the Zhulebeno Plaza case. Cameron Sawyer, CEO of Sawyer & Co., seeks financing for a shopping center he is developing in Moscow. The case describes the opportunities and challenges of doing development in Russia. Teaching Purpose: To develop and apply students' knowledge learned in the class to the issues related to development in Russia. Also highlights entrepreneurial opportunities in a changing world.

Guest Speaker. Cameron Sawyer will talk about the failure to develop the Zhulebeno Plaza and the success in creating a different project, an office complex that is home to numerous international and Russian companies. For the past seven years Cameron has lectured these cases at the Harvard Business School. It's a real pleasure to welcome him to speak to our class.

Class #12: Entrepreneurship in China: Group Presentations on China Netcom & AsiaInfo. Review for the final exam, and general wrap-up of the course with Bright Horizons Family Solutions case. Wednesday 13 August 2008.

Material drawn from the case China Netcom. This case describes the strategic issues facing China Netcom, China's newest backbone telecommunications network. It describes the company's governance, structure, and strategic issues facing it as it evolves as a privately-managed, state-owned enterprise. Raises all the complex issues of the rapidly evolving telecommunications environment in China, as it moves to generate 300,000,000 Internet devices for 2005. Teaching Purpose: To raise students' awareness about the explosive growth of telecommunications capacity and Internet availability in China. Also provides insight into the balance between entrepreneurship and government controlled enterprise in modern China.

Material also drawn from the case study, AsiaInfo, a Chinese systems integrator that is primarily responsible for building the network that runs the Internet in China. Describes the uniquely Asian issues around wealth and culture that the entrepreneur must deal with as he builds the business. Teaching Purpose: Exposes students to entrepreneurship in China.

Entrepreneurship shows itself best when conditions are absolutely wrong for success. Yet entrepreneurs succeed in the face of enormous difficulties, whether it's on the streets of a New York ghetto or the proyeazd in the regional cities of Russia.

In this final case of the class, the story is of Bright Horizons Family Solutions, and how it built a strong company in a weak industry.

When Roger Brown and Linda Mason decided to start a child care and early-education company 15 years ago, they knew about the challenges inherent in the industry: no barriers to entry, low margins, few economies of scale, heavy regulatory oversight--to name just a few. But that didn't stop them. They eventually built Bright Horizons Family Solutions, a company that now has more than 340 high-quality child care centers, serving 40,000 children and employing 12,000 people.

How did they do it? Sheer determination helped. But even more important, they developed a business model that took advantage of industry weaknesses. When the couple sat down to hash out a plan for the company, they realized that the key to achieving profitability and creating barriers to entry was to partner with companies. They could achieve higher returns by having those companies build and outfit the centers and, at the same time, boost customer loyalty.

Brown's first-person account describes the difficulties the couple and their company faced along the way, including the struggle for funding and a board that questioned Bright Horizons' business model and basic philosophy of good child care. But, Brown says, the commitment to a singular business model and the determination to make strengths out of weaknesses made the impossible possible.

Class #13: Final exam. Monday 18 August 2008.