

Case Studies in
**INTERNATIONAL
ENTREPRENEURSHIP**

*Managing and Financing Ventures
in the Global Economy*

WALTER KUEMMERLE

McGRAW-HILL INTERNATIONAL EDITION



Case Studies in International Entrepreneurship

Managing and Financing Ventures in the Global Economy

Walter Kuemmerle

Harvard Business School



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MANAGING AND FINANCING VENTURES IN THE GLOBAL ECONOMY
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Managing and Financing Ventures in the Global Economy

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To Klara Abigail

About the Author

Walter Kuemmerle is Associate Professor of Business Administration at Harvard Business School. He teaches the popular MBA course “International Entrepreneurial Finance,” which he conceived, and for which he developed all relevant course materials, including teaching cases and notes. He also teaches in various Harvard Business School executive education programs courses on entrepreneurship, entrepreneurial finance, general management and international business. Kuemmerle’s research explores entrepreneurial activity and the interaction between financing and product-market decisions across a wide range of countries and in cross-border contexts. He is also studying multinational corporations’ foreign direct investment in R&D. Kuemmerle’s work has been published in the *Journal of Business Venturing*, *Harvard Business Review*, *Journal of International Business Studies*, *Research Policy* and *Strategic Management Journal*, among other venues. He has been retained for counsel and training by established industrial corporations, start-up firms, financial institutions, and government agencies around the world. Kuemmerle earned a Master’s degree in Industrial Economics from the Otto Beisheim Graduate School of Management in Koblenz/Germany, a degree in Commerce from Ecole Supérieure de Commerce in Lyon, France and has studied at both Kobe University and Keio University in Japan. He earned his doctorate from Harvard Business School. His work experience prior to joining Harvard Business School was in private equity, banking, and consulting and in the chemical and pharmaceutical industries. Kuemmerle serves on the boards of several private companies.

Preface

Dear Reader,

This book presents a collection of case studies about entrepreneurs and those who finance them. The cases treat a variety of management and finance problems encountered at different stages in the development of entrepreneurial ventures across a wide range of countries and industries. I hope that the study of these cases will advance your career as an entrepreneurial manager or financier as it has those of many hundreds of Harvard Business School students. The book works well in a classroom setting where cases can be discussed with fellow students under the guidance of an instructor. It can also be a valuable component of a self-study program pursued by an aspiring entrepreneur.

In the following introduction I will elaborate on the book's purpose and intended audience and provide additional information helpful to the study of the cases.

*Walter Kuemmerle
Boston, MA
January 2004*

Purpose of This Book

The creation of new ventures is a central part of economic growth in industrialized and developing countries alike. Risk capital and other critical resources for entrepreneurial ventures are now available in many countries. It is often assumed that globalization affects and is primarily driven by established multinational firms. This is not the case. The forces that have made globalization such a powerful phenomenon, including technology, geopolitical changes, and innovation in capital markets, are also very much at work in the world of new ventures. Entrepreneurship has thus an increasingly global character and understanding the differences and opportunities that exist across countries is a crucial part of the modern entrepreneurial framework. Also, because of the forces of globalization, international expansion, whether to access resources or markets, is a critical issue for entrepreneurial firms at a much earlier stage than has traditionally been the case.

The case studies examined in this book relate how entrepreneurs, companies, and capital providers manage the entrepreneurial process and its financial aspects across a wide range of countries. They focus on ventures in industrialized countries, such as the U.S., Western Europe and Japan, and on ventures in the developing world. The case studies analyze a wide range of business models and suggest a wide range of solutions to overcome financing and valuation challenges. Thus, while many of the cases address the problems of valuation and finance that arise throughout the life of the entrepreneurial venture, the overall approach is much broader. It includes a focus on the analysis of the people and business models of entrepreneurial ventures as well as on the country context in which these ventures operate.

Intended Audience

The cases specifically target students of business and economics and practicing managers who plan to start a new or acquire an established business or to finance or work for a fast-growing enterprise. The book also has value for those who plan to join venture

capital and private equity firms, investment banks, or multinational companies. It is intended to be useful no matter where one works; there is much to be learned from carefully comparing and contrasting opportunities, financing contexts, valuation approaches, and entrepreneurs in different countries. Finally, although the cases speak to the specific problems of international entrepreneurship and finance, they also address important issues in strategy, marketing, negotiation, organizational behavior, and operations and general management.

Philosophy of this Book and Learning Objectives

The case studies in this book all in one way or another address the following core question: “How do entrepreneurial managers and those who finance them design and execute ventures that effectively match opportunities and resources in an international context?” To answer this question one needs to apply the analytical lenses of entrepreneurship, international business, and finance. First, one needs to determine the optimal venture structure while considering constraints of the national context. This requires a detailed understanding of the opportunity at hand *and* the resources potentially available to the venture. Next, one needs to define an action plan to bring the venture to life. Third, one needs to think about contingency plans if the initial scenario for the venture does not work out. Answering the following questions (among others) will help to ensure an optimal structure for a venture. Where is capital for the present opportunity best sought? What should be the design of the pay-offs? Are mechanisms in place to mitigate cash flow shortages in the event of adverse contextual change? How are asymmetric information problems to be addressed? It is frequently concluded by those who study the cases in this book that a venture’s *structure* determined its performance because it matched opportunities and resources available effectively.

A key insight of this book is that variance analysis is critical to learning about entrepreneurship in an international context. Variance can occur on many dimensions, including the nature of the entrepreneurial opportunity, the accessibility of resources and the quality of the local context. None of the cases in this book is purely an entrepreneurship, a finance, or an international business case; rather, all are located where these three areas intersect. Each case requires readers to think about complex trade-offs that involve not just business forecasts, but also the people who generated and are supposed to execute them. It is by design that the cases span a variety of industries, countries, and stages of entrepreneurial ventures; readers are expected to learn from variance and develop their own views of the spectrum of country contexts and entrepreneurial challenges. Variance analysis is thus a central organizing principle that helps students develop the skill of country assessment. It has been my experience that the *spectrum view* that results from analysis of variance across the cases in this book informs managers’ assessments of other country contexts that they encounter in their careers.

All of the cases also offer readers opportunities to develop and discuss an action plan. Assignment questions for each case (see the Appendix) are helpful in this regard.

There are three overarching educational objectives of the cases analyzed in this book.

1. *To help students develop an understanding of what constitutes an optimal local context for entrepreneurial activity.* The cases introduce students to a variety of decisions that entrepreneurs and their financiers must make in an international context. The purpose is to help students understand the nature of those decisions and how the country context affects them. To give this analysis a frame it is useful to have an *archetype* of the entrepreneurial society in mind. The archetype of an entrepreneurial society can be defined as the context that gives any venture the very

best chance of success. This archetype context is characterized by strong property rights, broad and speedy access to financial and human capital, institutions that create new technologies, and a climate that both tolerates well-intentioned entrepreneurial failure and rewards entrepreneurial success. Students learn that no real-world context perfectly matches the archetype but that entrepreneurs are more likely to succeed in some contexts than others. The archetype optimal local context can be kept in mind as an anchor for subsequent country analysis and is a very useful tool to students as they become managers and launch their own entrepreneurial careers.

2. *To help students develop a comparative understanding of local contexts and improve financing, valuation, and deal structuring practices in entrepreneurial ventures across these contexts.* Many successful entrepreneurs have a keen eye for the few contextual factors that matter most to the businesses they started. This book provides opportunities to (1) compare and contrast across major industrialized countries and emerging markets the nature of opportunities and (2) apply to these opportunities rigorous valuation and management techniques. Often, the trickiest question that faces one who starts an entrepreneurial venture is, “What is it that I do not know that I do not need to know?” The cases in this book emphasize such relevant issues as determining the scope of an opportunity and valuation of a company. Considerations such as these feed into analysis of a venture’s optimal deal structure. The cases reveal that a venture’s success often depends on a deal structure that optimally matches opportunities and resources. From the case on Georgia Glass and Mineral Water one learns, for example, that an entrepreneur faced with weak property rights can nevertheless be successful by choosing a business in which assets are relatively easy to specify and protect. A *deep comparative understanding of country contexts* will inform choices around different business ideas that might be pursued in a given country and specific countries in which to pursue a particular business idea.
3. *To help students develop an understanding of the nature and benefits of an international expansion strategy.* International expansion strategies for entrepreneurial ventures involve consideration of costs, span of activities, and timing as well as of attendant benefits.

The cases in this book help students understand the costs of cross-border expansion. Entrepreneurs, I have found, frequently underestimate these costs, often with disastrous consequences for their ventures.

Entrepreneurial opportunities, moreover, can be construed to range from purely local to global. Whereas the Cityspace case, for example, revolves around a primarily local opportunity situated in London, United Kingdom, the opportunity to be pursued in the Internet Securities case requires that the company expand quickly into a range of countries. One can also think of the resources available to a venture as local or global. A typical venture initially pursues local opportunities with local resources and, as it becomes successful, gradually begins to seek opportunities in other countries supported by resources in those countries. Some of the cases in this book describe ventures that followed this classic path, that used local resources to pursue local opportunities and resources from multiple countries to pursue cross-border opportunities. Other cases describe ventures that deviated from this path, that pursued cross-border opportunities using only local resources or pursued local opportunities with resources from abroad. These alternative strategies, although they can be successful, generate tensions within a venture. Students who study the cases in this book become aware of such tensions and what can be done to ameliorate them.

Finally and most importantly, the cases go beyond the question of where and how it makes sense to expand. The cases show that no matter what the venture, entrepreneurs will make better decisions and create more effective ventures if they develop

an *international expansion strategy*. In other words, entrepreneurs should develop an international expansion strategy during the very early stages of their venture. This insight builds on the earlier observation that the critical determinant of new venture performance is to connect opportunities and resources effectively.

Content and Organization

In selecting the cases for this book I looked for variance in entrepreneurial firms and contexts as well as in performance.¹ Case materials in this book cover more than 20 countries ranging from highly industrialized nations such as the United States and Japan to emerging markets such as Pakistan and Nigeria. Cases also cover a wide range of industries and management problems. A quest for general insights about international entrepreneurship guided the selection and development of all cases. Roughly three-quarters of the cases take the perspective of the entrepreneur, one-quarter the perspective of the financier. Cases that focus on ventures of a purely local nature complement cases on ventures that span borders.

The book is organized in five modules that reflect the cash flow curve typically followed by entrepreneurial ventures. **Exhibit 1** gives an idea of the book's organization. The development of entrepreneurial ventures can be divided into opportunity identification, mobilization of resources, management of contingencies as ventures grow, and further growth and harvesting or exit in later-stage entrepreneurial ventures. Valuation, a central activity for every entrepreneur and investor that is relevant at all stages of ventures, is treated in a separate module that follows the opening module on opportunity identification. Risk assessment, like valuation, also pertains to ventures at all stages. **Exhibit 2** summarizes the content of each case in terms of countries involved, business description, and topics covered. It also indicates whether a case is situated primarily within one country or involves a cross-border element. An extensive technical note on valuing cash flows

¹ I selected these cases from approximately 150 potential case sites to which I had access through a broad network of entrepreneurs and financiers. I selected only cases for which the protagonist was willing to release full and accurate information, even if it shed negative light on the venture, on the people involved, or on the local context. Note that in a few instances information might be disguised to protect confidential information.

EXHIBIT 1 Organization of the Book

Main Organizing Principle: The Cash Flow Curve of the Entrepreneurial Venture
Source: Author.

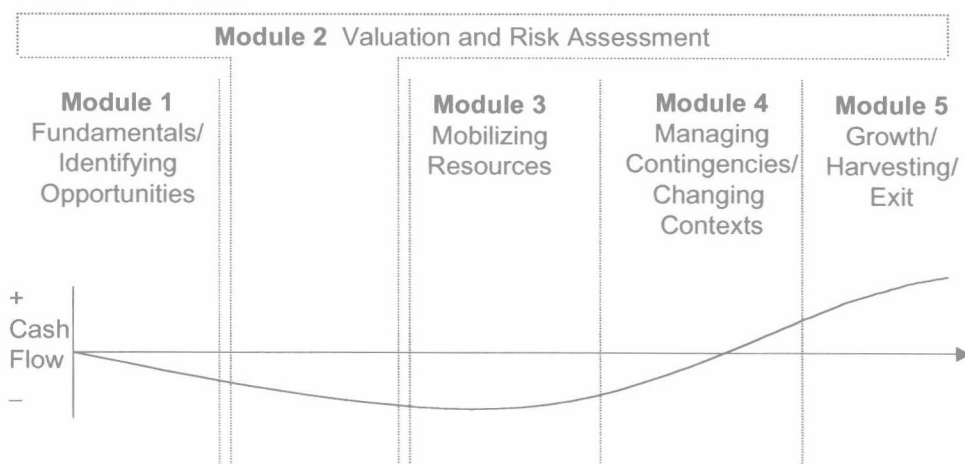


EXHIBIT 2 Overview of Cases in this Book

Module	Case Number	Case Name (Abbreviated)	Countries Involved	Cross-border Orientation	Business Description	Topics
1. Fundamentals and Identifying Opportunities						
	1	Singulus	Germany, U.S.		CD metallization machine mfg.	Opportunity assessment, deal structuring, incentives
	2	Officenet (A)	Argentina	x	Mail-order office supply distributor	Entrepreneurship, expansion finance, country context
	3	Officenet (B)	Argentina, Brazil	x	Mail-order office supply distributor	Start-up merger issues
	4	Term Sheet Negotiations	U.S.		Start-up firm / venture capital firms	Analysis of term sheets and financing alternatives
	5	Cityspace	U.K.		Tourist information kiosks	P&L creation, strategy, sources of funding
	6	Internet Securities	U.S., emerg. mkts.	x	Internet-based news provider	Business model, forecasting, expansion financing
	7	@Hoc	Israel, U.S.	x	Internet software (incl. business plan)	Oppty./capital need assessment
2. Valuation and Risk Assessment						
	8	Butler Capital & Autodistribution	France	x	Car parts distributor	LBO valuation and structuring, incentives
	9	Absolute Sensors	U.K., U.S.	x	Commercialization of sensor technology	Technology spin-out valuation, options in start-up firms
	10	Signature Security	Australia, NZ	x	Electronic security systems	Roll-ups, timing of exit, management issues
	11	Ducati	U.S., Italy	x	Motorcycle manufacturer	Deal negotiations, LBO valuation, brand expansion
	12	Infinox	Germany, Switz.		Print materials distributor	Deal structuring, ownership transition, valuation
3. Mobilizing Resources						
	13	Georgian Glass and Mineral Water	Georgia, CIS	x	Mineral water bottling	Property rights, Capex, alternative sources of capital
	14	QI-TECH	China, NL, U.S.	x	Precision measurement machines	Joint venture valuation, negotiation strategy
	15	Spotfire	Sweden, U.S.	x	Data analysis software	Cross-border coordination, VC funding, valuation
	16	Mobile Communications Tokyo	Japan, U.S.	x	Telecom hardware design & mfg.	Organic financing, IPO in Japan versus U.S.
	17	Capital Alliance	Nigeria		Telecom service provider	PE fund strategy, Capex assessment, valuation
	18	TixToGo	U.S., Australia		Event platform	Fundraising, managing cash, new CEO
4. Managing Contingencies and Changing Contexts						
	19	JAFCO	U.S., Japan	x	Venture capital fund	Managing VC fund, turnaround
	20	Jinwoong	Korea, H.K., U.S.	x	Camping tents	Financial crisis, restructuring
	21	Telewizja Wisla	Poland		TV stations	Expansion financing in emerging markets
	22	Promise	Japan, U.S.	x	Consumer finance services	Growth in a restricted environment, regulat. change
	23	Gray Security	South Africa		Building security services	Context change, IPO, international expansion
5. Growth, Harvesting and Exit						
	24	TCS	Pakistan, UAE	x	Airfreight and delivery	Contextual obstacles, leasing, future expansion
	25	TelePizza	Spain, Lat. Amer.	x	Pizza delivery	Entrepreneurship, franchising, directions of expansion
	26	Sirona	Germany, U.S.		Dental chairs & equipment mfg.	Restructuring, PE auction bidding, valuation
	27	Vacationspot.com	U.S., Belgium	x	Internet-based vacation rentals	Internat. expansion, x-border valuation differences
	28	Infosys	India, U.S.	x	Customized software	Entrepreneurship, financing policies, U.S. listing
	39	Mandic	Brazil		Internet access provider	Harvesting considerations, negotiations

in an international context was developed specifically with the cases in this book in mind.² A brief conceptual overview of the financing of entrepreneurial ventures in an international context and a bibliography are also available.³

Module content is explained at the beginning of each module in an introductory chapter that includes synopses. Study questions for each case are provided in the Appendix. Even outside of a classroom setting it is advisable to review the study questions before reading the cases. These questions guide analysis and provide food for thought.

Case Exhibits Available as Excel Downloads

Analysis of the cases in this book is facilitated by having many of the case exhibits available as Excel spreadsheets. These spreadsheets can be downloaded from the website for the book: www.mhhe.com/kuemmerle. Cases for which Excel downloads are available are identified in the Appendix.

Supplemental Reading Materials and Videos

A manual of detailed Teaching Notes (ISBN 007297785x) for each case is available to qualified instructors through their McGraw-Hill/Irwin representative. These detailed notes each contain sections with overview/suggested assignments, analysis of case issues, teaching plan, update and key learning points.

Other materials that can inform the study of the cases in this book can be obtained from Harvard Business School Publishing. Copies of the following can be ordered by calling 1-800-545-7685 or visiting <http://www.hbsp.harvard.edu>. All the materials listed below are available to the general public.

Kuemmerle, Walter. 1999.

International Entrepreneurial Finance Overview (899-148). Boston: Harvard Business School Publishing. This document briefly introduces the kinds of entrepreneurship challenges that are considered in this book.

Kuemmerle, Walter. 2002.

International Entrepreneurial Finance Bibliography (802-186). Boston: Harvard Business School Publishing. This document identifies some useful sources of data and additional readings on the topic of international entrepreneurship and the financing of ventures.

Kuemmerle, Walter. 2002.

A Note on Depository Receipts (803-026). Boston: Harvard Business School Publishing. This document, which explains how a company can list its shares on a stock exchange in another country, is particularly relevant to the cases on Promise, Gray, and Infosys.

Kuemmerle, Walter. 2002.

Venture Capital Method: Valuation Problem Set Solutions (802-162). Boston: Harvard Business School Publishing. (Solutions for: Sahlman, William A., and Andrew S. Janower. 1995. *The Venture Capital Method - Valuation Problem Set* (396-090).

² Kuemmerle, Walter, and Matias Braun. 2002. *Valuing Cash Flows in an International Context (803-028)*. Boston: Harvard Business School Publishing.

³ Kuemmerle, Walter. 1999. *International Entrepreneurial Finance Overview (899-148)*. Boston: Harvard Business School Publishing. Kuemmerle, Walter. 2002. *International Entrepreneurial Finance Bibliography (802-186)*. Boston: Harvard Business School Publishing.

Boston: Harvard Business School Publishing.) These two documents, which describe the approach venture capitalists typically take to valuing companies, work particularly well with the Termsheet Negotiations for Trendsetter, @Hoc, Absolute Sensors, Spotfire, and VacationSpot cases.

Kuemmerle, Walter, and Matias Braun. 2002.

Valuing Cash Flows in an International Context (803-028). Boston: Harvard Business School Publishing. This document discusses extensively how cash flows, particularly with respect to entrepreneurial ventures, can be valued in an international context.

Kuemmerle, Walter. 2002.

The Entrepreneur: A Test for the Fainthearted. Harvard Business Review (May): 122-127. This article distills from the cases in this book some general lessons about entrepreneurship.

In the following videos (ISBN 0072977868) case protagonists reflect on the challenges they faced at the time of the case. Videos for other cases in the book are in preparation. Check the McGraw-Hill website for release dates and availability (www.mhhe.com/kuemmerle).

Kuemmerle, Walter. 2002.

Cityspace: Product Demonstration and Reflections by Marc Meyohas, Founder (HBS Case Video 802-806). Boston: Harvard Business School Publishing.

Kuemmerle, Walter. 2002.

JAFCO America Ventures: Reflections by Barry Schiffman, President (HBS Case Video 802-805). Boston: Harvard Business School Publishing.

Kuemmerle, Walter. 2002.

Spotfire Update: Reflections by Chris Ahlberg, CEO and Rock Gnatovich, President (HBS Case Video 802-804). Boston: Harvard Business School Publishing.

Kuemmerle, Walter. 2001.

Narayana N. Murthy and Infosys: Reflections by the CEO of a Leading Indian Software Firm (HBS Case Video 801-801). Boston: Harvard Business School Publishing.

Kuemmerle, Walter. 2001.

Singulus: Reflections by Roland Lacher (HBS Case Video 801-803). Boston: Harvard Business School Publishing.

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This book would not have been possible without the support and encouragement of many people. I am grateful to all of them.

My Harvard colleague William A. Sahlman provided constant encouragement and guidance as I developed the cases. He read all of them and made numerous suggestions. Other colleagues in the Entrepreneurial Management Unit at Harvard Business School who devoted many hours to the review of the cases and underlying conceptual work include Howard H. Stevenson, Josh Lerner, Paul Gompers, Joe Lassiter, Teresa Amabile, Jay Light, Thomas McCraw, Tom Eisenmann, and Lynda Applegate.

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Over the last five years I taught these cases to over one thousand MBA students and executive education participants at Harvard Business School. I am grateful to them. Their reactions in the classroom and their feedback were invaluable for sharpening and debugging the cases in this book.

Practitioners who provided access to companies as well as information and suggestions on case drafts and whose observations as class guests helped improve my teaching of the cases are acknowledged in the order in which the associated cases appear in the book (case titles are abbreviated). *Singulus*: Roland Lacher, Pete Denton, Friedrich von der Groeben. *Officenet*: Andy Freire, Santiago Bilinkis, Carlos Sicupira, Carlos Adamo, Linda Rottenberg. *Term Sheet Negotiations for Trendsetter*: Steve Hill, Richard Floor. *Cityspace*: Marc Meyohas, Nick Bohane. *Internet Securities*: Gary Mueller. *@Hoc*: Guy Miasnik, Ly Tran. *Butler Capital Partners and Autodistribution*: Walter Butler, Pierre Costes, Phil Cooper, Michael Miele. *Absolute Sensors*: Malcolm Burwell, Ian Collins,

John Harrington. *Signature Security*: Jim Covert, Howard Watson, Jeffrey Parr, Graham Rosenberg. *Ducati and Texas Pacific Group*: Abel Halpern, Frederico Minoli, Dante Razzano. *Infox*: Martin Halusa, Michael Phillips, Thomas Beer, Max Burger-Calderon. *Georgian Glass and Mineral Water*: Mamouka Khazaradze, Jacques Fleury, Ruud J. van Heel. *QI-Tech*: Bert Twaalfhoven, Roger Kollbrunner. *Spotfire*: Chris Ahlberg, Rock Gnatovich, Christopher Spray. *Mobile Communications Tokyo*: Hatsuhiro Inoue, Hitoshi Suga. *Capital Alliance*: Okey Enelamah, Thomas C. Barry, Dick Kramer, Steve Chapman. *TixToGo*: Steve Hill, Lee Taylor, Ralph Marx, Lu Cordova. *Jafco America Ventures*: Andy Goldfarb, Barry Schiffman, Hitoshi Imuta. *Jinwoong*: T. P. Lee, Scott Reeves, Chang Sun. *Telewizja Wisla*: Claire Hurley, Wojtek Szczerba, Simon Kenney. *Promise*: Hiroki Jinnai, David Richards. *Gray Security*: Dick Aubin, Eduardo Garcia, David Plane. *TCS*: Khalid Awan, *TelePizza*: Leopoldo Fernandez, Pedro Espanol. *Sirona*: Thomas Jetter, Franz Scherer. *VacationSpot.com & Rent-A-Holiday*: Steve Murch, Laurent Coppieters. *Infosys*: N. R. Narayana Murthy, Nandan Nilekani, K. Dinesh, S. D. Shibulal, Hema Ravichandar, Mohandas Pai. *Mandic*: Aleksandar Mandic, Carlos Sicupira, Alexandre Behring.

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All these acknowledgements notwithstanding, I am responsible for the materials in this book. I welcome suggestions or comments. You can let me know about your experience through McGraw-Hill/Irwin or by contacting me directly.

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(Please note that I am unable to offer any comments to students that would aid them in preparing these cases for class.)

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MODULE ONE

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