Answers
Chapter 11 Quiz

<table>
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<tr>
<th>Question</th>
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</table>
| 1. List as many generic risks faced by a new venture as you can.         | ➢ Pre-launch delays – are any of the pre-launch key activities likely to cause delays?  
➢ Competitors – what are they doing?  
➢ Competitive advantage – is it being eroded?  
➢ Market – how is it changing?  
➢ Customer value proposition – is it being delivered?  
➢ Product/service quality – is it adequate?  
➢ Customer service – are they satisfied?  
➢ Cash flow – is it adequate?  
➢ Sales – are you meeting targets?  
➢ Profits – are you meeting targets?  
➢ Operations – are key activities under control?  
➢ Productivity – is it meeting targets?  
➢ Administration – are processes and procedures working well? Brand identity – is it being established?  
➢ IP – is it secure?  
➢ Technology – how are changes affecting you?  
➢ Investment – do you need more?  
➢ Stocks/inventory – are they adequate or too much?  
➢ Merchandising – is it under control?  
➢ Debtors/receivable – are they under control?  
➢ Interest rates – how will changes affect you?  
➢ Exchange rates - how will changes affect you?  
➢ Management – are the team managing well? |
| 2. Define the term **risk factor**.                                       | The probability of occurrence multiplied by the impact of the risk event.                                                          |
3. **What is a risk index?**
The composite risk index reclassified in some simplified way.

4. **Once you have a risk index what are the options for dealing with them?**
1. Attempt to eliminate risk
2. Attempt to reduce risk
3. Transfer the risk
4. Accept the risk

5. **What are key risk indicators?**
Parameters or events that indicate an increased likelihood of the risk materializing.

6. **List the six generic strategies for managing risk.**
1. Partnering
2. Networking
3. Strategic options
4. Affordable loss and lean start-up
5. Borrowing and bootstrapping
6. Compartmentalizing risk

7. **Define the term affordable loss.**
The maximum loss you are willing to accept should the venture fail.

8. **What is involved in compartmentalizing risk?**
Setting up each operation as a separate legal entity.

9. **What is commercialization risk?**
The unique risk associated with developing a new product and insuring customer acceptance.

10. **Define breakeven point.**
\[
\text{Breakeven Point} = \frac{\text{Fixed Costs}}{\text{Contribution Margin}} = \frac{\text{Fixed Costs}}{\text{Sales} - \text{Variable Costs}}
\]

11. **Define margin of safety.**
\[
\text{Margin of Safety} = \frac{\text{Turnover} - \text{Breakeven Point}}{\text{Turnover}}
\]

12. **Calculate the breakeven point and the margin of safety:**
\[
\begin{align*}
\text{Sales} & = £150,000 \\
\text{Variable costs} & = £50,000 \\
\text{Contribution} & = £100,000 \\
\text{Fixed costs} & = £50,000 \\
\text{Profit} & = £50,000 \\
\end{align*}
\]
\[
\begin{align*}
\text{Breakeven Point} & = \frac{50,000}{150,000} = £75,000 \\
\text{Margin of Safety} & = \frac{100,000 - 75,000}{150,000} = 50\% \\
\end{align*}
\]

13. **If this company is considering spending £10,000 on a promotions campaign, by how much would sales have to increase?**
\[
\text{Margin of Safety} = \frac{10,000}{100,000} = £15,000
\]
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<td>increase to justify the expenditure?</td>
<td>1. Keep contribution margins high</td>
</tr>
<tr>
<td></td>
<td>2. Keep fixed costs low</td>
</tr>
<tr>
<td>14. What are the two principles that keep your financial risks as low as possible?</td>
<td>1. Keep contribution margins high</td>
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<tr>
<td></td>
<td>2. Keep fixed costs low</td>
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