

New Enterprise and Small Business Management and the YourCo. Simulation Game

USASBE Innovative Entrepreneurship Pedagogy 2005
Developed by Waverly Deutsch, Clinical Assistant Professor of Entrepreneurship

I. PURPOSE/MISSION

The YourCo. simulation game was developed to accompany the class New Enterprise and Small Business Management at the University of Chicago Graduate School of Business. It reinforces the importance of execution, sales and cash flow management in the early stages of a company's lifecycle. The goal is to motivate the students to do independent research on tactical issues like hiring talent, preparing for a sales call, making a media buy and managing a seed budget to bring the theoretical framework on entrepreneurship that is covered in class to life.

YourCo. assignments model the first six to twelve months in the life of a start-up. Starting with only a product description, a seed funding amount and an entrepreneurial management team (the students), teams of three or four students develop actual operations plans in marketing, sales, hiring, production, operations, financing, etc..

Eight points are available each assignment: five for the answer to the specific assignment and three for the methodology used to arrive at the answer. Up to 2 bonus points may be awarded at the professor's discretion for business activities outside the scope of the assignments and any follow-up needed. Points are awarded based on creativity, completeness and credibility.

II. PRIMARY OBJECTIVES

1. To unify a set of exercises on the skills and activities required in building a new business or growing an existing small business.
2. To drive independent research and reading beyond class materials.
3. To add elements of fun and competition to the class (which are key to successful entrepreneurship).

III. PRINCIPAL STUDENTS

The YourCo. simulation is designed to serve first and second year students at the University of Chicago Graduate School of Business. The class appeals to students who have an entrepreneurial background as well as those who do not but feel that at some point they may want to start their own business or join an existing start-up.

In order for students to sign up for any class at Chicago GSB, they are required to bid on a point system. The most popular classes "sell" at a higher point value than less popular classes, based on demand. At the time of this nomination, New Enterprise and Small Business Management ranks among the top ten most expensive courses at the Chicago GSB. The rise in popularity for this class is attributed to the YourCo. simulation game which has been in existence for only two years.

One student had this to say about the class:

"[T]he game was exceptional. . . . I learned more about being an entrepreneur through this class than I could have any other way, short of starting my own business. I came into this class expecting lectures on running a small business; I came away with knowledge of all of the necessary facets to start a new enterprise. The most important



thing I learned in this class was just how little I knew about entrepreneurship and how important it is to maximize your use of every resource at your fingertips.” – Second Year MBA student

IV. ABBREVIATED DESCRIPTION

Starting only with a product description, a seed funding amount and an entrepreneurial management team (the students), teams of three or four people develop actual operations plans in marketing, sales, hiring, production, operations, financing, etc..

Materials

- 1 10-sided die to use in probability rolls
- 1 “lucky break” card
- 1 “reprieve” card
- 1 “instant replay” card
- A set of probability calculators

Process

Eight assignments are given that parallel the material covered in class. For example, the first week’s assignment relates to launching the business and raising seed funding. Other assignments include designing a marketing campaign down to the level of media buys and advertising content; creating a sales pitch; writing a contract with a large customer; and determining a financing strategy including a venture capital pitch or loan application. All assignments must reflect the limited resources of a start-up or small firm.

Each assignment follows a five page guideline: two pages to address the key questions of the assignment, one page to discuss any other relevant activities conducted in the business for each month, one page to show the current financial situation and monthly burn of the business, and one page to describe the methodology and data used in arriving at the answer and burn numbers. A limited number of exhibits are allowed, for example, a resume, graphic or data chart.

The assignments for the quarter are (see Exhibit 1 for the detailed questions in each assignment):

1. Elevator pitch and seed funding proposal
2. Marketing message and target customer segmentation
3. Marketing campaign
4. Sales call
5. Product development plan
6. Operational challenge and business metrics
7. Continuation/Exit of the business

In addition to the scheduled assignments, each team receives one “crisis” assignment via e-mail from the professor, for example, “founder is discovered to have embezzled \$250,000.” The team then has to propose a solution to the “crisis”.

The “Play of the Game”

Luck plays a part (this is a game after all and luck is very relevant to start-ups). When a team proposes a particular solution – for example, how it landed its first client – one team member may be called on to present the proposed solution to the class. After hearing the process and research that lead to this particular solution, the appropriate probability calculator is used to determine the likelihood of success. (The probability calculators for YourCo. were created using technology developed at Chicago GSB coupled with extensive entrepreneurial research. See section V for a detailed description of the calculators.)

Using our first client example, if a team proposes that it landed a million dollar technology services contract with a large bank, one team member would present the process that team went through to close the deal. Based on key assumptions embedded in the probability calculator about the requirements for acquiring a beta customer, the tool will determine a percent likelihood that the team closed the deal. Key assumptions include things like whether or not (a) the team had a personal network connection into the prospective customer, (b) the value proposition was well articulated, (c) the client's objections were overcome in the process, (d) the pricing made sense and (e) the team did appropriate follow-up to the meeting.

Let's say the probability settles at 60%, the team then rolls a 10-sided die to see if it gets the contract – 1 through 6 and they are good to go, the business can operate with that client and the accompanying revenue for the rest of the quarter – 7, 8, 9 or 0 and they don't get the business. The next assignment will then include submitting a plan B for getting a client.

Each team is called upon to defend a proposed solution two to four times during the term. Typical events that prompt a "roll" include raising seed funding, making a sale, applying for a loan, dealing with a legal crisis, getting positive PR coverage, hiring a high level employee and successfully expanding to a new product or market.

Each team gets one "lucky break" card that increases the probability of a desired outcome for the company on one roll by 20% – for example making something that would warrant a 40% chance of success get a 60% chance instead. There is also one "reprieve" card which allows a team to turn in one assignment a week late. This is particularly useful when a team finds itself dealing with a crisis in a week that another assignment is also due. Finally, there is an "instant replay" card that teams can use when they feel an assignment has been incorrectly graded.

Scoring the Game

Eight points are available for each assignment: five for the answer and three for the methodology and research sources the team used to arrive at the answer. In addition, two bonus points may be awarded by the professor each week for business activities described that fall outside the set assignment and show creativity and awareness of start-up issues as well as for any follow-up work needed due to missed rolls or misunderstood assignments.

Points are awarded based on creativity, completeness and credibility.

The Prize

The winning team is guaranteed an "A" in the class, regardless of the rest of the team members' individual work for the class.

V. UNIQUE ASPECTS AND FEATURES

The YourCo. simulation game, which gives students hands-on experience as entrepreneurs, is under constant improvement. During fall quarter 2004, Professor Deutsch will be beta testing a new addition to the YourCo. process—the YourCo. probability calculators. These calculators are software tools based on technology created at Chicago GSB by professor Bill Zangwill which uses Bayesian analysis to evaluate the strength of data in uncertain situations. For this application, research was conducted interviewing over 50 Chicago area entrepreneurs, venture capitalists, angel financiers, lawyers, bankers and small business services firms to determine the key criteria that entrepreneurial firms would have to meet in order to accomplish specific goals. Each goal became its own calculator. The current library of probability calculators includes:

1. Raising friends and family financing
2. Raising financing from a professional angel or angel network
3. Raising venture capital financing
4. Obtaining a small business loan
5. Hiring a key executive
6. Closing a beta customer through direct sales
7. Successfully opening a retail location
8. Engaging a strategic supply chain partner
9. Engaging a strategic distribution partner
10. Addressing a crisis situation
11. Planning for organic growth
12. Planning for the sale of the company

A screen shot of the “Closing a beta customer through direct sales” probability calculator is available for review in Exhibit 3.

VI. SOURCE OF FUNDING/SUPPORT

Professor Deutsch funded and conducted all research and development for the YourCo. simulation game. During the summer of 2004, Chicago GSB paid the salary of a GSB student intern to conduct research and assist Professor Deutsch to create and test the library of probability calculators.

VII. BENEFITS

Short Term: The assignments that make up the YourCo. simulation game experience allow students to apply the frameworks and theory discussed in class immediately and bring the material to life. Students say YourCo. is as close to starting their own company as they can get in a classroom environment.

Long Term: YourCo. supports a framework and process for starting a company with practical application and experience. Students have to execute the process as they develop their own companies rather than just study models of existing start-ups. Students who have participated in the YourCo. simulation game and gone on to work in start-up environments or start their own company have reported that they actively use the frameworks and tools developed in the YourCo. simulation.

VIII. OUTCOMES



As a direct result of experiencing the YourCo. simulation, some students have decided to develop the businesses they created during the YourCo. process. Three teams of students have written and developed business plans for the Edward L. Kaplan New Venture Challenge (NVC) business plan competition hosted annually at Chicago GSB, and all three of the teams made it to the final round of the competition. They have also won prize money for their innovative and well-rounded business plans.

Vicarious Communication Inc. This company won first place and \$25,000 in the 2003 NVC business plan competition. At this point, Vicarious Communication Inc. has raised substantial professional angel funding and is currently offering its marketing solution to the veterinary industry. Visit their Web site at www.vicariously.net.

HealthSource Global Staffing. This fourth place, \$5,000 winner at the 2004 NVC business plan competition imports nurses from Asia to help address the crisis proportion nursing shortage in the U.S. During the summer of 2004, they received angel funding and have established an office in San Francisco. They have nearly 30 nurses on their way from various parts of Asia for placement in California hospitals.

Precision Performance. Recipients of an honorable mention at the 2004 NVC business plan competition and winners of \$1,000. The team, which plans to open a specialty retail environment focused on the rapidly growing market for import car tuning enthusiasts, is currently seeking funding.

Marin Hunt Club. This team did not participate in the NVC business plan competition, but members are actively pursuing the potential of starting this high-end hunt club in Marin County, California.

Note: YourCo. garnered informal recognition being awarded the Best Teaching Practice in the "Sharing the Teaching Wealth: A Clearinghouse for Best Teaching Practices" workshop. Additionally, the workshop itself was deemed the best workshop at the 2004 Annual USASBE National Conference.

EXHIBIT 1: ACTUAL YOURCO. ASSIGNMENTS

Report to the Office of Game Management 1: Launch

Pages 1-2

Write a one paragraph elevator pitch describing your business.

Using your own backgrounds as the guideline, describe the management team.

Assess any critical holes in experience and describe how you plan to fill those holes.

Determine the amount of seed funding you need to launch and describe how you plan to obtain it.

Page 3

Operations report. Tell me anything else I need to know about what happened during this month.

Page 4

Create a basic budget for 1 year of operation.

Starting with your requested seed funding amount, show one month of burn.

Page 5

Describe how you arrived at the above. What data did you discover? What sources did you look at? Who did you talk to?

Report to the Office of Game Management 2: Marketing Strategy

Pages 1-2

Identify the initial target customer set.

Describe how your product/service meets the particular needs of this customer set.

Outline the appropriate sales channel to reach these customers.

Create a marketing message that addresses this market.

Identify your key competition for these customers.

Page 3

Operations report. Tell me anything else I need to know about what happened during this month.

Page 4

Show one month of burn against your seed budget. Include any new expenses you didn't plan for in your original budget. Show how much cash you have remaining.

Page 5

Describe how you arrived at the above. What data did you discover? What sources did you look at? Who did you talk to?

Report to the Office of Game Management 3: Pricing and Marketing Tactics

Pages 1-2

PART A

Determine the correct pricing for your product.

PART B

Design and implement a marketing/sales campaign.

Outline the costs and describe the results.

Analyze the campaign's effectiveness

[Repeat pages 3-5 as above]

Report to the Office of Game Management 4: Sales

Pages 1-2

PART A

Describe an important sales call. What were the customer's issues? How did you close the deal?

Describe the collateral used. Brochures, demos, etc.

Outline the contract. Terms and conditions. How will you service this account over time?

PART B

Create a sales forecast for the next 12 months of operations.

[Repeat pages 3-5 as above]

Report to the Office of Game Management 5: Product Development

Pages 1-2

Determine when you will launch version 2.0 of your product/service.

What additional features/services will your next generation product include?

What R&D do you need to do for V 2.0 and how much will it cost?

Outline your development timeline and milestones.

[Repeat pages 3-5 as above]

Report to the Office of Game Management 6: Operations

Pages 1-2

Determine what the key operational issues will be for your company

- Retail – location, store layout, sourcing
- Services – hiring, staff utilization, project management
- Manufacturing – asset utilization, inventory, sourcing
- Software – development, service and support, maintenance
- Distribution – logistics, supply chain planning, inventory

Put an improvement plan in place for one key issue

Describe the resources/tools you will need to manage this operational growth

Select the key business metrics you will monitor to track operational efficiency and set some initial goals

[Repeat pages 3-5 as above]

Report to the Office of Game Management 8: Next Steps

Pages 1-2

Evaluate your first few months in business. Are you on target with your goals?

Determine your next step as a business: Positioning for a strategic sale?

Raising money to continue growth? Shutting down gracefully? Other?

Describe the steps you will take toward that next step.

What would you have done differently?

[Repeat pages 3-5 as above]

Report to the Office of Game Management: CRISIS

For the Crisis assignment, a scenario is described (see below for an example) and the only question asked is, how did you deal with this? In addition, the methodology and research page is required. But, since this isn't a standard assignment, it does not require the operations report or cash burn pages.



Dewey, Cheatem, and Howe, LLC
Trademark and Patent Lawyers

1234 Law Street
Chicago, IL 65432
(312) 555-1212

January 31, 2003

Geoff Bonn, et al.
Easy Rider Inc.

Dear Mr. Bonn, Mr. Cody, and Ms. Stoner:

On behalf of Paisano Publications, LLC and Easyriders, we respectfully inform you that your company, Easy Rider Inc, is in direct violation of a trademark filed and owned by our clients. We formally request that you cease all operations of Easy Rider Inc. and reimburse our clients in the amount of \$50,000 for attorney's fees and lost revenue.

In order to stop further action by our clients, we request that you perform the following:

1. Remove any and all material using the name Easy Rider
2. Cease all promotional campaigns using the Easy Rider name
3. Destroy all existing promotional and marketing materials that use the Easy Rider name

Our firm has filed an injunction in the Cook County, IL circuit court. If you perform the above detailed activities we will stop formal proceedings. Please contact our office if you have any questions.

Sincerely,

John Howe
Dewey, Cheatem, and Howe

EXHIBIT 2: New Enterprise and Small Business Management Syllabus with Readings

Pre-Class Assignment: Describe a Product or Service You Would Like to Bring to Market

Week 1 Introduction: The State of Small Business, New Venture LifeCycle, YourCo. Intro

Packet articles:

- Towards Integration: Understanding Entrepreneurship through Frameworks (Entrepreneurship and Innovation)
- Small Business By the Numbers (SBA's Office of Advocacy)
- Global Entrepreneurship Monitor (Kauffman Foundation, Babson, London School of Business)
- Souped Up (Entrepreneur Magazine)
- Play Your Cards Right (Entrepreneur Magazine)

Week 2 Entrepreneurs: Characteristics, Teams and Networks

This class includes a panel discussion with Chicago Entrepreneurs

Packet articles:

- Fail Big To Win Big (Portfolio Marriott)
- You Gotta Have An Attitude (The Stanford Magazine)
- How A Temp Worker Became An Accidental Entrepreneur (Wall Street Journal)
- What Makes Great Boards Great (Harvard Business Review)
- A Note On Angel Financing (Harvard Business School Publishing (HBSP))
- Business Incubators (Entrepreneur Magazine)

Case: New Economy Ethics: YouKnowIt.com (Harvard Case)

Week 3 Marketing I: Positioning and Segmentation

CALVIN Entrepreneurial Management, Chapter 4

Packet articles:

- In A Tough Economy, Rethink Marketing (Wall Street Journal)
- The New Market Research (Inc. Magazine)
- Market Research: An Update On Sources And Techniques For Your Strategic Planning Efforts (Inc. Magazine)
- Competitive Intelligence On A Shoestring (Inc. Magazine)
- Channel Management (HBSP)

Case: Tivo (Harvard Case)

Week 4 Marketing II: Pricing and Tactics

CALVIN Entrepreneurial Management, Chapter 6 and 7

Packet articles:

- Entrepreneurial Advertising Decisions (Ch.9, Entrepreneurial Marketing)
- Pricing And The Psychology Of Consumption (Harvard Business Review)
- How Do You Know When The Price Is Right? (Harvard Business Review)
- Will This Customer Sink Your Stock? (Fortune Magazine)
- The Unprofitable Customers (Wall Street Journal)

Case: Cranium (press clippings in packet articles)

Week 5 Sales: Management, Pipelines, Compensation

CALVIN Entrepreneurial Management, Chapter 5

Packet articles:

- Introduction From Solution Selling (Solution Selling)
- Sprint Sell To Close Sales Quickly (HBSP)
- Sales: What Works Now (Inc. Magazine)
- Portrait Of The CEO As Salesman (Inc. Magazine)
- The Right Carrot (Entrepreneur Magazine)
- Perk Avenue (Entrepreneur Magazine)

Case: Adeptia (Waverly Deutsch, packet article 34)

Week 6 Product Development

CALVIN Entrepreneurial Management, Chapter 9

Packet articles:

- Putting The Service-Profit Chain To Work (Harvard Business Review)
- Product Development: A Customer-Driven Approach (HBSP)
- Innovative Model (Entrepreneur Magazine)
- Knowing A Winning Business Idea When You See One (Harvard Business Review)

Case: Motive (Harvard Case, packet article 39)

Week 7 Operations

CALVIN Entrepreneurial Management, Chapter 3

Packet articles:

- Strategy as Simple Rules (Harvard Business Review)
- How to Think Strategically About Outsourcing (Harvard Management Update)
- Read A Plant – Fast (Harvard Business Review)
- How an Intranet Opened Up the Door To Profits (Business Week)
- How to Think About Performance Measures Now (Harvard Management Update)

Case: The Solar Feeder (Case Research Journal)

Week 8 Alternatives to Starting a Business: Buying or Franchising

CALVIN Entrepreneurial Management, Chapter 8

Packet articles:

- Shop Around - Eight Steps To Choosing The Perfect Business Opportunity (Business Start-Ups)
- What's It Worth? A General Manager's Guide To Valuation (Harvard Business Review)
- What's It Worth? (Inc. Magazine)
- A Note On Franchising (HBSP)
- Is Franchising The Right Business For You? (Wall Street Journal Startup Journal)
- Is This A Good Time To Buy A Franchise? (Wall Street Journal Startup Journal)

Case: QIP (Quality Imaging Products) (Harvard Case)

Week 9 Managing Growth

Packet articles:

- Recruiting Secrets Of The Smartest Companies Around (Inc. Magazine)
- The Most Dangerous Hire (Inc. Magazine)
- The Ultimate Dilemma: Evolution Of Your Role As CEO (Leading At The Speed Of Growth)
- Seven Secrets Of Success (Business 2.0)
- Kicked Up Or Out (Ch.40, Daring Visionaries)

Case: brightroom (Waverly Deutsch)

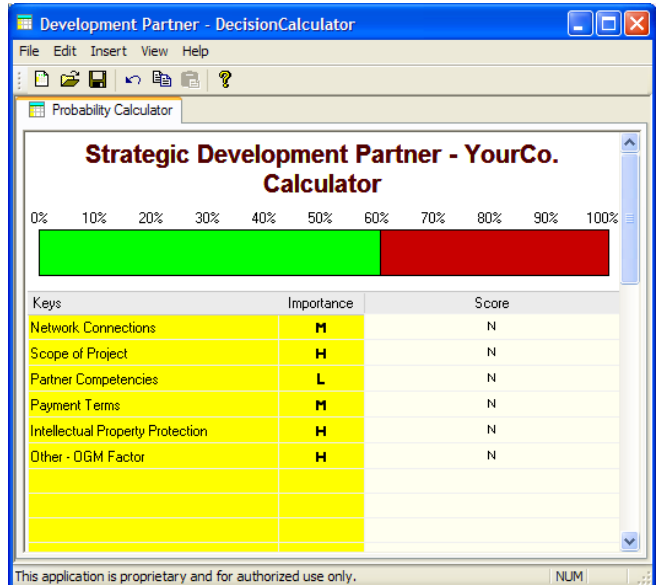
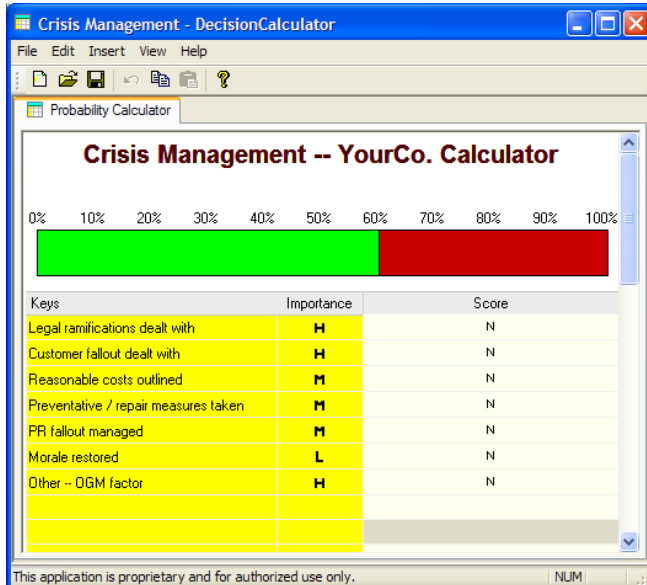
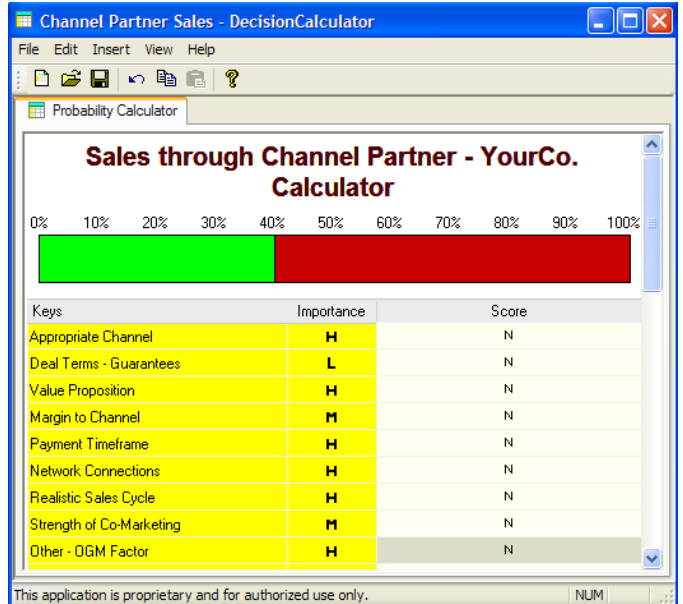
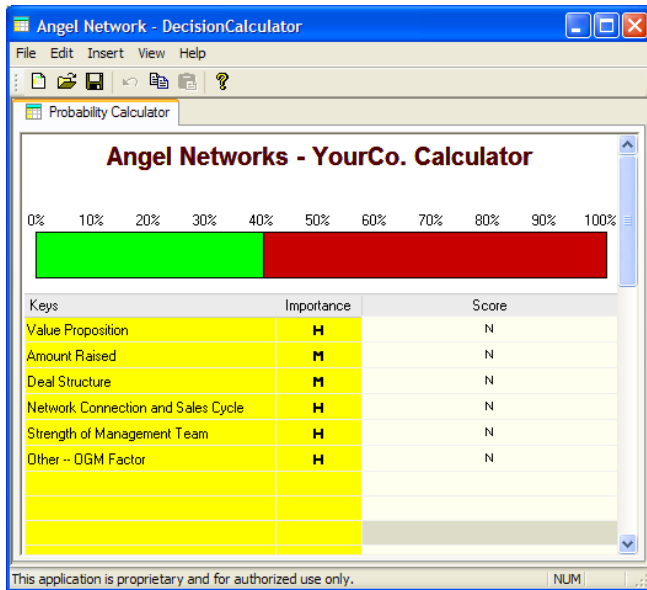
Week 10 Financing: Debt, Equity, Exits

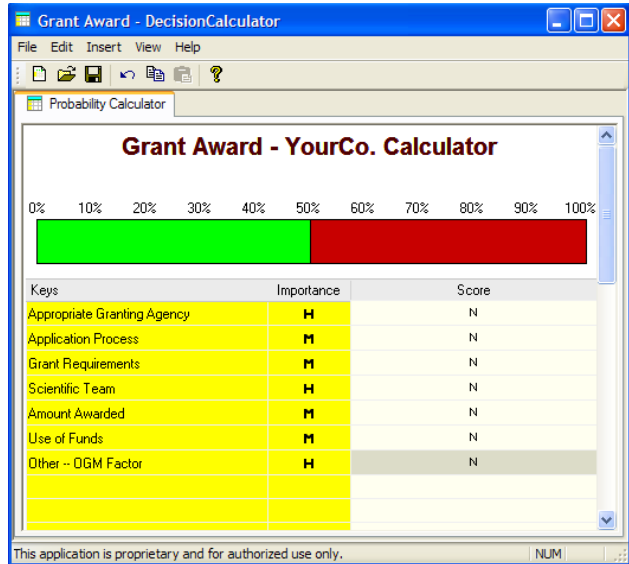
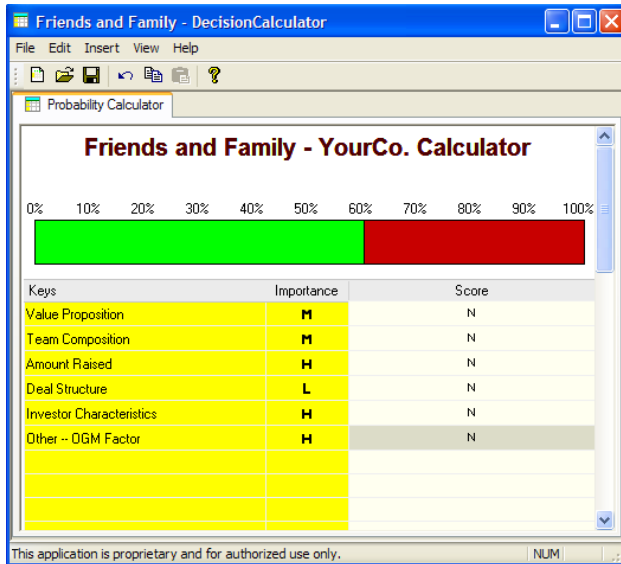
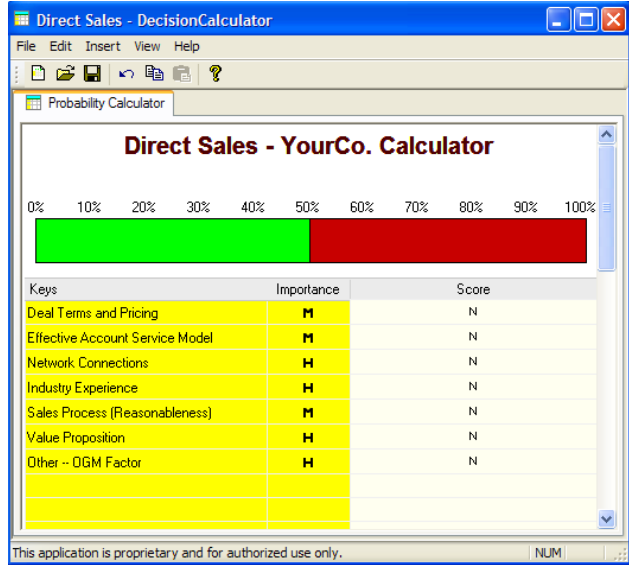
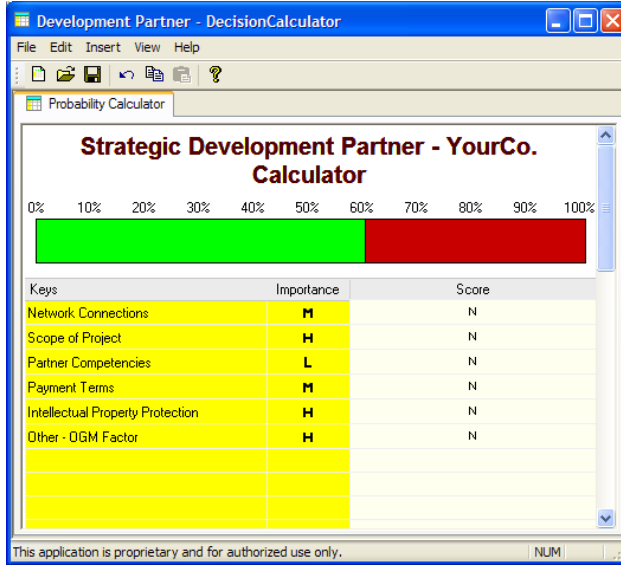
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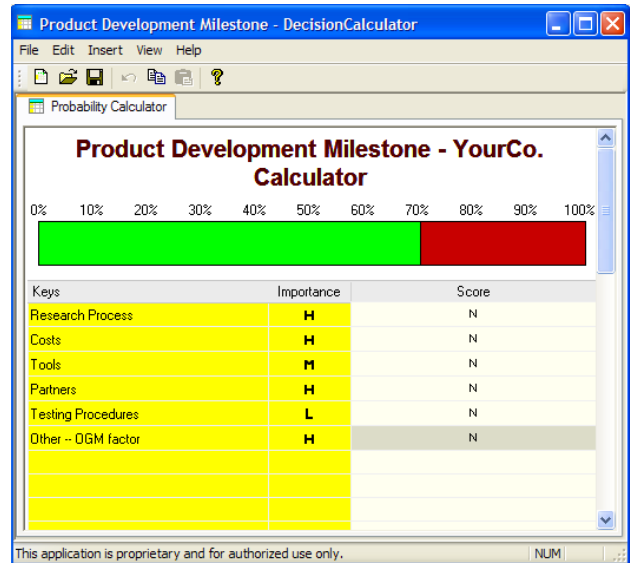
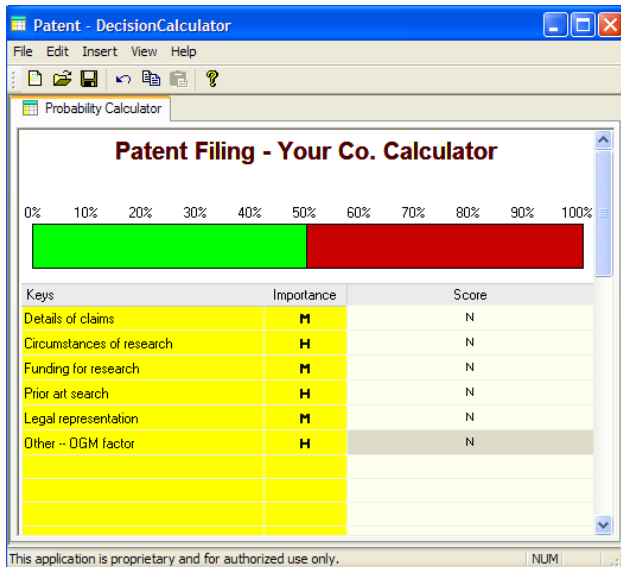
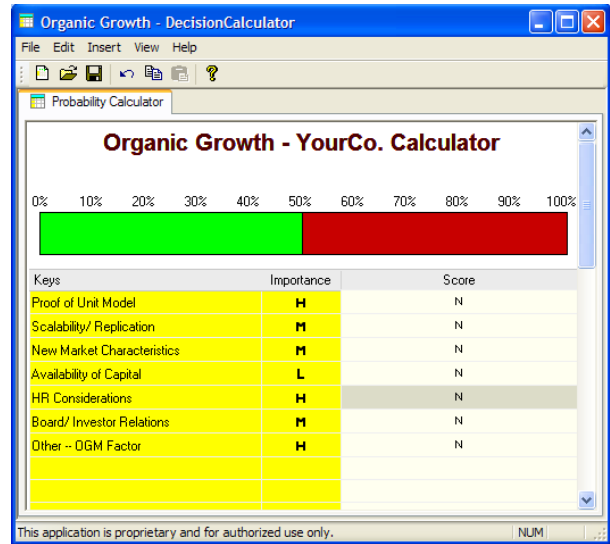
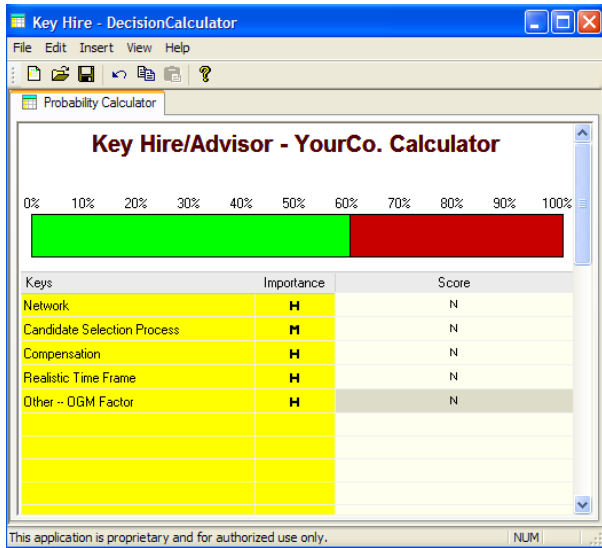
Packet articles:

- Two Incontrovertible Facts (Ch.37, Daring Visionaries)
- Venture Firms Hard On Even Best Entrepreneurs (New York Times)
- Entrepreneurial Death Traps (Venture Capital Institute Address)

EXHIBIT 4: Library of YourCo. Calculators







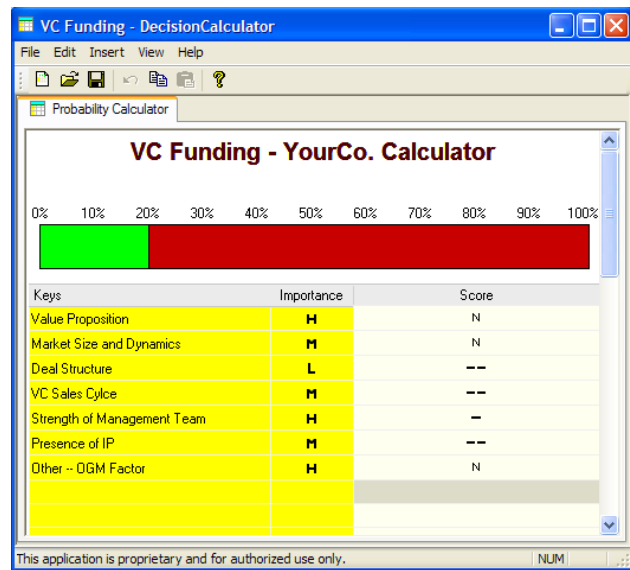
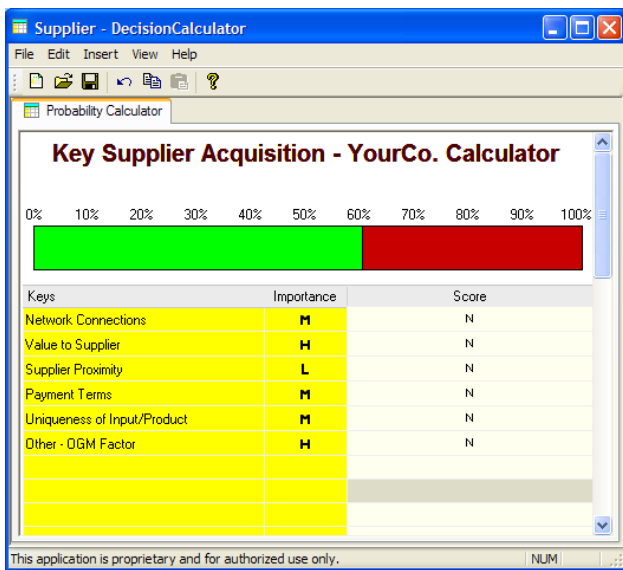
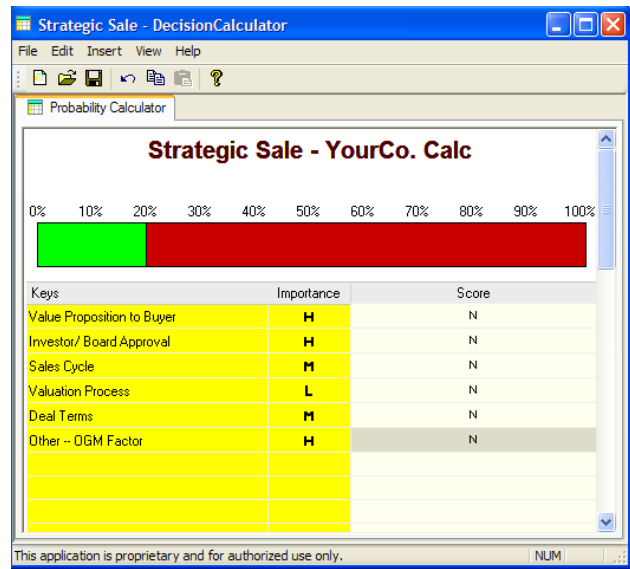
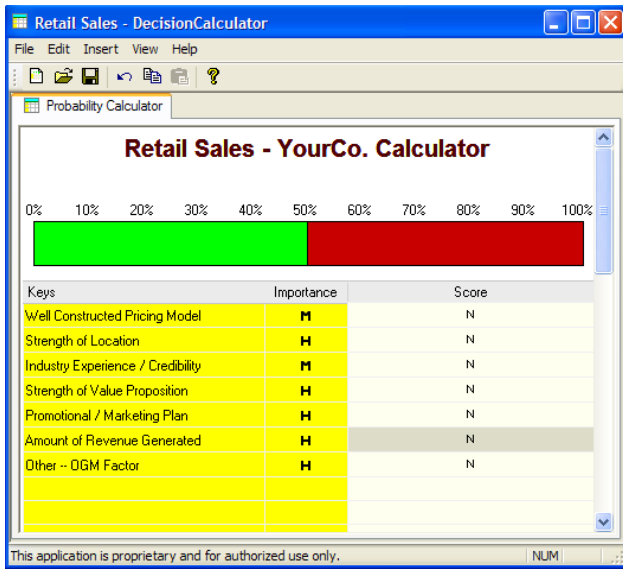


EXHIBIT 4: Full Text of Adaptive Solutions, Inc. YourCo. Assignments

I have included a hardcopy of all eight YourCo. assignments by an outstanding team from the Winter 2004 quarter called Adaptive Solutions, Inc. so you can see the format the reports take as well as my scoring techniques.

EXHIBIT 5: Brief Bio

Waverly Deutsch, Ph.D.

**Clinical Assistant Professor of Entrepreneurship, U. of Chicago Graduate School of Business
Founder, WaveWords Consulting**

Waverly holds a Clinical appointment at the University of Chicago Graduate School of Business where she teaches the New Venture Lab and New Enterprise and Small Business Management courses and supports the business development activities of the Michael P. Polsky Center for Entrepreneurship. In addition to her work with the University, Waverly is the founder of WaveWords Consulting, a strategic consultancy for growth companies and start-up ventures. WaveWords provides business planning, strategic positioning, and marketing services to a wide variety of clients including Adeptia, SmartSignal, Lexiplan, and Decision Insight.

Waverly previously held the position of Managing Director at NetFuel Ventures, a leading Chicago-based venture services company focused on launching successful technology companies, where she was responsible for the overall marketing strategy for both NetFuel and its portfolio of companies. While at NetFuel, Waverly acted as interim CEO of Mobitrac, an enterprise applications provider delivering next-generation mobile resource management solutions. Waverly also spent seven years with Forrester Research, where she managed research teams analyzing computing and networking technologies, business applications, IT leadership issues, and Internet business models. Waverly is a frequent speaker on entrepreneurship and serves on the board of advisors for the Chicagoland Entrepreneurial Center and Chicago Community Ventures. Her columns on entrepreneurship can be seen in i-Street magazine. She earned her Ph.D. at Tufts University where she also taught for two years and holds a B.S. in Computer Science from the University of Pittsburgh.

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