Name: ______________________ Class: ______________________ Date: ______________

Chapter 02: Developing the Business Idea

True / False

1. Only a small number of new business ideas become viable business opportunities with funded business plans.

a. True

b. False

ANSWER: True

2. It has been estimated that venture capitalists invest in about 10 to 30 percent of business plans presented to them.

a. True

b. False

ANSWER: False

3. Salary-replacement firms provide their owners with income levels comparable to what they could have earned working for much larger firms.

a. True

b. False

ANSWER: True

4. 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.

a. True

b. False

ANSWER: False

5. An entrepreneur may start a number of different types of businesses, including salary-replacement firms, lifestyle firms, and entrepreneurial firms or ventures.

a. True

b. False

ANSWER: True

6. Entrepreneurial ventures are firms that allow owners to pursue specific lifestyles while being paid for doing what they like to do.

a. True

b. False

ANSWER: False

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

a. True

b. False

ANSWER: False

8. A well-designed entrepreneurial venture begins with an idea that survives an analysis of its feasibility and results in a business plan.

a. True

b. False

ANSWER: True

9. 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.

a. True

b. False

ANSWER: False

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

a. True

b. False

ANSWER: True

11. A sound business model is a plan to generate investor interest, make profits, and grow asset investments.

a. True

b. False

ANSWER: False

12. The first component of a sound business model is the need to generate revenues.

a. True

b. False

ANSWER: True

13. For ventures that get to market first or create intellectual property rights, it is common to price new products or services at high markups or profit margins.

a. True

b. False

ANSWER: True

14. A successful, sound business model does not have to ultimately produce free cash flows.

a. True

b. False

ANSWER: False

15. 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."

a. True

b. False

ANSWER: True

16. 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."

a. True

b. False

ANSWER: False

17. 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."

a. True

b. False

ANSWER: True

18. Mark Twain said, "Like I tell anybody, if you fail to plan, you're planning to fail."

a. True

b. False

ANSWER: False

19. 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."

a. True

b. False

ANSWER: True

20. Business opportunities exist in real time, and most ideas have a relatively narrow window of opportunity to become successful business ventures.

a. True

b. False

ANSWER: True

21. Being first to market does not guarantee success.

a. True

b. False

ANSWER: True

22. Ideas that are said to be ahead of their time are too late to become viable business opportunities for the inventor or innovator.

a. True

b. False

ANSWER: False

23. Once conceptualized, a new idea should be examined for its business feasibility.

a. True

b. False

ANSWER: True

24. A viable venture opportunity creates or meets a customer need, provides an initial competitive advantage, is timely in terms of time-to-market, and offers the expectation of added value to investors.

a. True

b. False

ANSWER: True

25. A SWOT analysis is an examination of the strengths, weaknesses, opportunities, and threats to determine the business opportunity viability of an idea.

a. True

b. False

ANSWER: True

26. A SWOT analysis focuses on strengths (S), worries (W), opportunities (O), and threats (T).

a. True

b. False

ANSWER: False

27. 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.

a. True

b. False

ANSWER: True

28. A SWOT analysis should consider as potential strengths or opportunities the extent of existing competition and the likelihood of substitute products or services.

a. True

b. False

ANSWER: False

29. Venture opportunity screening involves assessment of an idea's commercial potential to produce revenue growth, financial performance, and value.

a. True

b. False

ANSWER: True

30. A venture opportunity screening is the same thing as preparing a business plan.

a. True

b. False

ANSWER: False

31. A venture opportunity screening guide, called the VOS Indicator™, is used to screen venture opportunities for potential attractiveness.

a. True

b. False

ANSWER: True

32. The VOS Indicator™ is useful in assessing the commercial potential of a venture, but should not be used as the sole tool to determine a venture's fate.

a. True
b. False

ANSWER: True

33. The VOS Indicator™ provides both qualitative and quantitative information about a venture's commercial potential.

a. True
b. False

ANSWER: True

34. A venture with a low score on the VOS Indicator™ should always be abandoned.

a. True
b. False

ANSWER: False

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

a. True
b. False

ANSWER: False

36. One way to describe asset intensity is the dollar investment in assets needed to generate a dollar in sales.

a. True
b. False

ANSWER: True

37. Asset intensity and asset turnover are calculated as revenues divided by total assets.

a. True
b. False

ANSWER: False

38. A high asset intensity implies a large investment in fixed assets and/or net working capital is needed to support revenue growth.

a. True
b. False

ANSWER: True

39. Business changes resulting in higher net profit always increases ROA.

a. True
b. False

ANSWER: False

40. 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).

a. True
b. False

ANSWER: True

41. Financial bootstrapping refers to the process of minimizing resources such as the need for financial capital and finding unique sources for financing a new venture.
a. True
b. False

ANSWER: True

42. Free cash flow to equity is the cash flow from producing and selling a product or providing a service.
a. True
b. False

ANSWER: False

43. In a typical business plan, the section covering the management team does not need to disclose the management team's expertise and experience.
a. True
b. False

ANSWER: False

44. The nonfinancial options available to managers as the venture progresses through its life cycle are known as real options.
a. True
b. False

ANSWER: True

Multiple Choice

45. Venture capitalists invest in approximately what percent of business plans presented to them?
a. 1%–3%
b. 10%–13%
c. 20%–23%
d. 30%–33%

ANSWER: a

46. 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

ANSWER: b

47. 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

ANSWER: d

48. The definition of an entrepreneurial firm is:
a. survival
b. high growth
c. high growth and high performance
d. survival and average performance

ANSWER: b

49. A well-designed entrepreneurial venture typically includes:
a. generating ideas
b. analyzing the feasibility of ideas
c. producing a business plan
d. generating ideas, analyzing the feasibility of ideas, and producing a business plan

ANSWER: d

50. A sound business model provides a plan to do all of the following except:
a. generate revenues
b. make profits
c. retain all its earnings
d. produce free cash flows

ANSWER: c

51. A sound business model includes a plan to:
a. generate revenues and make profits
b. make profits and 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

ANSWER: d

52. Which of the following 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

ANSWER: a

53. The first two requirements of a sound business model are:
a. generate revenues and make profits
b. make profits and produce free cash flows
c. produce free cash flows for creditors and owners of the venture

d. generate revenues and produce free cash flows

ANSWER: a

54. When moving from entrepreneurial opportunities to new businesses, products, or services, which of the following is not considered a component?

a. ideas
b. feasibility
c. business plan
d. harvest of venture

ANSWER: d

55. A venture's value is determined by its:

a. future free cash flows (to equity)
b. revenues
c. profits
d. assets

ANSWER: a

56. In a study of high-growth, high-performance firms by the Kauffman Center for Entrepreneurial Leadership of best practices, which of the following practices was not included?

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

ANSWER: d

57. 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

ANSWER: a

58. An effective entrepreneurial management team should do 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. always work independently of each other
d. share the entrepreneurial spirit

ANSWER: c

59. A viable venture opportunity is characterized by all of the following except:

a. creating or meeting a customer need
b. having perceived attraction to prospective investors

c. providing an initial competitive advantage
d. being timely in terms of time-to-market

ANSWER: b

60. A SWOT analysis does not focus on which of the following components or areas?
a. strengths
b. weaknesses
c. new ideas
d. opportunities

ANSWER: c

61. A SWOT analysis focuses on which of the following components or areas?
a. strengths and weaknesses
b. weaknesses and opportunities
c. strengths, opportunities, and threats
d. threats, opportunities, weaknesses, and strengths

ANSWER: d

62. When conducting a SWOT analysis, assessing unfilled customer needs is examined in terms of:
a. strengths or weaknesses
b. weaknesses or threats
c. opportunities or threats
d. threats or strengths

ANSWER: a

63. When conducting a SWOT analysis, which of the following areas would not be considered as a potential opportunity or threat?
a. existing competition
b. reputation value
c. possibility of new technologies
d. recent or potential regulatory changes

ANSWER: b

64. Which of the following assessment categories is not used at the end of a qualitative-based venture opportunity screening exercise?
a. natural commercial potential
b. high commercial potential
c. average commercial potential
d. low commercial potential

ANSWER: a

65. Which of the following is not one of the factor categories of the VOS Indicator™?
a. industry/market considerations

b. pricing/profitability considerations
c. financial/harvest considerations
d. location/profitability considerations

ANSWER: d

66. The evaluation of entry barriers occurs under which of the factor categories of the VOS Indicator™?
a. industry/market considerations
b. pricing/profitability considerations
c. financial/harvest considerations
d. management team considerations

ANSWER: a

67. 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

ANSWER: a

68. The factor categories in a VOS Indicator™ are:
a. industry/market considerations
b. industry/market and pricing/profitability considerations
c. industry/market, pricing/profitability, and financial/harvest considerations
d. industry/market, pricing/profitability, financial/harvest, and management team considerations

ANSWER: d

69. A score in the range of 2.34–3.00 using the VOS Indicator™ would be considered a(n):
a. low score
b. average score
c. high score
d. very high score

ANSWER: c

70. An average score 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

ANSWER: c

71. Some venture investors like to draw analogies between baseball terms and venture performance. The baseball term used to reflect a total loss of an investment is:
a. "home run"

b. "single"
c. "strikeout"
d. "double"

ANSWER: c

72. The direct costs of producing a product or providing a service is called:
a. gross profit
b. gross profit margin
c. net profit margin
d. cost of goods sold

ANSWER: d

73. Revenues minus the cost of goods sold is called:
a. gross profit
b. gross profit margin
c. net profit
d. net profit margin

ANSWER: a

74. The 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

ANSWER: c

75. Asset intensity is:
a. total assets divided by total revenues
b. total revenues divided by total assets
c. calculated the same as asset turnover
d. one-half of the asset turnover

ANSWER: c

76. If the asset intensity is 0.80, the asset turnover would be:
a. 0.80 times
b. 1.00 times
c. 1.25 times
d. 1.50 times

ANSWER: c

77. Return on assets can be stated as:
a. net after-tax profit divided by total assets

b. total assets divided by net after-tax profit
c. total assets divided by revenues
d. revenues divided by total assets

ANSWER: a

78. All else held constant, a higher asset turnover:
a. increases ROA
b. decreases ROA
c. has no effect on ROA
d. may raise or lower ROA, depending on how it affects revenues.

ANSWER: a

79. The return on assets (ROA) model measures:
a. revenues divided by net profit multiplied by the asset turnover
b. net profit margin multiplied by the equity multiplier
c. net profit margin multiplied by the asset turnover
d. net profit divided by total assets multiplied by the asset turnover

ANSWER: c

80. Free cash flow, which can be paid back to investors, occurs when cash generated from operations exceeds all of the following <u>except</u>:
a. borrowing costs
b. noncash depreciation
c. taxes
d. investment in assets

ANSWER: b

81. Free cash flow to equity is the cash available to the entrepreneur and venture investors after all of the following <u>except</u>:
a. net cash flows
b. net increases in debt capital
c. financing and tax cash flows
d. investment in assets needed to sustain the venture's growth

ANSWER: a

82. Free cash flow to equity of an entrepreneurial firm includes cash flows to:
a. venture investors
b. creditors
c. the entrepreneur
d. venture investors and the entrepreneur

ANSWER: d

83. A venture's value to its owners is determined by the:

a. size and timing of its future free cash flows (to equity)
b. level of its past revenues
c. prior losses and expenses
d. all of these choices

ANSWER: a

84. Determine the cost of goods sold for a venture with the following financial information: revenues = $50,000; net profit margin = 20%; and gross profit margin = 70%

a. $40,000
b. $35,000
c. $15,000
d. $10,000

ANSWER: c

85. Determine the return on assets (ROA) for a venture with the following financial information: revenues = $500,000; net profit = $70,000; and asset turnover = 2.0 times.

a. 10%
b. 14%
c. 28%
d. 34%

ANSWER: c

86. 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 = 2.0 times.

a. $100,000
b. $250,000
c. $375,000
d. $500,000

ANSWER: b

87. Determine the net profit for a venture with the following financial information: revenues = $500,000; return on assets = 20%; and asset turnover = 2.0 times.

a. $10,000
b. $25,000
c. $50,000
d. $60,000

ANSWER: c

88. 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. $1,200,000

ANSWER: a

89. Determine the asset intensity of a venture with the following financial information: net profit = $22,000; revenues = $132,000; and return on assets 30%.

a. 0.1
b. 0.6
c. 1.8
d. 2.0

ANSWER: b

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

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

ANSWER: b

91. 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 <u>except</u>:

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

ANSWER: b

92. A typical business plan includes all of the following sections <u>except</u>:

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

ANSWER: d

93. When composing the financial plans and projections section of a business plan, all of the following should be included <u>except</u>:

a. income statements and balance sheets
b. statements of cash flows
c. past and present dividends per share information
d. funding needs and sources

ANSWER: c

94. A typical business plan includes all of the following sections <u>except</u>:

a. management team

b. financial plans and projections
c. risk and opportunities
d. initial public offering information

ANSWER: d

95. 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

ANSWER: b

96. A firm's option to abandon a venture is an example of a:

a. bootstrapping option
b. financial option
c. survival option
d. real option

ANSWER: d