

4FO3 – Small Business/Entrepreneurial Finance Winter 2012 Course Outline

Finance and Business Economics Area DeGroote School of Business McMaster University

COURSE OBJECTIVE

This course is intended for students who wish to enhance their skills and knowledge in those areas of business that lead to successful entrepreneurship and small business management. The focus will be on those financial issues and decisions of particular concern to sole proprietors, partnerships, family-owned business and small early-stage corporations. This will include the financial aspects of the relationship between the firm and its owners.

INSTRUCTOR AND CONTACT INFORMATION

Class Timing: **Wednesdays, 2:30 pm to 5:20 pm**
All times referenced in this document are Eastern.

Adeel Mahmood, CA, CFA, MBA
Instructor

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Class Location: **KTH/B132**

Tel: (647) 722-3362

Office Hours: After class or by appointment

COURSE ELEMENTS

Credit Value: 3	Leadership: Yes	IT skills: No	Global view: Yes
Avenue: No	Ethics: No	Numeracy: Yes	Written skills: Yes
Participation: Yes	Innovation: Yes	Group Work: Yes	Oral skills: Yes

COURSE PREREQUISITES AND COMPLEMENTS

Students should have the academic credit of 3FA3 (Managerial Finance) or equivalent prior to the start of this course. A complementary course offered in the fall term, 4FV3 (Venture Capital and Private Equity), focuses on the availability and use of venture capital and private equity for small businesses, including early-stage, growing, and private companies.

Certain entrepreneurship courses offered by the Areas of Marketing and Management may also be complementary to this course.

COURSE DESCRIPTION

This course focuses on the general financial management issues facing small- and medium-sized and growing companies. The style of instruction is centred on the case method and project work but will also include lectures and discussions. It may also be supplemented by the participation in class of guest speakers.

The course is centred on small businesses, including early-stage, growing, and private companies and will be of interest to those considering careers in finance or as entrepreneurs. The focus is on those financial decisions of particular concern to sole proprietors, partnerships, family-owned business and small early-stage corporations.

In addition, from the perspective of an entrepreneur, the course will allow students to research and potentially implement the start-up, development, and growth of an early-stage, growing, or private company, including a family business.

LEARNING OUTCOMES

There are both individual and team learning aspects of this course.

Individual Learning Outcomes

Upon completion of this course, students will be able to exhibit sound knowledge of the following key topics:

- Understand the unique risks and rewards of managing a small business;
- Identify the legal and administrative steps involved in starting up a small business;
- Determine how franchises and buyouts are structured;
- Understand the particular financial needs of a family business and how a family business can enhance its value through the use of corporate governance;
- Create a marketing plan for a small business, including pricing decisions and building a sales forecast;
- Create an organizational plan for a small business, and utilize the resulting human resource information in budgeting and planning; and
- Perform the necessary financial analysis to create the budgets and financial forecasts used by a small business.

Team Learning Outcomes

The learning keystone of this course is a finance-focused business plan centred on a real-life company or project. Working in teams, students will research and optionally implement the start-up, development, and growth of a small business (such as an early-stage, a growing, or a private company) or project, including a family business. While the focus of the conceptual

work will be on analyzing and presenting a financial management case, teams can incorporate this case in a business plan that develops the underlying idea or opportunity from scratch.

The definition of a start-up or an idea or an investment opportunity is fairly broad in the context of this course. Please refer to the Evaluation section of this document for more details.

Students, including full teams, can continue to work on their business plans after the conclusion of the course. Teams with a new, unfunded start-up and showing satisfactory progress in developing their plans will be provided an opportunity to “make a fundraising pitch” to a panel of professional investors in Spring/Summer 2012.

REQUIRED COURSE MATERIALS AND READINGS

Course content and class communication available on Avenue:

- <http://avenue.mcmaster.ca>

Longenecker, Donlevy, Calvert, Moore, Petty, Palich; Small Business Management: Launching and Growing Entrepreneurial Ventures, *Fourth (4th) Canadian Edition*; Nelson Education, 2010; ISBN: 978-0-176-50005-4

- Purchase at the university or online bookstore

Ward, Schwendener, Whitaker; Creating a Family Business: The Genesis of Rogers Family Enterprises, Harvard Business Publishing, 2011; *Product No*: KEL567-PDF-ENG

- Purchase and download from <http://hbsp.harvard.edu>

OPTIONAL COURSE MATERIALS AND READINGS

Leach and Melicher, Entrepreneurial Finance, *Fourth (4th) Edition*; CENGAGE Learning, 2012:

- ISBN: 9780538478151

Mahmood, Custom Courseware: Venture Capital & Private Equity; McMaster University, 2011:

- Available at the university bookstore

EVALUATION

Individual learning in this course results primarily from in-class discussions based on thorough preparation in advance of the assigned cases. The balance of the individual learning results from lectures on specific topics, student research, and industry speakers.

Team learning focus of this course is on an investment-focused business plan centred on a real-life company or project. Working in teams, students will research and potentially implement the start-up, development, and growth of an early-stage, a growing, or a private company or project, including a family business.

The final grade will be calculated as follows:

Components and Weights

Participation	In-class contribution (individual)	25%
Small Business Finance (SBF) Test	Written in the 8 th class (individual)	20%
<i>Business Plan</i> Progress Presentation	Given in the 10 th class (group)	15%
<i>Business Plan</i> Final Document	Due one week after the last class (group)	40%
Total		100%

Participation

Name cards are used to help give credit for class participation and contribution to in-class case discussion. Students must have name cards with their full first and last names clearly written and displayed in front of them for every class. It is imperative that students prepare for every class. **Class participation marks are primarily based on the quality of contribution.** No class attendance results in zero mark.

While class participation in this course is well demonstrated by addressing the assigned case study questions, participation in conceptual discussions and other class aspects will also add to the grade. **The determination of a student's level of participation in a class will be in the Instructor's sole discretion.** The students are, however, provided the guidelines below.

The grading for student participation in each class follows a scheme on a scale of 0 to 3:

<i>Grade</i>	<i>Contribution</i>
0	Does not attend class
1	Attends class but makes no contribution during that class
2	Attends class and makes one average contribution during that class
3	Attends class and makes a significant contribution to the class by making important points with elements of originality or mastery of relevant issues or concepts – as demonstrated, during that class, by: <ul style="list-style-type: none"> • Making one or more excellent contributions; • Making two or more average contributions; or • Providing other satisfactory evidence of significant contribution.

Note that there is no partial (non-integer) participation grade awarded for a class.

Students may be asked to share their analysis with, or otherwise present their arguments to, the class in order for their contribution to be qualified as significant.

A student **missing a class** during the term, excluding a class where a test or an exam is held, must follow the policies outlined in the section *Requesting Relief for Missed Academic Term Work* below if he or she wishes to avoid getting a zero (0) participation grade for that class.

If the policies allow the relief, the student's participation grade for the classes with relief requests will be re-assigned to the graded classes.

Notwithstanding the above, students can avail of the following relief if they do not wish to receive a zero for missed classes or if they do not wish to have their participation grades for the missed classes re-assigned to the graded classes.

For a **maximum of two** scheduled classes during the term, excluding a class where a test or an exam is held, if a student wishes to improve his or her participation grade for that class (or those classes), he or she can submit *in type-written form* answers to the assigned case study questions for that class (or those classes).

The student will then receive a participation grade of between 0 and 3 for that class (or for each of the two classes), depending upon the proportion of the assigned case study questions answered in the submission.

Students should note that their participation grades for the above-noted case study submissions **do not depend on whether they answer the assigned questions correctly** but rather on the proportion of the assigned questions that they demonstrate a reasonable attempt at answering.

The case study submissions will be accepted for grading **on or before the due date and time of the Business Plan Final Document**. Students are free to choose the two classes during the term for which to use this accommodation as long as the classes meet the criteria outlined above.

Small Business Finance Test

The Small Business Finance (SBF) Test – an ***open-book, open-notes*** test – will be written in the **8th class** of the term. More details of the format, structure, and content coverage will be provided during the course of the term.

A student **missing the SBF Test** is required to contact the APO and obtain an official approval of relief if he or she wishes to avoid getting a zero (0) grade for the test. If the APO adjudicates

that relief be provided, the student's grade for the test will be re-assigned proportionately to the graded components of the course.

Business Plan

The learning keystone of this course is a finance-focused business plan centred on a real-life company or project. Working in teams, students will research and optionally implement the start-up, development, and growth of a small business (such as an early-stage, a growing, or a private company) or project, including a family business.

Group Formation

Students will form groups of **three** to **five** of their choice. Each group will have the *Business Plan* Proposal, Progress Presentation, and Final Document to complete. **All group members will be assigned identical grades for the group work.**

Choosing an Idea or a Project

The definition of a start-up project or an idea or an investment opportunity is fairly broad in the context of this course. The following classification system is used to define the types:

Type	Description	Examples
I	A new, not-yet-funded business at least one of whose founders or significant shareholders is a part of the same Business Plan team	An original idea to start a new company
II	An existing, not-yet-funded business at least one of whose founders or significant shareholders is a part of the same Business Plan team	An existing, early-stage idea that still needs extensive work before any fundraising activities
III	All other business or projects	An existing business wants to expand in a new geography or develop a new product; a research project to significantly improve an existing business model

In cases where the exact Type classification is unclear based on the definitions above, the Instructor will determine the classification for the team.

More on Type III Classification

The Type-III classification is intended for a team that cannot come up with an idea or a project of Types I and II. In such an instance, as a suggestion, the team may want to approach an existing business of interest and offer to do a venture project for the business within the scope of this course. Alternatively, a team may choose to advise individual entrepreneurs (not registered in

the course) on completing a formal business plan within the scope of this course. See the Examples provided above for additional guidance.

Teams are encouraged to be proactive in their search and do projects with businesses that are aligned with their interests. A team initially engaged in a Type-III project may subsequently be able to convert it into Type I or II based on the progress made during the course.

Restriction on Business Activities

For Types I and II, teams cannot choose businesses more than 50% of whose annual revenues are expected to be derived from (a combination of) the following activities:

- Investment or fund management, private equity, venture capital, search fund, and the like;
- Personal or professional services where it is difficult to separate the people from the product or the service;
- Not-for-profit and governmental services; and
- Activities with revenues expected to be derived from geographies outside of North America.

In addition, for any of the three types, teams cannot choose a business involved, in part or whole, in prohibited activities including gambling, any illegal activity, or any activity that may be considered offensive by at least 10% of the students registered in the course.

Non-disclosure Agreement

Any student registered in the course after the course drop deadline will be required to sign a non-disclosure agreement (NDA) restricting the student from disclosing or using any *proprietary* or *confidential* information gained in the course without the prior written approval of the owner of such information.

Business Plan Proposal

A Proposal containing a list of team member names, a description of the idea or the project chosen by the team, Type classification, and signed NDAs of the individual team members will be due by the end of the 4th class of the term.

Business Plan Progress Presentation

As outlined in the course schedule, each team will make a Progress Presentation to the class, describing its idea or project, providing initial financial estimates as required, sharing the progress made, and laying out the plan of activity for the following 6 months. The class as a whole will get an opportunity to ask questions and provide feedback.

More details of the format, structure, and duration of the presentations will be provided during the course of the term.

Business Plan Final Document

Each team will submit a slides-based Final Document that details the finance-focused business plan the team has developed. No presentation will be required. The Final Document will be due a week after the last class of the term in a type-written form.

The general guideline to follow in preparing the Final Document is to present a business case that a professional investor can evaluate for funding. More details of the format, structure, and length of the Final Document will be provided during the course of the term.

Work Beyond the Course

Students, including full teams, are encouraged to continue working on their business plans after the conclusion of the course. Teams with ideas of Types I and II as well as a show of satisfactory progress in developing their business plans will be provided an opportunity to “make a fundraising pitch” to a panel of professional investors in Spring/Summer 2012.

Final Exam

There will be no final exam in this course.

COMMUNICATION AND FEEDBACK

Students that are uncomfortable in directly approaching an instructor regarding a course concern may send a confidential and anonymous email to the respective Area Chair or Associate Dean:

<http://www.degroote.mcmaster.ca/curr/emailchairs.aspx>

Students who wish to correspond with instructors or TAs directly via email must send messages that originate from their official McMaster University email account. This protects the confidentiality and sensitivity of information as well as confirms the identity of the student. Emails regarding course issues should NOT be sent to the Administrative Assistant.

Instructors should conduct an informal course review with students to allow time for modifications in curriculum delivery. Instructors should provide evaluation feedback for at least 10% of the final grade to students prior to Week #8 in the term.

Students who wish to have a course component re-evaluated must complete the following form:

http://www.mcmaster.ca/policy/Students-AcademicStudies/Form_A.pdf

In order for the component to be re-read:

- the component must be worth 10% or more of the final grade in the course
- students pay a fee of \$50 in Gilmour Hall #209 (receipt is then brought to APO)

- the Area Chair will seek out an independent adjudicator to re-grade the component
- an adjustment to the grade for the component will be made if a grade change of three points or greater on the 12 point scale (equivalent to 10 marks out of 100) has been suggested by the adjudicator as assigned by the Area Chair
- if a grade change is made, the student fee will be refunded

ACADEMIC DISHONESTY

It is the student's responsibility to understand what constitutes academic dishonesty. Please refer to the University Senate Academic Integrity Policy at the following URL:

<http://www.mcmaster.ca/policy/Students-AcademicStudies/AcademicIntegrity.pdf>

This policy describes the responsibilities, procedures, and guidelines for students and faculty should a case of academic dishonesty arise. Academic dishonesty is defined as to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. Please refer to the policy for a list of examples. The policy also provides faculty with procedures to follow in cases of academic dishonesty as well as general guidelines for penalties. For further information related to the policy, please refer to the Office of Academic Integrity at:

<http://www.mcmaster.ca/academicintegrity>

CONVERSION

In this course, cases may be graded using different marking and reporting techniques. For example, cases may be graded on an index of 10. This does not mean that 7/10 represents 70%. Similarly, when percentages are reported, they should not be interpreted as letter grades. Please note, then, that when students' work is returned after grading, students will be informed of how their performance should be interpreted for that particular item.

At the end of the course, the overall percentage grade will be converted to the letter grade in accordance with the following conversion scheme.

LETTER GRADE	PERCENT	LETTER GRADE	PERCENT
A+	90 - 100	C+	67 - 69
A	85 - 89	C	63 - 66
A-	80 - 84	C-	60 - 62
B+	77 - 79	D+	57 - 59
B	73 - 76	D	53 - 56
B-	70 - 72	D-	50 - 52
		F	00 - 49

REQUESTING RELIEF FOR MISSED ACADEMIC TERM WORK

1. Students may request relief from a regularly scheduled midterm, test, assignment or other course component in the following two ways:
 - a) **for absences from classes lasting up to five (5) days; or**
 - b) **for absences from classes lasting more than five (5) days.**
 - a) **For absences from classes lasting up to five (5) days**

Students must use the MSAF (McMaster Student Absence Form). This is an on-line, self-reporting tool, for which submission of medical or other types of supporting documentation is normally not required. Students may use this tool to submit a maximum of one (1) request for relief of missed academic work per term. Students must follow up with their course instructors regarding the nature of the relief within two days of submitting the form. Failure to do so may negate the opportunity for relief. It is the prerogative of the instructor of the course to determine the appropriate relief for missed term work in his/her course.
 - b) **For absences from classes lasting more than five (5) days**

Students cannot use the MSAF. They **MUST** report to the APO to discuss their situation and will be required to provide appropriate supporting documentation.
2. Students who wish to submit more than one request for relief of missed academic work per term cannot use the MSAF. They must report to the APO and discuss their situation with an academic advisor. They will be required to provide supporting documentation and meet with the Director.
3. The MSAF cannot be used during any final examination period.
4. Students who require accommodations to meet a religious obligation or to celebrate an important religious holiday must make their requests in writing within three weeks of the start of term to the APO.
5. Students seeking relief due to: work-related (for part-time students only) commitments; representing the university at an academic or varsity athletic event; and/or conflicts between two (or more) overlapping scheduled midterm exams, have the option of applying for special exam arrangements. Such requests must be made to the APO at least ten (10) working days before the scheduled exam along with acceptable documentation. There will be only one common sitting for the special exam. Instructors cannot themselves allow students to unofficially write make-up exams/tests. Adjudication of the request must be handled by the APO.

STUDENT ACCESSIBILITY SERVICES

Student Accessibility Services (SAS) offers various support services for students with disabilities. Students are required to inform SAS of accommodation needs for examinations on or before the last date for withdrawal from a course without failure (please refer to official university sessional dates). Students must forward a copy of such SAS accommodation to the instructor immediately upon receipt. If a student with a disability chooses NOT to take advantage of an SAS accommodation and chooses to sit for a regular exam, a petition for relief may not be filed after the examination is complete. The SAS website is:

<http://sas.mcmaster.ca>

POTENTIAL MODIFICATIONS TO THE COURSE

The instructor and university reserve the right to modify elements of the course during the term. The university may change the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.

COURSE EVALUATIONS

About the tenth week of the course, a formal evaluation of the instructor and the course will be conducted by the Michael G. DeGroote School of Business. All students are expected to participate in this evaluation as their answers will be used to help change the course structure and their evaluation of the instructor will be used in tenure, promotion, and merit pay decisions.

COURSE SCHEDULE

CLASS	DATE	CONTENT	PREPARE
1	Jan 4	<i>Introduction</i> Ch. 1: Entrepreneurs	<ul style="list-style-type: none"> • <i>(None)</i>
2	Jan 11	<i>Start-up and Strategy</i> Ch. 2: Start-up and the Need for Competitive Advantage	<ul style="list-style-type: none"> • <i>(None)</i>
3	Jan 18	<i>Product Development & Marketing I</i> Ch. 6: Market Research and Product Strategy	<ul style="list-style-type: none"> • <i>Prestige Dance Academy (Textbook Case 6)</i>
4	Jan 25	<i>Product Development & Marketing II</i> Ch. 7: Promotional and Pricing Strategies Review: <i>In-Class Pricing Examples</i>	<ul style="list-style-type: none"> • <i>G.A.P. Adventures Inc. (Textbook Case 5)</i> • <i>Business Plan Proposals</i> – Due by the End of the Class
5	Feb 1	<i>Human Resource Planning</i> Ch. 9: Selecting the Management Team and Managing Human Resources	<ul style="list-style-type: none"> • <i>(In-class HR planning model)</i>
6	Feb 8	<i>Small Business Financial Management 1</i> Ch. 13: Evaluating and Managing Financial Performance	<ul style="list-style-type: none"> • <i>(In-Class Exercises)</i>
7	Feb 15	<i>Small Business Financial Management 2</i> Ch. 14: Financing Requirements, Pro Forma Financial Statements, and Sources of Financing	<ul style="list-style-type: none"> • <i>(In-Class Exercises)</i>

CLASS	DATE	CONTENT	PREPARE
-	Feb 22	<i>Midterm Recess – No Class</i>	
		Read: <i>Business Plan – Visualizing the Dream (Textbook Chapter 6)</i>	
8	Feb 29	SBF Test – To Be Written in Class <i>(No Lecture or Case Discussion)</i>	
9	Mar 7	Organization of a Start-up Ch. 10: Form of Organization and Legal Issues	<ul style="list-style-type: none"> • <i>Guide to Federal Incorporation (Avenue)</i>
10	Mar 14	Business Plan Progress Presentations – To Be Given in Class	
11	Mar 21	Family Business Ch. 3: Family Enterprise	<ul style="list-style-type: none"> • <i>Creating a Family Business: The Genesis of Rogers Family Enterprises (Required Case)</i>
12	Mar 28	Franchising Ch. 4: Franchising Opportunities	<ul style="list-style-type: none"> • <i>Pizza Pizza Franchise (Avenue)</i> • <i>Pizza Pizza AIF (Avenue)</i>
13	Apr 4	Location and the Cloud Ch. 11: Selecting a Location and Planning the Facilities	<ul style="list-style-type: none"> • <i>Bakery (Avenue)</i> • <i>Amazon Web Services (TBA)</i>
-	Apr 9	Business Plan Final Document – Due by 4.00 PM	

Class schedule may be revised during the course of the term.