------------------------------**Chapter 11**------------------------------

Debt financing
- obtaining borrowed funds
- requires assets to be used as collateral

Equity Financing
- obtaining funds in exchange for ownership
- doesn't require collateral
- offers investor some form of ownership
- External funds

Internal funds
- Generated from sources w/in the company

External funds
- Funds obtained from outside the firm
    - Equity
    - Length of time funds available
      costs involved
    - Amount of co. control lost

Personal Funds
- Least expensive in terms of cost & control
    - essential for attracting outside funding
    - savings
    - life insurance
    - mortgage on house

Family and Friends
- Likely to invest due to relationship w/ entrepreneur
    - easy to obtain money
    - more lenient with ROI
    - want direct input so you have to lay it out

Conventional Bank Loans
- Standard way banks lend money to companies
    - installment
    - straight commercial
    - long-term
    - character

Small business association
- back small businesses and will pay back the loan debt if the co. defaults

Private Placement
- Obtaining funds from private investors
- faster & less costly

Regulation D
- Laws governing private offering

Bootstrap financing
- raising money by any means necessary
- anything to get money into the operation
- takes away from daily activities of the operation

------------------------------Chapter 12------------------------------

Early stage financing
- One of the first financings obtained by a company
    - **Seed capital**
        - Relatively small amounts to prove concepts and finance feasibility studies

    - **Start-up**
        - Product development and initial marketing, but with no commercial sales yet
        - funding to actually get company operations started

Development financing
- Financing to rapidly expand the business
    - **Second stage**
        - Working capital for initial growth phase, but no clear profitability or cash flow yet
    - **Third stage**
        - Major expansion for company with rapid sales growth; company is at break-even or positive profit levels but is still private
    - **Fourth stage**
        - Bridge financing to prepare company for public offering

Traditional acquisitions
-Assuming ownership and control of another company

Leveraged buyouts (LBOs)
-Management of a company acquiring company control by buying out the present owners

Going private
- Some of the owners/managers of a company buying all the outstanding stock, making the company privately held again

Acquisition financing
- Financing to buy another company

Risk-capital markets
- Markets profiting debt and equity to non secure financing situations

Informal risk-capital market
- area of risk-capital markets consisting mainly of individuals

Venture-capital market
- One of the risk-capital markets consisting of the formal firms

Public-equity market
- One of the risk-capital markets consisting of publicly owned stocks of companies

Business angels
- A name for individuals in the informal risk-capital market

Equity pool
- Money raised by venture capitalists to invest

Equity participation
- Taking an ownership position

SBIC firms
- Small companies with some government money that invest in other companies

Private venture-capital firms
- A type of venture-capital firm having general and limited partners

State-sponsored venture-capital fund
- A fund containing state government money that invests primarily in companies in the state

Venture-capital process
- The decision procedure of a venture-capital firm

Significant capital appreciation
- the increase in value of the organization during a specific period of time

Preliminary Screening
- initial evaluation of a deal

Due diligence
- The process of deal evaluation

Final approval
- A document showing the final terms of the deal

Factors in valuation
- Non-monetary aspects that affect the fund valuation of a company

Financial ratios
-Control mechanisms to test the financial strength of the new venture

Current Ratio
- current assets/current liabilities

Acid Test Ratio
- Current Assets - Inventory) / Current Liabilities

Average Collection Period
- Accounts Receivable/Daily Sales

Inventory Turnover Ratio
- cost of goods sold/average inventory

Debt Ratio
- total liabilities/total assets

Debt to Equity Ratio
- total liabilities/stockholders equity

Net Profit Margin Ratio
- Net profit/net sales

Return on investment ratio
- Net profit/total assets

General valuation approaches
- Methods for determining the worth of a company

Present value of future cash flow
- valuing a company based on its future sales and profits

Replacement value
- the cost of replacing all assets of a company

Book value
- The indicated worth of the assets of a company

earnings approach
- Determining the worth of a company by looking at its present and future earnings

factor approach
- Using the major aspects of a company to determine its worth

Liquidation value
- Worth of a company if everything was sold today

Deal structure
- The form of the transaction when money is obtained by a company

Managing underwriter
-Lead financial firm in selling stock to the public

Going public
- Selling some part of the company by registering with the SEC

Registration statement
- Materials submitted to the SEC for approval to sell stock to the public

Advantages of going public
- ability to obtain capital
-enhanced ability to borrow
- enhances ability to raise equity
- liquidity and valuation
- prestige
- personal wealth

Disadvantages of going public
- increased risk of liability
- expense
- regulation of corporate governance policies and procedures
- disclosure of information
- pressures to maintain growth pattern
- loss of control

Initial public offering (IPO)
- The first public registration and sale of a company's stock

Prospects
- Document for distribution to prospective buyers of a public offering

Form S-1
- Form for registration for most initial public offerings of stock

Red herring
- Preliminary prospectus of potential public offering

Comment letter
- A letter from the SEC to a company indicating corrections that need to be made in the submitted prospectus

Pricing amendment
- Additional information on price and distribution submitted to the SEC to develop the final prospectus

Underwriting syndicate
- Group of firms involved in selling stock to the public

Quiet period / Legal Issues
- 90-day period In going public when no new company information should be released

Blue-sky laws
- Laws of each state regulating public sale of stock

Aftermarket support
- Actions of underwriters to help support the price of stock following the public offering

------------------------------Chapter 13-----------------------------

Penetration Strategy
- Focuses on the firm's existing product in its existing market.
- Attempt to penetrate the product or market by encouraging existing customers to buy more of the firm's current products
- Relies on taking market share from competitors and/or expanding the size of the existing market therefore, attempts to better exploit its original story
- *Example:* Pizza company engages in an extensive marketing campaign to encourage its existing customer base of university students to eat its pizza three nights a week rather than only twice a week.

Market Development Strategy
- Selling the firm's existing products to new groups of customers (new groups can be categorized in terms of geographic or demographics and/or on the basis of new product use) (capitalizes on existing knowledge and expertise in a particular technology and production process)

New Geographical Market
- Selling in new locations.
- *Example:* firm selling its products in singapore could start selling its products in malaysia, thailand, and china. This has the potential of increasing sales by offering products to customers who have not previously had the chance to purchase them. also useful for firms that sell seasonal products, entering markets provides an opportunity to sell their products year round

New Demographic Market
- selling to a different demographic group
- *Example:* Company sells games to males between the ages 13-17. However, there is an opportunity for this company to expand its sales by also targeting males between the ages 24-32, who are educated, have a disposable income and would likely enjoy the games
new product use
selling an existing product, which may have a new use, to new groups of buyers

example: bought a baseball bat, but not for play but for protection.

Product development strategies
- Developing and selling new products to people who are already purchasing the firm's existing products
- *Example:* Disney built on its existing customers base of disney movie viewers and developed merchandising products specifically aimed at this audience
- Capitalizes on existing distribution systems and on the corporate reputation of the firm

Diversification strategies
- selling a new product to a new market

Backward integration
- a step back (up) in the value-added chain toward the raw materials (manufacturer also becomes a raw materials wholesaler = firm becomes its own supplier)

Forward integration
- a step forward (down) in the value-added chain toward the customers (manufacturer also becomes a finished goods wholesaler = firm becomes its own buyer)

Horizontal integration
- involves a different, but complementary, value-added chain
- *Example*: firm that manufactures washing machines may go into the manufacture of detergent, these products are complementary in that they need each other to work.

Implications of growth for the firm
- Pressures on human resources
- Pressures on the management of employees
- Pressures on entrepreneur's time
- Pressures on existing financial resources

Overcoming Pressure on HR
- entrepreneur must address the question of what proportion of the workforce should be permanent and what proportion should be part-time, should be prepared to fire incompetent employee, and at the same time, should build and maintain a functional organizational culture.

Overcoming pressure on the management of employees
- it is important that the entrepreneur interacts with employees, so as to establish a team spirit
- effect open and frequent communication to build trust and provide constructive feedback
- provide key employees with the flexibility to take the initiative and make decisions without the fear of failure; and provide continuous training for employees.

Overcoming pressure on the entrepreneurs time
- can always make better use of their time, and the money they strive to do so, the more it will enrich their venture as well as their personal lives. better use of time can lead to increased productivity, increase job satisfaction, improved interpersonal relationships with people inside and outside the business, reduced anxiety and tension, and possibility even better health.

- efficient use of time enables the entrepreneur to expand and grow the venture properly, increase personal and firm productivity, and lessen the encroachment of the business into his or her private life. effective time mgt requires adherence to six basic principles: desire, effectiveness, analysis, teamwork, prioritized planning, and reanalysis

Overcoming pressures of financial resources
- managing cash flow, inventory, fixed assets, costs and profits, taxes and record keeping

Managing cash flow

- Have an up-to-date assessment of the cash position
- Compare budgeted or expected cash flows with actual cash flows

Managing inventory
- Physically count inventory periodically
- Link the needs of a retailer with the wholesaler and producer
- Select an appropriate mode of transportation

Managing fixed assets
- involves long-term commitments and large investments
- leasing can be an alternative to buying depending on: terms, of the lease type of asset, usage demand
- lease payments can be used as a tax deduction

Managing cost and profits
- Compute net income for interim periods during the year
- Assess each item to determine cost reduction
- Consider raising prices to ensure positive profits
- Compare current actual costs with prior incurred costs

Taxes
- Withhold federal and state taxes for employees
- Pay a number of taxes (state and federal unemployment taxes and business taxes)
- Allocate taxes as part of any budget
- File end-of-year returns of the business
- Consider use of a tax accountant

Record keeping
- System for storing and using customer information
- Helps build organizational knowledge to reduce dependency on any one individual
- Increases capacity to hold and process information

Actual growth of the firm
- upper right quadrant, both the necessary abilities to make the transition to a more professional management approach and the aspiration to grow their business

Unused potential for growth
- upper left quadrant, possess the abilities for transition but does not aspire to do so. a relatively large proportion of lifestyle firms are represented by this classification. (sustains their personal lifestyle rather than attempt to maximize personal wealth)

Constrained growth
- lower right quadrant, aspire to grow their business but do not possess sufficient abilities to successfully satisfy this aspiration.

Little potential for firm growth

- Lower left quadrant, these businesses have little potential for growth, and due to the limited abilities of the entrepreneur to manage growth, these firms may actually perform better if they remain at a smaller scale

Scaling your company (growth)
- Selling more of what you've built to an expanding customer set at an increasing rate (nike, starbucks, southwest)

------------------------------Chapter 14------------------------------

External growth methods
- Joint ventures
- Acquisitions
- Mergers
- Leverage buyouts
- Franchising

Joint ventures
- Separate entities involving two or more partners
- Most common type is that between two or more private sector companies (Microsoft and NBC Universal formed a partnership to create a cable news channel (MSNBC) there is an elaborate cost sharing arrangement between the different entities of the partnership)
- Some are formed to do cooperative research
- Industry-university agreements for research purposes are increasing usage
- International joint ventures provide a way to enter foreign markets
- Keys: symmetry, goals, timing

Industry-university agreements
Example: westinghouse retains patent rights while Carnegie Mellon receives a percentage of any license royalties. the university also has the right to publish the research results as long as it withholds from publication any critical information that might adversely affect the patent.

Drawbacks for international joint ventures
different objectives, cultural differences, and government policies

Symmetry
managers in each co., as well as those in the new entity, must concur on the objectives of the joint venture and the level of resources that will be provided. they need to feel that the relationship is fair, it respects and reflects what each party brings to the table

Goals
expectations of a JV must be realistic, they also need to be consistent across joint venture partners. if not, then the partners may be working at cross-purposes where it becomes impossible to achieve a win-win for both parties

Timing
must be right, with environment constantly changing, industrial conditions being modified, and markets evolving, a particular JV could be a success one year and a failure the next.

Acquisition
purchasing all or part of a company. the co. is completely absorbed and no longer exist independently.

Advantages
- Established business-employees, location, marketing and so on
- Cost can be lower than doing it yourself or going another route
- Established structure frees time for strategic planning/building competitive advantage

Disadvantages
- May have flaws that you will need to fix
- Key employees may leave in transition process
- Cost can be hard to estimate and you may overpay
- If synergy is not obtained you are wasting your time and money

Synergy
- the whole is greater than the sum of its parts, applies to the integration of an acquisition into the entrepreneurs venture. lack of synergy is one of the most frequent causes of an acquisitions failure to meet its objectives

Mergers
- are transactions involving two or more companies in which only one survives
- motivations are typically for survival, protection, diversification or growth
- when some technical obsolescence, market or raw material loss, or deterioration of the capital structure has occurred in the entrepreneurs venture, merger may be the only means for survival. the merger can also protect against market encroachment, product innovation, or an unwarranted takeover. a merger can provide a great deal of diversification as well as growth in market, technology, and financial and managerial strength.

Leverage Buy-Out LBO
- Where an employee group or entrepreneur buys a company by leveraging the companies assets. most of these occur bc the entrepreneur purchasing the venture believes that he/she could run the company more efficiently then the current owners.

Franchising
- franchisor gives exclusive rights of local distribution to: a franchisee in return for payment of royalties and conformance to standardized operating procedures

Franchisor
- person offering the franchise

Franchisee
- person who purchases the franchise

Advantages to the franchisee
- product acceptance: has an accepted name, product, or service
- management expertise: managerial assistance provided by the franchisor
- capital requirements

- up-front support can save entrepreneur significant time and capital
- knowledge of the market: offers experience in business and market
- operating and structural controls: helps in standardization and administrative control

Franchising advantages

- Expansion risk:
    - allows venture to expand quickly using little capital
    - business can be expanded nationally and internationally
    - requires fewer employees than a non-franchised business
- Cost advantages:
    - supplies can be purchased in large quantities to achieve economies of scale
    - commit larger sums of money to advertising

Franchising disadvantages

- Inability of the franchisor to provide services, advertising, and location
- Franchisor's failing or being bought out by another company
- Difficulty in finding quality franchisees
- Poor management can cause individual franchise failures
- The ability to maintain tight control over franchises becomes difficult as their number increases

Types of franchises

- **dealership**: acts as a retail store for the manufacturer
- franchises that offers a name, image, and method of doing business
- franchise that offers services

Factors to be assessed before making the decision to invest in a franchise

- Unproven versus proven franchise
- Financial stability of franchise
- Potential market for the new franchise
- Profit potential for a new franchise
- Check disclosure statement and franchise agreement