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Chapter 2: The Art of Innovation

True/False

1. The frameworks in which a sustainable, high-profit company is constructed are called business models.
   Ans: True Page: 23

2. Unfortunately, North America has one of the lowest percentages of people with Internet access.
   Ans: False Page: 24

3. Geographical location no longer provides any significant advantage for access to major sources of capital.
   Ans: True Page: 26

4. A product life cycle is the time that a product is able to command a high profit margin in the market before it becomes obsolete or develops intense competition.
   Ans: True Page: 26

5. Product development times have increased from 200 days three years ago to an average of 225 days now.
   Ans: False Page: 27

6. Fortunately, it is becoming easier for a company to build around a single product idea without strong patent protection.
   Ans: False Page: 27

7. The first step for any entrepreneur is to generate an idea for a new business.
   Ans: True Page: 36

8. Asking the right questions and preparing the business plan are components of phase 3 in the five phases to success.
   Ans: True Page: 37

9. To eliminate receiving questionable data, you should train and monitor survey recorders and telephone interviews to ensure consistent results.
   Ans: True Page: 41

10. The final phase of the five step model of success is “Develop the Plan.”
    Ans: False Page: 41

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Short Answer / Fill in the Blank

11. Successful _____ is the use of new technological knowledge, and/or new market knowledge, employed within a business model that can deliver a new product and/or service to customers who will purchase at a price that will provide profits.
    Ans: innovation Page: 28

12. The _____ is often used to illustrate the difference in which the performance achieved by new innovation is plotted against time.
    Ans: S-curve Page: 29

13. Usually, improvements can be made with _____ innovations, pushing the original curve higher.
    Ans: incremental Page: 29

14. The term _____ is often used to describe innovations that disrupt the status quo.
    Ans: disruptive innovation Page: 30

15. Only about 10% of existing _____ have actually been commercialized; the remainder are still potential opportunities.
    Ans: Patents Page: 36

16. Many new companies are built around a disruptive or _____ technology.
    Ans: breakthrough Page: 36

17. A window of opportunity is a _____ during which opportunities exist before something else happens to eliminate them.
    Ans: time horizon Page: 38

18. _____ are the value of benefits lost when one decision or idea alternative is selected over another.
    Ans: Opportunity costs Page: 39

19. A(n) _____ charts the current and future components of the business in about thirty to forty pages.
    Ans: business plan Page: 41

20. Sufficient _____ is required to sustain the company for a specific length of time, possibly a one- or two-year period.
    Ans: capital Page: 42

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Multiple Choice

21. More than _____ new web pages are being added daily to the Internet.
    a. 18 million
    b. 500,000
    c. 50 million
    d. 7 million

    Ans: D Page: 24

22. _____ funds are a very small part of total growth capital.
    a. Technology
    b. Trade
    c. Venture capital
    d. International

    Ans: C Page: 26

23. A product life cycle is continually:
    a. increasing
    b. declining
    c. increasing in a step ladder pattern
    d. fluctuating

    Ans: B Page: 26

24. Incremental innovation means that:
    a. A start-up company grows slowly.
    b. Improvements are made on existing products and services.
    c. Innovation is only applied to the way that things are made.
    d. It is the safest strategy for a start-up to follow.

    Ans: B Page: 29

25. Radical or disruptive innovation means that:
    a. Nothing from the past is retained.
    b. It applies only to products.
    c. It changes the rules of competition.
    d. It is too risky for a start-up to follow.

    Ans: C Page: 29

26. Which of the following is not on the list of some important innovations by U.S. small firms in the last century:
    a. GPA
    b. Airplane
    c. Zipper
    d. Heat sensor

    Ans: A Page: 31

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27. All of the following are ways to build upon already existing material and still provide a profit-driven concept *except*:
    a. Market the product at a higher price.
    b. Add value to an existing product or service.
    c. Develop or redesign a new version of an existing product.
    d. Develop ideas as an extension or redesign an existing service.

    Ans: A Page: 36

28. There are more than _____ patents issued in the United States.
    a. 31 million
    b. 17 million
    c. 8 million
    d. 60 million

    Ans: C Page: 36

29. Only about _____ percent of existing patents have actually been commercialized.
    a. 20
    b. 10
    c. 2
    d. 32

    Ans: B Page: 36

30. Of the five phases of success, which one is where the opportunity would be seized:
    a. Phase 1
    b. Phase 2
    c. Phase 3
    d. Phase 4

    Ans: A Page: 37

31. Which of the following is not a technology factor:
    a. Industry standards
    b. Niche market applications
    c. Infrastructure replacement
    d. Technology generation

    Ans: D Page: 38

32. Which of the following is not an economic factor?
    a. Better service
    b. Productivity gains
    c. Market changes
    d. Government and privacy issues

    Ans: C Page: 38

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33. Of the five phases of success, which one is Phase 2?
    a. Develop the Plan
    b. Manage the Business
    c. Determine the Resources Needed
    d. Investigate the Need through Market Research

Ans: D Page: 39

34. Of the five phases of success, Phase 3 is:
    a. Develop the Plan
    b. Manage the Business
    c. Determine the Resources Needed
    d. Investigate the Need through Market Research

Ans: A Page: 41

35. Which of the following area of research help answer the question: "Can the product/service be patented or copyrighted?"
    a. Sales
    b. Proprietary
    c. Niche/competition
    d. Cost and manufacture

Ans: B Page: 39

36. To eliminate receiving questionable data, all of these pitfalls must be avoided except:
    a. Train and monitor survey recorders.
    b. Make certain that the answers are accurate by maintaining an objective method of questioning.
    c. Ensure that all of the participants are asked the same questions.
    d. Eliminate telephone interviews.

Ans: D Page: 41

37. All of the following are cost-cutting recommendations except:
    a. Use search engines and web pages
    b. Use social media methods to access potential customers
    c. Test only one product at a time
    d. Use the telephone instead of mail survey

Ans: C Page: 41

38. _____ is(are) the backbone of the business.
    a. Employees
    b. Business plan
    c. Phases of Success
    d. Data Base

Ans: B Page: 42

39. Of the five phases of success, which one is Phase 4?

a. Determine the Resources Needed
b. Develop the Plan
c. Investigate the Need through Market Research
d. Seize the Opportunity

Ans: A Page: 42

40. Of the five phases of success, which one is Phase 5?
a. Seize the Opportunity
b. Develop the Plan
c. Investigate the Need through Market Research
d. Manage the Business

Ans: D Page: 43

41. Which of the following criteria is least important when evaluating an opportunity?
a. Size of the market
b. Competitors
c. Value provided to the targeted customers
d. Having the resources in place to execute on the plan

Ans: D Page: 44-45

42. Which of the following criteria would most lead you to question the viability of an opportunity?
a. Gross margin on sales after three years is 25%.
b. Total available domestic market is$80MM.
c. The market is growing at 60% per annum.
d. You only have two customers willing to buy your product currently.

Ans: A Page: 44-45

43. The evaluation screening for patent protection includes all of the following except:
a. Is the fee for a patent search and application affordable?
b. Is the service, product, or idea unique to get a head start on the competition?
c. Is the field changing so slowly that the innovation will be valuable for at least fifteen years?
d. Has an attorney discussed the options and recommended that a patent be pursued?

Ans: C Page: 45

44. _____costs are the value of benefits lost when one decision or idea alternative is selected over another.
a. Opportunity
b. Research
c. Development
d. Marginal

Ans A Page 39

45. Which of the following factors does not help the entrepreneur create opportunity for the business?
    a. Technology
    b. Social
    c. Economic
    d. Demographic

Ans: B Page 38