

UNIVERSITY OF SOUTHERN CALIFORNIA
School of Policy, Planning, and Development
HEALTHCARE VENTURE DEVELOPMENT

PPD 696 (2 Units)

Instructor: Susan Sinclair, MBA, MA

*****SYLLABUS*****

Summer 2008

Dates/Time: July 11 and 12 and August 8 and 9, 2008, Fridays 1-9pm, Saturdays 9am-5pm

Location: The class will meet in Room RGL 209 in July and RGL 219 in August.

INSTRUCTOR

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COURSE DESCRIPTION

PPD 696 is an advanced course focusing on developing the resourcefulness, know-how, and decision support skills needed to critically identify, assess, and develop new healthcare ventures. Topics will include the anatomy of start-up ventures, new healthcare venture creation and innovation, business plan development and assessment, growth and venture financing, marketing and new venture growth strategies, corporate venturing, and taking strategy to action. Attention will also be given to the concept of social/non-profit entrepreneurship.

The topics and practical approaches will consider the unique differences between developing the entrepreneurial free standing business and the corporate intrapreneurial development of new divisions, business units or product lines within a parent healthcare organization. It builds on the HMP core curriculum by giving you the opportunity to review, integrate, and apply the essential business principles and skills of strategic assessment, competitive strategy, business planning, market and customer research, financial management, human and capital resourcing, and risk assessment to the challenges and opportunities of new healthcare ventures.

Specifically, the course deals with developing and managing new healthcare ventures from an entrepreneurial point of view. The course is designed to focus on starting new ventures, acquiring existing healthcare organizations, managing healthcare venture funds, and growing existing organizations in the healthcare sector. The course focuses on “emerging firms” meaning organizations that are trying to grow from an embryonic stage into larger organizations; “middle market” firms focused on growth; and “strategic business units” / new healthcare ventures funded within established organizations.

Emerging healthcare firms and “middle market”/mid-sized healthcare organizations are not always the same. Owners of “middle market” organizations or established healthcare practices are not always interested in growing their organizations. This course is *not* about “small business” or small practice management--as in very small organizations all that is normally needed is a good supervisor/owner. Small companies without growth potential would not follow the strategies or decision-making approaches that will be discussed in this course.

Many firms, however, *are* interested in growth. PPD 696 is focused on designing new venture growth strategies and value creation in such healthcare firms. The development of growth strategies and how such strategies directly support other value creation activities in the entrepreneurial healthcare organization will be discussed. Some of these activities which hold the potential for value creation in a new healthcare venture include the selection of the board of directors; client and market development; organizational image and investor relations; management selection and motivation; and international expansion and entrepreneurship.

This course is *not* about institutional organizational development—the type of management and organizational theory that is taught in most classrooms and textbooks today. In traditional organizational management, the company is assumed to be a public organization with broad, established markets so that a series of assumptions can be made. In new ventures, there are no perfect markets or situations and there is no assumption that the organization is publicly owned nor has public investment. There are over two million “middle-market” companies in the United States that could be included in the category of “emerging business organizations.” At the same time there are less than twenty-five thousand publicly held companies in the United States. Although these publicly held firms account for a major share of America’s Gross Domestic Product, there is another world of “new venture” businesses with entrepreneurial skills and management that exists. That world is what is addressed in this course.

The course utilizes a new healthcare venture “life-cycle” approach to structuring everything from starting a new healthcare venture to eventually cashing out. This will be done by studying the structuring of successful exit strategies which should be established from the initiation of the venture. We will use the growth cycle of a typical organization as a way of proceeding throughout the course describing both the internal and external options as methods of achieving the desired growth objectives. From this point, we will review financing methods, working capital management, external expansion, and the preparation of the company to be sold. The importance of quality legal advice and contracts as working jointly with the managerial function will also be evaluated.

One of the course's primary objectives is to provide real world experience and approaches to new healthcare ventures rather than theories that often fail in practice. The second equally important objective is to teach a thinking process that extends beyond pure "paper analysis" and "pure numbers." The crucial importance of disciplining oneself to evaluate new venture situations from a subjective as well as from an objective, "number crunching" point of view will be emphasized. The development of sophisticated and successful decision-making in new healthcare ventures is the primary objective of this course.

New venture development is focused on the discipline of entrepreneurship which is focused primarily on strategy rather than "number crunching." Students who have had an introductory course in healthcare finance and / or in accounting will have the vocabulary and background knowledge that this course assumes. PPD 510a, HMG565 or its equivalent is *highly* recommended.

Over the past decade the environment in which new ventures operate and grow has changed. Recent fluctuations in healthcare regulation as well as in the financial markets have impacted the ability to start, grow, and successfully exit new businesses. It is crucial that better decisions be made by management, venture capitalists, and entrepreneurs. The decisions have changed, the environment is different, and the requirements are evolving. The most obvious example of this change in approach to new ventures in general is the "dot.com boom" followed by the "dot.com bust" in 2001 in the high tech industry. The impact of this period on starting new healthcare ventures will be discussed in detail.

Following the growth cycle of a typical new venture, the course begins with the idea of doing a start-up. Because of the "dot.com" experience, current wisdom indicates that--at least for now--the only time to do a "pure" start-up is when there is no other option but to do so. It is normally far easier to buy out an existing organization than it is to start one. The process of leveraged buy outs--buying a company with mostly other people's money--will be discussed in detail. In addition, multiple real world examples will be discussed including the experiences of firms such as Merck, Corning, and numerous others.

Learning Objectives

Upon completion of the course work the student will have:

- ❑ Learned a systematic approach to new venture assessment and development as applied to healthcare
- ❑ Considered the major interdisciplinary requirements needed to start a new health venture. These approaches, methods and checklists will be applicable to creating a new venture and to assessing new opportunities and business plans.
- ❑ Gained the framework and decision support tools to make informed judgments and recommendations supporting, rejecting or modifying a proposed venture.
- ❑ Gained confidence in his/her ability to evaluate such opportunities and to participate in the creation, development or oversight of new healthcare ventures. These skills will apply both inside the organization as an entrepreneur and outside the organization as a member of a start-up team.

Specific Learning Targets

- 1) Review and learn about the essential elements, fundamental principles and behavioral characteristics of successful start-up ventures. Understand why business models matter, how they are judged by professionals, and why some entrepreneurs can scale their businesses and others cannot.
- 2) Gain an understanding of the art and discipline of identifying important trends and new sources of innovation. Learn how these principles are applied in creating new healthcare ventures and why some ventures thrive while others fail.
- 3) Learn how to research, write and evaluate a business plan as the sponsor of a new health venture or as a manager charged with evaluating a plan and making recommendations.
- 4) Learn the principles and practices of entrepreneurial financing. Understand how growth and venture capital sources work, sources of health care venture capital, how value is determined and what investors really focus on.
- 5) Learn about the marketing and sales strategies used in early stage businesses that are resource constrained. Understand who the customers are and what they value before defining the marketing and sales plans.
- 6) Review and understand how internal health venturing is different from independent start-up ventures, how to evaluate strategic and organizational alignment and how to stimulate, and support creativity and innovation inside a healthcare organization.
- 7) Gain an understanding of the myths, pitfalls and pearls of wisdom in taking strategy to action. Understand the execution and growth management challenges in taking business models to markets and customers.
- 8) Explore the concept of social entrepreneurship as applied to non-profit healthcare organizations.

REQUIRED READINGS

There are three sets of required readings for the course. These include a required textbook, class slides, and selected Harvard Case Studies and articles as outlined in the class schedule and below:

1. The **required textbook** for the course is:
Timmons, Jeffrey A., **New Venture Creation: Entrepreneurship for the 21st Century**, McGraw Hill.
2. **Slides** will be available and are required reading for the course.
3. **Harvard case studies and articles** will be assigned for reading and preparation throughout the course and for the final group projects. These may be purchased online at the website at Harvard Business Online: <http://www.hbsp.harvard.edu> or by purchasing the course reader.

EXPECTATIONS AND GRADING

This course will be taught in intensive format. Each session will consist of two full days. Given the intensive nature of this course, class attendance will be expected for all four days.

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| 1. Class preparation and participation | 10% |
| 2. Team analysis and discussion of cases | 20% |
| 3. Opportunity assessment, life cycle analysis, and business plan | 45% |
| 4. Case opportunity assessment and group final presentation | 25% |

GROUP PROJECTS AND PRESENTATIONS

The group project work represents good opportunity to discuss the materials with your colleagues. In addition, such group work is very similar to what you will be expected to do in a new venture situation. The work will be related to timely and practical matters.

You should start thinking of breaking into groups of about 4-5 people. By the deadline you must submit a note to me listing all members of the group. I will then hand out assignments. The projects will be focused on discussions within the group and presentations to the rest of the class utilizing PowerPoint and submitting both the PowerPoint and a group paper.

As part of the assignment every group is asked to discuss the presentation and project of another group and they will give a response. Though the evaluation will be based on your presentation/project, a small adjustment may be performed if the discussion is very good or poor.

ACADEMIC ACCOMODATIONS BASED ON A DISABILITY

Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me as early as possible. DSP is located in STU 301 and is open 8:30 AM to 5:00 PM, Monday through Friday. The phone number for DSP is (213) 740-0776.

INSTRUCTOR INFORMATION

A brief biography is attached to this syllabus.

COURSE OUTLINE

Weekend 1

I. The Opportunity of New Ventures in Healthcare

1. The Entrepreneurial Process and Revolution: Introduction to Developing Healthcare Organizations and New Ventures–The Why & How
2. The Opportunity: Healthcare Ventures and Start-ups: The Idea, Key Person, Management Team, & Board
3. Screening Business Opportunities: “Packaging” a Healthcare Venture: Financing, The Business Plan/ Private Placement Memorandum, Strategic Planning, and the Marketing Plan
4. The Continuing Technology Revolution and Healthcare: Venture Capital and Alternative Forms of Start-up Capital
5. The Franchise Alternative and Healthcare Entrepreneurship

II. The Founding Team in Healthcare New Ventures and Resource Requirements

1. The Entrepreneurial Mind
2. The Entrepreneurial Manager
 - Managing the Healthcare Venture: Profit and Financial Statements
 - a. The Concept of “Investment in Marketing”
 - b. Cash Flow Analysis
3. The New Venture Team
 - Growing a Healthcare Venture:
 - a. Defining and Approaching Growth
 - b. The Board of Directors
4. Personal Ethics and Entrepreneurship
5. The Business Plan
6. Healthcare Ventures and Capital Budgeting

Deliverable: A case study will be assigned for team case study analysis, discussion, and presentation in class.

Weekend 2

III. Financing and Healthcare New Ventures

1. The Uniqueness of Entrepreneurial Finance vs. Traditional Finance
2. Obtaining Venture and Growth Capital for the Healthcare Venture
 - Healthcare Start-ups: Capital Structure and Leverage
 - Raising Funds Externally
 - a. Long Term Financing
 - b. Intermediate Term Financing
 - c. Short Term Financing
 - Working Capital Management
 - a. Cash Management
 - b. Management of Accounts Receivable
3. "The Deal" – Valuations, Structure, and Negotiation
4. Debt vs. Equity Strategies

IV. The Startup and After

1. Managing Rapid Growth
2. Healthcare Ventures and Expansion
 - a. External Expansion and Acquisition Strategies
 - b. Acquisition Strategies: Technical and Operational Aspects
 - c. Healthcare Globalization: International Entrepreneurship / New Healthcare Ventures
3. The Entrepreneur and the Troubled Healthcare Venture
4. The Harvest and Beyond
 - Valuation of the Healthcare Venture and Leveraged Buyouts
 - a. Managing the Multiplier
 - b. Strategic Value
 - c. Revenue and Earnings Patterns
5. Designing a Personal Entrepreneurial Strategy

Guest Speaker: To be Announced

Deliverable: By the end of the session students will be required to submit their business plan/private placement memorandum and opportunity assessment for a new venture. This will focus on the assessment of the opportunity, screening, and life cycle analysis (e.g., the development of a medical supply company, biotech venture, new inpatient product line, etc.). Student teams will be required to present and discuss their assigned case analysis in a formal presentation in class.

Reading Assignments

Weekend 1

1. Textbook:

- Chapter 1 The Entrepreneurial Revolution
- Chapter 2 The Entrepreneurial Process
- Chapter 3 The Opportunity – Creating, Shaping, Recognizing, and Seizing
- Chapter 4 Screening Venture Opportunities
- Chapter 5 Entrepreneurs and the Continuing Technology Revolution
- Chapter 6 Entrepreneurial Opportunities: The Franchise Alternative
- Chapter 7 The Entrepreneurial Mind in Thought and Action
- Chapter 8. The Entrepreneurial Manager
- Chapter 9 The New Venture Team
- Chapter 10 Personal Ethics and the Entrepreneur
- Chapter 11 Resource Requirements
- Chapter 12 The Business Plan

2. “*Innovating in Healthcare-A Framework*” by Regina Herzlinger, Harvard Business School Publishing, #9-306-042, August 31, 2006.

3. Harvard Business School Case Studies: *US Labs; Cynthia Fischer and Viacell; and John Moran and the Orthopedics Industry*

Weekend 2

1. Textbook:

- Chapter 13 Entrepreneurial Finance
- Chapter 14 Obtaining Venture and Growth Capital
- Chapter 15 The Deal: Valuations, Structure and Negotiation
- Chapter 16. Obtaining Debt Capital
- Chapter 17 Managing Rapid Growth
- Chapter 18 The Entrepreneur and the Troubled Company
- Chapter 19 The Harvest and Beyond
- Chapter 20 Crafting a Personal Entrepreneurial Strategy

2. Case Studies: Harvard Business School Case Studies to be assigned by groups.
See Course Schedule.

OPTIONAL READING MATERIALS AND SUPPLEMENTARY REFERENCES

FOR ANATOMY OF A START UP

Komisar, Randy. *The Monk and the Riddle: The Art of Creating a Life While Making a Living*
Lusk, John. *The Mouse Driver Chronicles*

FOR VENTURE CREATION AND INNOVATION

Drucker, Peter. *Innovation and Entrepreneurship*
Harvard Business Review, The Innovative Enterprise – Special Issue, August 2002

FOR ENTREPRENEURSHIP AND THE BUSINESS PLAN

Bangs, David. *The Business Planning Guide: Creating a Plan for Success in Your Own Business*, 8thE

FOR ENTREPRENEURIAL FINANCE - VENTURE & GROWTH CAPITAL

Galante, Steven P. (ed). *Venture Capital for Health Care Review and Industry Outlook*. Asset Alternatives, Inc., Feb. 2000

Levinson, J. *Guerrilla Financing: Alternative Techniques to Finance Any Small Business*

Fichera, Dante. *The Insider's Guide to Venture Capital 2002*

Wilmerding, Alex. *Term Sheets & Valuation*

FOR NEW VENTURE GROWTH STRATEGIES

MARKETING FOR ENTREPRENEURS

Lodish, Leonard and Howard Morgan. *Entrepreneurial Marketing – Wharton's MBA Course*

Levinson, Jay. *Guerrilla Marketing*.

FOR CORPORATE VENTURING- ENTREPRENEURS IN ORGANIZATIONS

Harvard Business Review, The Innovative Enterprise – Special Issue, August 2002

STRATEGY TO ACTION – LAUNCHING THE VENTURE

EXECUTION & GROWTH MANAGEMENT –

Charan, Ram and Noel Tichy. *Every Business is a Growth Business*

SOCIAL ENTREPRENEURSHIP

Ryan, William P., "The New Landscape for Nonprofits," *Harvard Business Review*: Jan/Feb 99, vol. 77, Issue 1, p. 127

Brinckerhoof, Peter C. *Social Entrepreneurship: The Art of Mission-Based Venture Development*, New York, John Wiley & Sons Inc. 2001.

www.redf.org (Roberts Enterprise Development Fund)

www.wkkf.org (W. K. Kellogg Foundation)

APPLYING ENTREPRENEURSHIP TO HEALTHCARE ORGANIZATIONS

Guo, Kristin, *New England Journal of Entrepreneurship*, June 30, 2003.

THE MEANING OF SOCIAL ENTREPRENEURSHIP

Dees, J. Gregory, <http://www.redf.org/download/other/esedw.doc>.



Susan Sinclair, MBA, MA

Susan Sinclair has over twenty years of management and academic experience in the private sector as well as with healthcare, government, and nonprofit agencies. She has served with organizations such as Merck, ORACLE Corporation, Lockheed Martin Corporation, and the US Embassy in Spain. She is an adjunct Associate Professor at the University of Southern California at The School of Policy, Planning, and Development as well as serving on the faculty at the Marshall School of Business since 2002.

She served with Oracle for three years as Practice Director for Global Business Development. During this period she oversaw Oracle management teams worldwide heading up a new venture business development group which collaborated with organizations such as Blue Cross. She is currently Managing Principal of Market One Corporation, a global strategy consulting firm.

At Oracle, Ms. Sinclair focused on Oracle solutions for Healthcare, Global Government, and Customer Relationship Management working with clients such as Blue Cross and MedAvant Healthcare Solutions. Other clients included the Governments of Singapore, China, and The Philippines as well as the Asian Development Bank.

Prior to this, Ms. Sinclair was Managing Director for Worldwide Distribution for Lockheed Martin Corporation within the Space Imaging (EOSAT) division. Space Imaging was a company owned by Lockheed Martin Corporation, Hughes Electronics Corporation and Raytheon Corporation. Space Imaging (originally EOSAT-The Earth Observation Satellite Company) was a public/private collaboration formed in 1984 by NASA, NOAA, Hughes, and General Electric to commercialize satellite technology. The objective was to maintain this collaboration while developing the company into a stand-alone commercial entity on a global basis.

During this period she designed, built, and managed the firm's global partnering and distribution network of over 300 companies. She traveled to Asia, Europe, and Latin America working extensively in China, Japan, the Middle East and other areas. She has resided in Madrid, Mexico City, Singapore, and Manila for career reasons.

She currently serves as Managing Principal of Market One Corporation, a firm specializing in strategic planning and globalization engagements. Clients include Prudential, Merck, Boeing, Kodak, Sun Microsystems, MeadWestvaco, US Department of Commerce, Government of India, Standard Pacific Homes, and numerous others.

Ms. Sinclair received her MA from New York University where she also completed Ph.D. coursework with degree completion in progress. She received her MBA from the University of Denver completing studies at both the Daniels School of Business. She resided in Spain for ten years where she completed post-graduate studies and served at the US Embassy in Madrid. She speaks fluent Spanish and has studies in Japanese and Chinese.

Prior to USC, Ms. Sinclair taught part time for fifteen years at the University of California, Irvine where she was presented with the Distinguished Instructor Award from the University. She has lectured at Xinghua University in Beijing and is a professor in the Global Executive MBA Program offered jointly by Harvard University, the University of Madrid, and the University of California throughout in Latin America.

She has served on the Advisory Boards at the University of California, Irvine for Certificate Programs; the Board of Directors for the World Trade Center of Los Angeles; the Board of Directors for the California-Asia Business Council of San Francisco; and the Board of Directors of the Los Angeles Economic Development Corporation (LAEDC). She is the former President of the Project Management Institute of Los Angeles/ Southern California.

Ms. Sinclair received an appointment under the current Bush and previous Clinton Administrations to serve on the Board of Directors of the District Export Council of Los Angeles/Southern California. Additionally, she serves on the International Organization for Standardization (ISO) Committee for international standards for specialized technical data and has represented the US on multiple occasions as a member of the US delegation to ISO meetings worldwide.

She has published numerous articles on management topics and on international themes. She has presented extensively at conferences domestically and abroad. Ms. Sinclair has lived in Newport Beach, California since 1983 with her husband and son, a recent Harvard Law School graduate.