

# Final Exam (Counts 40% of Final Grade)

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**Due** Aug 2 at 11:59pm

**Points** 105

**Questions** 45

**Available** Jul 25 at 9pm - Aug 2 at 11:59pm 8 days

**Time Limit** 150 Minutes

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## Instructions

**NOTE: Students are NOT allowed to copy or screen print questions/problems on this exam. You will be allowed an opportunity to review your exam after the final exam period has closed.**

**Maximum Points That Can Be Earned Is 105 Points.**

This EXAM may be taken during the time period July 25 (9:00 pm eastern daylight time) through August 2 (at 11:59 pm, eastern daylight time) and will require 2 hours and 30 minutes of uninterrupted time.

The Final Exam covers the Entrepreneurial Finance and Business Strategy. All Business Strategy questions count 2 points each. Point values for the Entrepreneurial Finance questions and problems vary and are indicated adjacent to the question/problem. There is only one correct answer per question (unless noted otherwise). You are allowed to save answers to review later during the exam, but don't forget that all answers must be individually submitted (not just saved) for credit to be awarded. Once you have submitted an answer the answer cannot be changed.

Once the exam is opened you will have 150 minutes to complete. This process cannot be "paused" so please remember that once you start, 150 minutes later the exam will be automatically closed and no further entries will be permitted. The 150 minutes is in addition to the time required for you to complete the Proctor Track protocol.

**Proctoring Rules:** For this exam, you may use any physical calculator and/or Microsoft Excel (or equivalent). No other windows or programs should be open. Additionally,

- You may not use books, notes, formula or "cheat" sheets.
- You may not use more than one monitor.
- You may have blank scratch paper to write on during the exam. Before answering your first question, please hold up all blank sheets of paper, slowly showing both sides.
- You may have earbuds for the microphone function (one of the requirements of proctoring) during the exam.

If you have any issues during the exam, contact **ProctorTrack** directly by sending an email to [support@verificent.com](mailto:support@verificent.com) (mailto:support@verificent.com) or call **1-844-753-2020**.

Good Luck



## BEFORE YOU TAKE THIS QUIZ

You will need to begin verification by obtaining your unique access code.

Get Access Code

## Attempt History

	Attempt	Time	Score
LATEST	<a href="#">Attempt 1</a>	150 minutes	91 out of 105

⚠ Correct answers will be available Aug 3 at 8am - Aug 4 at 12pm.

Score for this quiz: **91** out of 105

Submitted Jul 31 at 10:48am

This attempt took 150 minutes.

If you run into a technical issue during your exam, please contact the appropriate provider:

- **Canvas:** Call 1-877-259-8498 or use the chat here <https://cases.canvaslms.com/liveagentchat?chattype=student> (<https://cases.canvaslms.com/liveagentchat?chattype=student>)

- **ProctorTrack:** Call 1-844-753-2020 and use the chat function in the ProctorTrack window.

### Question 1

2 / 2 pts

## Business Strategy and Innovation Questions (Count 2 Points Each)

In planning, well thought out goals are all of the following except:

- ☐ difficult but achievable
- ☐ specific
- ☐ clear as to the timeframe for completing the goal
- ☐ outcome oriented
- ☐ relevant to the mission of the firm
- ☒ All of the statements in this list are true of well thought out goals.

### Question 2

2 / 2 pts

Consider both statements: **Statement 1.** A firm's performance is more closely related and impacted by its external circumstances and external environment than related to the actions and strategies of firm management. **Statement 2.** A firm able to outperform all of its competitors for prolonged periods of time has a sustained competitive advantage.

☐ Only Statement 1 is TRUE

☒ Only Statement 2 is TRUE

☐ Both Statements are TRUE

☐ Both Statements are FALSE.

### Question 3

2 / 2 pts

Consider both statements. **Statement 1.** A firm's business model is how the various components of the business fit together to produce a profit.

**Statement 2.** A business model is the end result of decisions and tradeoffs made by management in formulating strategy.

☐ Only statement 1 is True

☐ Only statement 2 is True

☒ Both statements are True

☐ Both statements are False

Incorrect

### Question 4

0 / 2 pts

Consider both statements. **Statement 1.** Residual uncertainty is about the unknowable at the time that strategy is being formulated. **Statement 2.** No amount of research and analysis can reduce or eliminate "residual" uncertainty.

☒ Only Statement 1 is True

☐ Only Statement 2 is True

☐ Both Statements are True

☐ Both Statements are False

### Question 5

2 / 2 pts

\_\_\_\_\_ is a strategic planning methodology that is used to develop plans in an uncertain environment. Typically managers begin by identifying variables that can interact to significantly impact firm performance then develop alternative strategies for the most likely future environments.

☐ Strategy as Planned Emergence

☐ Traditional Top-Down Strategic Planning

☐ Bottom-Up Strategic Planning

☒ Scenario Planning

☐ Strategy as Simple Rules

### Question 6

2 / 2 pts

Consider both statements. **Statement 1.** Competitive advantage is always judged relative to other competitors in the same industry or judged relative to industry average. **Statement 2.** A differentiation strategy will always result in a competitive advantage if the firm can charge a premium price for its products.

☒ Only Statement 1 is True

☐ Only Statement 2 is True

☐ Both Statements are True

☐ Both Statements are False

### Question 7

2 / 2 pts

Which statement below is TRUE

☐

A strategic business unit ("SBU") strategy is typically focused on the question of what industries or markets to compete in.

☐

Value drivers are considered to contribute to competitive advantage even if the increase in cost exceeds their value creation

☒

Intangible assets are more likely to drive sustainable competitive advantage than physical assets

Incorrect

### Question 8

0 / 2 pts

Consider both Statements. **Statement 1.** Cost leadership is the most common generic strategy for firms focused on niche markets. **Statement 2.** Differentiation is the most common strategy for firms that are focused on broad (mass) markets.

☐ Only Statement 1 is True

☐ Only Statement 2 is True

☐ Both Statements are True

☒ Both Statements are False

### Question 9

2 / 2 pts

Which ONE of the following is **NOT** an approach that a Snowboard manufacturing firm can use to obtain a strategic, sustainable competitive advantage?

☐

Develop, have patented, and then commercialize a new laminate technology that greatly enhances snowboard performance

☒

Lower the price on the firm's popular snowboard product line \$50 below the prices of all of the firm's competitors

☐

Secure a 9 year contract with a very popular extreme sports athlete who will exclusively use and promote the firm's snowboard products

☐

Develop, using a trade secret proprietary technology, a manufacturing process that lowers the cost of making snowboards by 100% beyond what a competitor's production costs are

☐

All of the above are approaches a firm can use to obtain a strategic, sustainable, competitive advantage

### Question 10

2 / 2 pts

A Blue Ocean Strategy is one that:



combines a differentiation and cost leadership strategy using value innovation to reconcile the inherent tradeoffs



uses vertical integration to create a new market



combines a vertical and horizontal integration strategy to control an entire industry



relies entirely on “organic” techniques to grow its business

Incorrect

### Question 11

0 / 2 pts

A firm's mission statement can guide the people in the organization and is a statement of the firm's \_\_\_\_\_.



strategic goals



financial goals



strategic and financial goals



purpose



value proposition



facts

### Question 12

2 / 2 pts

Consider the three statements. **Statement 1:** Competitive rivalry is strongest between firms that are within the same strategic group. **Statement 2:** Within



an industry some strategic groups may be consistently more profitable than other strategic groups. **Statement 3:** Firms in the same strategic group follow the same generic model: cost leadership, differentiation, or focus-cost leadership, or focus-differentiation.

- ☐ Only Statement 1 is True
- ☐ Only Statement 2 is True
- ☐ Only Statement 3 is True
- ☒ All three statements are True
- ☐ All three statements are False
- ☐ Statements 1 and 3 are true, but Statement 2 is False

### Question 13

2 / 2 pts

**Consider both Statements. Statement 1.** In the Structure-Conduct-Performance model industries with many competitors (fragmented) tend to have lower profits than industries with fewer competitors (concentrated). **Statement 2.** The primary objective of Porter's Five Forces analysis is to quantify the impact of macro-economic forces on the firm

- ☒ Only Statement 1 is True
- ☐ Only Statement 2 is True
- ☐ Both Statements are True
- ☐ Both Statements are False

### Question 14

2 / 2 pts

A PESTEL framework is the preferred framework for identifying those forces that define industry structure and overall industry attractiveness.

☐ True

☒ False

### Question 15

2 / 2 pts

Match the Economic Concept with its description

**A measure of an industry's fragmentation**

Concentration ratio

**The typically non-product-related costs that a business or consumer incurs as a result of changing suppliers**

Switching costs

**When a firm purchases its own supplier**

Backward integration

**When a firm purchases its own distributor**

Forward integration

### Question 16

2 / 2 pts

**(True/False).** The primary threat or impact that a substitute product has on an industry is that it can result in limits placed on the competitors' abilities to differentiate their products in the marketplace.

☐ True

☒ False

Incorrect

### Question 17

0 / 2 pts

A high industry concentration ratio, high customer switching costs, strong brands, and significant product differentiation are factors that would typically result in (choose the best answer without making other assumptions):

- ☒ An unattractive industry
- ☐ A high threat of substitutes
- ☐ Low customer buyer power
- ☐ Powerful suppliers
- ☐ High threat of new entrants

### Question 18

2 / 2 pts

An Industry is characterized by low customer switching costs, buyer propensity to use alternative products, no buyer loyalty, products with relatively standard utility, and a very high elasticity of demand. These factors would tend to suggest the following in an industry analysis (choose the best answer without making other assumptions):

- ☒ A likely high threat of substitutes
- ☐ Relatively low customer buyer bargaining power
- ☐ Relatively high barriers to entry



Disciplined competitor rivalry characterized by significant investments in product innovation



Relatively high barriers to exit

Incorrect

### Question 19

0 / 2 pts

A industry is characterized by the following: many small competitors, many substitute products, moderate supplier power, little investment required to start a new business, limited ways to differentiate a product, and a low growth rate. Which statement best describes a likely conclusion for a Porter Five Forces Analysis?



The industry is attractive for new investment



Competitive rivalry is fierce



The industry has high barriers to entry



The competitors are likely to compete on innovation and creative marketing



Customer buyer power is low

### Question 20

2 / 2 pts

**(True/False).** Core competencies are unique strengths embedded within the firm that allow a firm to differentiate itself by creating higher value for its customers.



True

☐ False

### Question 21

2 / 2 pts

Which forms of analysis are used to assess the internal capabilities and resources of the firm? Check each that apply. Must get the question entirely correct for credit. **HINT:** There are 3 correct answers.

☒ VRIO

☐ Porter Five Forces

☒ Benchmarking

☒ Value Chain Analysis

☐ PESTEL Analysis

☐ Structure-Conduct-Performance Continuum

☐ Capstone Analysis

### Question 22

2 / 2 pts

Which form of analysis (framework) considers firm activities as parts of interconnected business systems rather than as discrete departmental processes?

☐ VRIO

☐ Porter 5 Forces

☐ PESTEL Analysis

☒ Value Chain Analysis

☐ Financial Ratio Analysis

### Question 23

2 / 2 pts

The payoff of doing a thorough SWOT analysis is

☐ revealing whether a company's market share, measure of profitability, and sales compare favorably or unfavorably vis-à-vis key competitors

☐ Helping strategy makers benchmark the company's resource strength against industry key success factor

☐ Enabling a company to assess its overall competitive position relative to its key rivals.

☒ Assisting strategy-makers in crafting a strategy that is well related to the company's resources and capabilities, its market opportunity, and the external threats to its future well being

☐ Identifying whether the company's value chain is cost-effective vis-à-vis the value chains of rivals

### Question 24

2 / 2 pts

Trader Joes has a very different business model than most supermarket chains. Some information regarding Trader Joes: Most of the product sold at Trader Joes is private label, either as TJs or Trader Joes; and unlike most supermarket chains Trader Joes enjoys strong brand loyalty, and for their customers, is highly differentiated from traditional supermarkets. Shoppers also enjoy the experience of shopping at Trader Joes which is unique in how it merchandises its products and its approach to customer service. Finally, unlike most supermarket chains, Trader Joes does not use promotional sales pricing or coupons to reduce prices from the "every day low prices" charged in their stores. In terms of a Porter Five Forces analysis, relative to other supermarket chains, Trader Joe's has (choose best answer, make no additional assumptions):

- ☐ Reduced barriers to entry
- ☐ Increased supplier bargaining power
- ☐ Increased the industry's concentration ratio
- ☐ Increased the threat of substitutes
- ☒ Reduced customer bargaining power

### Question 25

2 / 2 pts

Consider both statements. **Statement 1.** Vertical Integration is an example of a corporate level strategy. **Statement 2.** Vertical Integration its also a form of related diversification

- ☐ Only Statement 1 is True
- ☐ Only Statement 2 is True
- ☒ Both Statements are True
- ☐ Both Statements are False

Incorrect

### Question 26

0 / 2 pts

Ansoff's Matrix: (Choose the best answer from the list below)

☒

Provides a framework for developing an understanding of a company's strengths and weaknesses

☐

Was developed by GE to help senior management make capital allocation decisions

☐

Is used for identify business units to be divested in a retrenchment strategy

☐

Is only relevant for companies that are planning to grow by acquisition

☐

Is typically used in analyzing a company's (or SBU) growth options

### Question 27

2 / 2 pts

Developing new product lines related to the core business; extending existing product lines; and marketing campaigns targeted towards existing customers are all examples of \_\_\_\_\_ strategies.

☒

concentration

☐

inorganic growth

☐

horizontal integration

☐

diversification



☐ cost leadership

### Question 28

2 / 2 pts

Imagine that you are the president of Fran's Hot Dogs ETC a successful chain of 180 franchised fast food restaurants. The success you have experienced in the last 8 years has you thinking of what to next. Up to now your success has been based on selling hot dogs, hamburgers, chicken fingers baskets, and shakes and smoothies targeted towards quality conscious millennials . You believe that the firm's success is driven by the unique experience of dining at a Frans upscale location as well as Frans secret recipes for homemade condiments. Which of the choices below would best describe the firm's strategy in terms of Porters Generic Strategies?

☐ diversification strategy

☐ cost leadership strategy

☐ competitive advantage strategy

☒ differentiation-focus strategy

☐ cost-focus strategy

### Question 29

2 / 2 pts

Continuing with Fran's. Recently, Fran's Hot Dogs ETC has considered buying a smaller chain of Hot Dog stands that complete in several of the locations currently served by Fran franchisees. The firm would be combined with Frans then franchised (using Frans brand name) to the current Frans franchisees in those locations. This is an example of which of the following?

☐ stability strategy

- ☐ organic strategy
- ☐ vertical integration
- ☒ horizontal integration
- ☐ diversification

### Question 30

2 / 2 pts

Continuing with Fran's. You are thinking of buying a small bakery to supply Fran's franchisees with steady and consistent supply of buns and rolls. This action would be an example of \_\_\_\_\_.

- ☐ forward vertical integration
- ☐ horizontal integration
- ☐ market penetration
- ☐ retrenchment
- ☒ backward vertical integration

### Question 31

2 / 2 pts

Which ONE of the following statements is **TRUE**?

- ☐ A diversification and a differentiation strategy are essentially the same
- ☐ A firm's business level strategy answers the question "Where should we compete?"



When pursuing a differentiation strategy, the focus of competition is to add unique features in order to create a level of value creation that competitors cannot easily imitate



Economies of scale generally weaken a firm's ability to move down a given learning curve



As a firm gains more experience in the production of a product (think about the experience curve), the average unit production cost of that product will increase but at a decreasing rate until the rate of increase is essentially zero.

### Question 32

2 / 2 pts

Which **ONE** of the following strategies has the benefit of reducing competitive intensity by increasing industry concentration?



related diversification



unrelated diversification



forward vertical integration



backward vertical integration



horizontal integration



new product development

Incorrect

### Question 33

0 / 2 pts

Warren Buffett's Berkshire Hathaway growth philosophy and approach can be described as growth by \_\_\_\_\_.

- ☐ vertical integration
- ☐ virtual integration
- ☒ related diversification
- ☐ unrelated diversification
- ☐ horizontal integration
- ☐ concentration

### Question 34

2 / 2 pts

The recent Walt Disney acquisition of 21st century Fox could best be described as a \_\_\_\_\_ strategy

- ☐ vertical integration
- ☒ horizontal integration
- ☐ unrelated diversification

### Question 35

2 / 2 pts

**Finance Questions and Problems (Point Values for Specific Questions and Problems are Noted Adjacent to the Question Number)**

The \_\_\_\_\_ method uses similar value characteristics such as growth rates, capital structure, and number of customers to establish a venture valuation.

- ☒ Comparables
- ☐ Net Present Value
- ☐ Adjusted Net Present Value
- ☐ Venture Capital
- ☐ Appraisal

### Question 36

2 / 2 pts

**(True/False).** The first equity investment in a new technology venture is most likely to come from a venture capitalist.

- ☐ True
- ☒ False

### Question 37

2 / 2 pts

Check all statements from the list below that are True regarding Venture Capital firms. You must get the question entirely correct to receive credit.  
**HINT:** There are two correct answers.

- ☒ VC funds are typically planned to have a 10 year life
- ☐ VC funds are managed by its limited partners



VC funds are funded by institutional investors such as pension funds and endowments

☐ VC firms are not required to pay federal income taxes

☐ VC funds typically do not invest in growth rounds

### Question 38

5 / 5 pts

Matt Murdock is valuing a possible venture investment opportunity in Wild Rabbit Apps. He intends to value the venture using the **Venture Capital Method**. Matt has developed estimates of Wild Rabbit's pro-forma financials which have been reproduced in the table below:

	2020	2021	2022	2023
Revenues	\$1,200,000	\$1,600,000	\$3,200,000	\$6,000,000
Net Income (after tax)	-\$250,000	-\$200,000	\$325,000	\$4,900,000
Cash Flow	-\$350,000	-\$250,000	\$275,000	\$4,700,000

Matt intends to value the firm as of year 2023 (his expected timeframe for exiting the investment) and is using an earnings multiple of 12 times. Matt's required rate of return is 50%. Wilson Fiske is the sole owner and has 1.2 million shares of stock. If Matt invests \$3 million into Wild Rabbit Apps, how many shares of stock and at what price per share will he demand for that investment? FY2020 is year 1.

☐ 442,261 shares at \$6.78/share

☐ 320,817 shares at \$9.35/share

☒ 417,885 shares at \$7.18/share

☐ 342,488 shares at \$8.76/share

☐ 493,012 shares at \$10.14/share

### Question 39

3 / 3 pts

Capital City Equity has made an offer to invest \$1,500,000 in Marietta Technologies, a start-up software company. Based on a valuation developed jointly by Capital City and Marietta Technologies the \$1,500,000 investment would result in 25% ownership share. Given this information what is the valuation or fair market value (Post-Money) that has been established for the software firm?

☐ \$3,000,000

☒ \$6,000,000

☐ \$9,000,000

☐ \$12,000,000

☐ Bogus Question -- cannot determine Answer based only on data provided

### Question 40

3 / 3 pts

Continuing with the Marietta Technologies deal, the venture capitalists at Capital City Equity expect that Marietta Technologies will require two more rounds of funding before the company is attractive enough to be purchased by a much larger firm – one round in 2021 where an additional 15% of the company will be sold; and a final round in 2023 when an additional 5% share of the company will be sold. What percent ownership should Capital City Equity demand today if they plan to remain undiluted by the two future round of funding?

☐ 25%

☐ 28.75%

☒ 30.19%

☐ 31.25%

☐ 20%

### Question 41

5 / 5 pts

Samson Shades, a maker of post-modern window treatments, had a **free cash flow** for FY 2019 of \$6,150 (all amounts are in \$000). Buster Olsen , CEO, has developed a long-term annual free cash flow projection - a copy of which has been reproduced in the table below.

	FY2020-FY2024	FY2025-FY2027	FY2028 to perpetuity
Growth rate	4%	2.5%	1.5%
Cost of Capital	5.25%	6.20%	4.75%

Considering this forecast he asked his CFO (you) to determine the company's valuation using the NPV (net present value) method. Choose the best answer from the list of options below.

For this question consider FY2020 as Year 1 and FY2024 as Year 5, and FY2027 as year 8. (NOTE THAT EXCEL WAS USED TO CALCULATE THE ANSWER TO THIS PROBLEM)

☐ \$45,868

☒ \$208,540

☐ \$98,375

☐ \$162,672

☐ \$155,296



**Question 42****3 / 3 pts**

Using the Comparables Method, what is the implied valuation of the privately-held firm It's a Man's World, a franchiser of men-only extreme workout clubs that operate fitness bootcamps in specified urban markets. Assume that the primary basis for establishing a valuation is the number of members (men) network-wide and the two publicly held companies in this market are UltraFit and United We Are Strong. Consider the following abbreviated financial profiles below.

It's a Man's World has 220,000 members network-wide operating in 34 of the 50 states in the US. Also for the purpose of this determination use a liquidity discount of 25%. Which of the answers below best matches your valuation.

	UltraFit	United We Are Strong
market value/per member	\$670	\$530
price/earning ratio	9.2	9.0

☐ \$165 million

☐ \$132 million

☐ \$1.50 million

☐ \$1,203 million

☒ \$99 million

**Question 43****7 / 7 pts**

Roswell Metals Company is a maker of steel "curtains" used to frame large glass windows in commercial buildings.

Roswell Metals was started in January 2018 and experienced net operating losses for its first two years of operations. In response to a Private Equity firm that has expressed an interest acquiring Roswell Metals, the firm's CFO has

developed a set of financial projections which are summarized in the table below (all amounts are in \$000). As indicated earlier, Roswell Metals has yet to turn a profit and has a loss carry forward for tax purposes of \$1,800 leading into FY2020.

	2020	2021	2022	2023	2024	2025	2026
EBIT	\$(1,200)	\$(500)	\$100	\$1,400	\$3,000	\$3,300	\$4,300
Capital Expenditures	\$600	\$800	\$1000	\$900	\$500	\$290	\$290
Changes in Working Capital	\$500	\$400	\$200	\$100	\$100	(\$100)	(\$100)
Depreciation	\$80	\$160	\$205	\$280	\$290	\$290	\$290

Beginning in year 2027 the annual growth in EBIT is expected to be 2.25%, a rate that is projected to be constant over Roswell's remaining life as an enterprise. Beginning in 2027 Roswell's capital expenditures and depreciation are expected to offset each other (capex - depreciation = 0) and year to year changes in working capital are expected to be zero (working capital levels remain constant year over year). For discounting purposes consider 2020 as year 1.

Assume a tax rate is 21% and a cost of capital of 8.25%

**Determine the NPV of Roswell Metals Free Cash Flow for the years 2020 - 2026. HINT: Remember to account for loss carry-forwards when determining income taxes. The answer to this question was determined in Excel. Your answer may deviate slightly depending upon differences in truncation and rounding. Answers below are in \$000. Consider 2020 as year 1.**

☐ \$4,521

☒ \$1,783

☐ \$1,544

☐ \$3,298

☐ \$1,984

**Question 44****3 / 3 pts**

Continuing with Roswell Metals Company. To develop a fair market value for Roswell Metals, an analyst for the Private Equity firm determines a "terminal" value of the firm as of the end of 2026, then discounts the terminal value to the present using the firm's cost of capital. Assuming the analyst for the Private Equity firm is competent and calculates the value correctly, the answer she determines for the discounted terminal value will be \_\_\_\_\_?

☐ \$30,703☐ \$47,079☐ \$27,029☒ \$33,236☐ \$57,891**Question 45****2 / 2 pts**

Completing the Roswell Metals Company Valuation. Using the data in the prior two questions determine the fair market value (NPV) today of Roswell Metals.

☒ \$35,019☐ \$59,674☐ \$32,486☐ \$36,236☐ \$29,013

☐ \$37,757

☐ \$32,247

Quiz Score: **91** out of 105