

VENTURE ANALYSIS STANDARDS 2000

New Venture Template™ Workbook

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Introduction to the VENTURE ANALYSIS STANDARDS 2000 New Venture Template™ Workbook

This workbook has been compiled to support and enhance your capability to assess new ventures. The information contained herein will support the concepts that are delivered to you in the Entrepreneurship Program, and prepare you to use the New Venture Template™ (NVT) expert assistance software package that will be accessible to you through the web site www.icve.org. This is the web site that is maintained by the International Centre for Venture Expertise at the University of Victoria (ICVE).

It is important to emphasize that use of the NVT software is for learning purposes only. There is a disclaimer below that will give you instructions about how to ensure that your use of the software enhances your learning, but does not put you in a position where your premature use of the results might damage you or others financially. As a part of the purchase of this Workbook, you will receive a 1-year login and password to the icve.org web site. This will give you the time needed to become familiar with the assessment system, and to use it beyond the Summer Program. If you want to have longer-term access, you may become a sustaining member of the ICVE for \$25 per year. This will give you continuing access for as long as you need it.

The NVT venture assessment system is part of a larger initiative—referred to as Venture Analysis Standards 2000—that is in the process of standardizing the venture assessment process. Presently there are banks, venture capitalists, and other professional organizations that have selected the NVT approach as the new standard for venture assessment.

Within this workbook, you will find the explanation information that is also available on the web site. Each of the variables and the outcomes that they help to assess are described. In addition, examples are provided to help you to calibrate your assessments. Following these, the ABC case study demonstrates more sophisticated use of the NVT.

When you utilize the NVT, you can choose to take the vantage point an entrepreneur, financier (such as a bank or private investor), or venture capitalist. In addition, the NVT has been utilized by Fortune 500 companies to evaluate capital budgeting decisions, and by growing businesses to help to plot their expansion trajectory.

The basic idea behind this workbook is that it provides key “Planning Cognitions” that you will need to work entrepreneurially. It is a compilation of much of the latest information that is known about venture assessment. Hopefully you will find it to be useful in accomplishing your objectives.

Dr. Ron Mitchell

March, 2000

DISCLAIMER

Before using the results that you obtain from the software to make a decision on a live venture, you should have your work assessed by a certified venture assessor. The International Centre for Venture Expertise at the University of Victoria can put you in touch with a certified assessor, who will check your work, and provide a report that states the level of confidence that you should place in the results. **RESULTS THAT HAVE NOT BEEN REVIEWED BY A TRAINED ASSESSOR MAY NOT BE ACCURATE. YOU SHOULD USE EXTREME CAUTION BEFORE APPLYING THEM TO A REAL VENTURE SITUATION.** By using the NVT program, you agree that the program author, the programmers, your instructors, the ICVE, and the University of Victoria, will be held harmless for any use of this software beyond that of your personal learning about salient venture characteristics.

There are two simple ideas that are the foundation of using expert assistance computer programs to improve entrepreneurial expertise. The first, from expert information processing theory, is that expert performance comes through deliberate practice (Ericsson, Krampe, & Tesch-Romer, 1993). The second, from behavioral economics, is that pattern recognition of better v. worse mental models guiding economic behavior, shape individuals' responses to an imperfect economy (Arthur, 1994; Simon, 1979). Together, they suggest that practice in pattern recognition-assuming one can identify the critical patterns (which one can from the knowledge of experts)-should enhance expertise.

The creativity exercised by individuals in forming new ventures has much in common with creativity in general, and reveals the types of mental/cognitive patterns to look for. Creative mental patterns can be grouped into three categories of individual cognitions: cognitions about the self, cognitions about the work itself, and cognitions about others in the social environment (Csikszentmihalyi, 1988; Gardner, 1993). In the case of entrepreneurship, these mental patterns are thought to center around the venturer (self), the venture (the work), and the venture stakeholders (others). Thus, the task is to: (1) identify representative mental models that might be deliberately practiced, (2) highlight the patterns, and (3) actually practice them.

Computer software is an ideal vehicle to help to accomplish these three ends. The World-wide Web is an ideal medium to make the programs widely accessible. Accordingly, I have developed three "families" of computer programs (in beta versions) that interact with a learner/evaluator to: (1) generate familiarity with useful mental models at the self, work and others levels of analysis, (2) teach many of the recognizable patterns, and (3) make practice easy by eliminating the computational and comparison burdens through the use of comparison algorithms. An important distinction: These are EXPERT ASSISTANCE TOOLS, NOT EXPERT SYSTEMS.

The three program families include:

1. The **New Venture Profile**TM: a self administered expertise evaluation system based upon expert script cue recognitions (Mitchell & Chesteen, 1995; Mitchell & Seawright, 1995; Mitchell, Smith, Seawright, & Morse, 1998).
2. The **New Venture Template**TM: a competence-based evaluation tool that utilizes a sample set of viable venture attributes (Mitchell, 1995) combined into venture viability templates to identify and observe necessary venture characteristics. Like the forensic evaluation of a partial strand of human DNA that supports a legal judgment, the assessment of a partial set of venture characteristics such as those in the NVT-as a sample of a venture's genetic material-can provide entrepreneurs with the capability to make the business judgments that distinguish viable from less-viable ventures.
3. Venture Environment Evaluation Programs: a series of pattern recognition-based programs that evaluate a broad range of business environment (the others) conditions (e.g. the Stakeholder ModelTM, The Venture Decision ModelTM, Franchise HunterTM, IPO HunterTM, Customer Response Strategy ModelTM, etc.). These are based upon my own or other research in various key business environments (e.g. (Mitchell, Agle, & Wood, 1997) for the stakeholder model program).

Having developed these programs, and beta tested them, I am now in the process of finalizing various versions for use in our work at the University of Victoria, but also for adaptation to commercial markets, and for use in our international business programs (meaning that they will each be web-accessible). We are creating a center: The International Centre for Venture Expertise(ICVE), that is dedicated to this process of enhancing economic security through venturing, and through higher rates of venture success that result from formally-developed venture expertise. The web site icve.org should be up and running shortly. The interactive “expert assistance” programs will become increasingly available as the programs come out of beta and are formatted for HTML.

(A key point about web-based tools. The maxim GIGO must rule. Thence, no one should have access to a tool that creates garbage that looks legitimate. Hence, we are also putting in the training courses to prepare users. E.g. I wrote a 30,000 word book for the NVT, and have video and audio instruction that will also be web accessible; and REQUIRED before a user gets access to the tool. The NVP, on the other hand, requires no instruction because every individual is the world’s leading specialist on themselves.)

This has been a monumental project several years in the building. The testing of results and the tuning of the programs is an ongoing endeavor.

-- Ronald K. Mitchell, CPA, Ph.D.

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Overview of the Technology

When undertaking new ventures, a degree of luck is involved in the ultimate success or failure of the business. Although the luck factor can not be totally eliminated from any venture, thus guaranteeing venture success, a systematic process can be applied during the evaluation and development stage of the venture to increase venture potential and improve the probability of ultimate success. The approach that enhances venture potential most effectively during the formation stage of a new venture is to prevent venture failure by elimination (or mitigation) of the known causes of venture failure or in other words, enhanced venture success through failure elimination.

The failure-prevention approach to new venture formation is similar to the model used in the medical world through the years. During the past few centuries, the medical community has consistently identified known causes of disease and death and systematically developed cures, immunizations and treatments to prolong life and alleviate suffering. From a business perspective, similar preventive care and ongoing maintenance are required both in the formation stage and on-going operation of new ventures.

There are six fundamental causes of failure that afflict new ventures (as well as ongoing businesses). In a perfect world these known causes of new venture failure would be eliminated prior to significant investment into the venture. In a practical application of these principles, a venturer and investors should put significant effort in failure elimination activities prior to investment of significant financial and human resources.

The first three revolve around the market-based question, **“Is It a Business?”** The second three address the competitive-based question, **“Can You Keep It?”** Additionally, the question of the venturing team’s level of core competency to implement the new venture, poses the question, “Can You Do It?” The six known causes of new venture failure are:

- The failure to ***Innovate***
- The failure to ***Create Value***
- The failure to ***Persist Over Time***
- The failure to ***Maintain Economic Scarcity***
- The failure to ***Prevent the Appropriation of Created Value***
- The failure to ***Maintain Flexibility*** (in the face of uncertainty and ambiguity)

The objective, therefore, is to “pre-engineer” the venture in every way possible to eliminate these known causes of new venture failure. If not, then additional risk is inherent in the venture. Venturers and investors should understand these risks and their potential negative consequences prior to taking action. Ultimately a script can be developed for the venture outlining what actions will be taken in the event that these consequences begin to become evident in the venture from launch to maturity.

The key to understanding the impact of these questions on a new venture is implementing a consistent, systematic and integrated process to address and answer these and their fifteen (15) related sub-questions. The New Venture Template™ (NVT) was developed expressly for this purpose.