

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

GRADUATE SCHOOL OF BUSINESS

MASTER OF SCIENCE IN ENTREPRENEURSHIP AND INNOVATION

ENTREPRENEURIAL FINANCING (MEI 502)

EXAMINATION PAPER

DURATION: 3 HOURS 30 MINUTES

NOV 2024

INSTRUCTIONS AND INFORMATION TO CANDIDATES

1. Section A is compulsory and carries 40 marks.
 2. Answer Question One from Section A and any three (3) questions from Section B.
 3. The paper carries six questions.
 4. All questions in Section B carry equal marks of 20 each.
 5. The use of cell phones is not allowed in the examination.
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SECTION A: [COMPULSORY]

QUESTION ONE

CASE STUDY: UGO VOLT VIDEOGAME FINANCING

Rogério Varela was a teenager when he started to modify videogames and distribute them on the Internet. This 'hobby' brought recognition for his skills and he began to be talked about by people in the videogames world. It was just the first step to building a business. Rogério and his brother Roberto, who had management and multimedia knowledge, got together and decided to create a new videogame, called Ugo Volt and their own business- MoveInteractive.

Background of the firm/Business idea

"My brother [Rogério Varela] is self-taught. When he was 17 years old, he began to modify videogames that already existed in the market and put them on the Internet. Later, his Tomb Raider adaptations were among the world's top downloads. That's how we came up with the idea to create Ugo Volt, a videogame about Lisbon in the year 2055, in conditions of global warming," explains Roberto Varela, MoveInteractive's CEO. Roberto and Rogério Varela are two Portuguese brothers with an entrepreneurial spirit. Because of Rogério's ideas and skill in modifying existing videogames, by changing the characters and, scenarios, adding new chapters, etc., the two brothers decided to create a new videogame and, therefore, start their own business. So, in 2001 MoveInteractive was created (initially under the name GraficWeb) with the main objective of producing videogames for international markets. MoveInteractive's first idea was the production of the game Ugo Volt (also known by its original title 'Flow – Prospects of Mayhem') an action/adventure videogame for personal computers and consoles, in which Ugo Volt is the main character.

In the early days, MoveInteractive had only limited financial resources. Roberto and Rogério had to seek financial help from their family to start the business. The business depended on the dedication of its founders. A year later, MoveInteractive won the Madeira Business Innovation Award, promoted by CEIM/BIC Madeira (Business Innovation Centre Madeira), which gave them the opportunity to open an office in BIC Madeira's incubator and to enjoy a package of services that helped them when things were difficult at the beginning. The promoters, Roberto and Rogério, also applied for SIPPE-RAM (an EU grant for SMEs managed by the Madeira Regional Government), that was available at that time on Madeira Island and which gave them the possibility to get €142,000.

As the creation of a videogame always demands the usage of the most innovative technology, Roberto and Rogério decided to use this money to acquire new technology, like the 'Gypsy Motion Capture System'. Until then, videogame development was done through algorithms, which made production slower. However, the new system made production faster and more precise, because it allowed real movement to be captured, which enriched the videogame. So, with this new acquisition, MoveInteractive was ready to produce a demo of their Ugo Volt project. With the increase in work and responsibilities, Roberto realized that he should follow

his brother and work full time for the company. So he left his job in a training firm where he had financial security and stability. "I decided to take this step because with so many things to do for the company [MoveInteractive] it just wasn't sustainable working for others. The decisive factor in this decision was the fact that the partner was my brother with whom I have always had a lot of empathy. I believed in his potential."

Over the next year the brothers worked hard and, in November 2003, Roberto and Rogério presented the demo at the videogames producers and publishers fair - Game Connection (in Lyon, France). In search of a business opportunity, the brothers met with several publishers at the event. Although their reactions were quite positive they were surprised that the technological platform used to produce the demo was already outdated. However, Ugo Volt was a very ambitious project, with many special features and details, and the publishers remained interested in the product. They asked for a second demo so they could see other features that weren't included in the first one.

The second demo

Ugo Volt had had some success with the publishers. Roberto and Rogério's dream was becoming reality. Now they just needed to produce the second demo asked for at the Lyon fair and show just how good their videogame could be. So, despite their limited financial and human resources, the brothers made an extra effort to produce the second demo. While the demo was in production, the possibility arose for MoveInteractive to establish a partnership with Dynamedion, a German music and sound effects producer well-known in the videogame industry. Dynamedion decided to support the Ugo Volt demo for no profit, with their services being paid for only if MoveInteractive succeeded in obtaining financial support from a videogame publisher.

When it was complete, the second demo was presented to the publishers who had received the first so well at the fair. But this time, the reaction was different. Although the demo received positive feedback on its production there was criticism of the technological platform used, which was still very outdated. Of course, human and financial limitations meant that the demo had taken a long time to produce so the technological platform used was no longer 'cutting edge'. So, with no more money to invest in their project, Roberto and Rogério Varela decided that MoveInteractive should look for other work in the multimedia market, which would allow them to make some extra money and keep their dream alive. This was the strategy chosen to save the company. They created a new multimedia department within MoveInteractive which provided the following services: TV and broadcast, design and 3D animation, motion capture, 3D simulation for real estate projects using animated videos, interactive visits to building projects, environmental awareness videos and corporate videos and promotional campaigns. RTP, the Portuguese public television channel, was among the customers of the company's multimedia services.

Where could they get more capital?

In 2005, four years after MoveInteractive was created, the idea was in the open; the demo had been well received by publishers, but feedback on the technological platform had been negative. However, the Varela brothers still had the knowledge, focus and the courage to continue with their dream. Only one little thing was missing: the money! To create a videogame like Ugo Volt, the company needed much more capital. So, where could MoveInteractive find the money to support their dream? "We realized immediately that an ordinary bank would not invest in our project, so venture capital was something that attracted me as a manager because that was the way to make the leap and find the money for what was needed," recalls Roberto.

Venture capital was the solution found to support the production of the Ugo Volt prototype, which would showcase the videogames's specific features and hopefully attract a publisher. With this financial support the company wouldn't need to spend time doing other work, as they had with the recently established multimedia department. They would be able to invest in and focus on the videogames, particularly the development of the prototype. Initially, Roberto and Rogério contacted 'BanifCapital' who were managing the Madeira Capital Fund (a regional venture capital scheme), but this institution was very slow to respond. From their experience, the brothers knew that technology doesn't stand still but is permanently changing, so after two months, they decided to approach another institution. "BanifCapital had already taken two months to respond, so I presented our project in an elevator pitch at the European Venture Capital Congress. I had 5 minutes to present our work to an audience of national and European investors. After the presentation we had several requests for meetings. One was from the Vice-President of InovCapital. After a week we were contacted and informed that they wanted to support our project. A week later BanifCapital also contacted us to express their interest in supporting us," explains Roberto. This was great news! From having no capital or investor suddenly they had two potential investors at the same time! The brothers wanted to seize this opportunity so they decided to invite both BanifCapital and InovCapital (a national venture capital institution) to support Ugo Volt.

Venture Capital – the right option?

The project was presented to the potential shareholders (the two venture capital institutions) and two project phases were defined. The first one would be the production of the videogame's prototype and the second phase would be conception and commercialization of the game. However, it was agreed that the objectives of the first phase - completion of the prototype by December 2006 and its successful presentation to international publishers – would have to be reached before they could move on to the second phase. These two phases demanded two different financial inputs. A total of €595,000 was agreed for the first. The company made a trailer for the product to present to the market, including the international press and publishers at the videogame industry's largest fair, the 'E3- Electronic Entertainment Expo' in Los Angeles. This trailer immediately fulfilled its objectives. It held second position for three days in the Top 10 downloads on GameTrailers.com with over 45,000 downloads made in that

period. The feedback was clear; the team's ability and the videogame's potential had attracted the attention of the international press, like IGN.com

The objectives had been met and so the brothers were ready to move forward with the second round of financing. For Roberto and Rogério this meant that they needed to take just one more step and their project would be in the market! The agreement stated that if the feedback was positive they could proceed. So, Roberto produced a report where he explained all the facts and the success that Ugo Volt had had at the Los Angeles fair. He included newspaper articles (international and national), publishers' emails and feedback from specialists. This report was presented to the shareholders: BanifCapital and InovCapital. After this presentation, Roberto and Rogério had several meetings with the shareholders to prepare the second round of financial support. At the third meeting it was agreed that the second round of finance would be €2.2 million. This was a fantastic amount and more than enough to proceed with the project.

Two months after the last meeting, and despite all their efforts, MoveInteractive hadn't obtained the official agreement for the second round of financing. The employees' contracts were about to end, so an emergency meeting was scheduled. To their surprise, Roberto and Rogério were told by the shareholders that they should proceed with the collective dismissal of employees and seek other sources of investment - perhaps, an international publisher. Roberto and Rogério couldn't believe this! MoveInteractive had accomplished all the objectives; the videogame was a success both with international publishers and the international press. So, why was this happening? Roberto and Rogério fought against this, warning of the risks of derailing the project. Actually, the initial strategy had changed. At that time InovCapital underwent some internal board changes which resulted in the second round of financing for the project being refused. Thus, the 'new' investors forced the brothers to reduce operational costs, which meant reducing the number of employees, 13 at that time.

Roberto and Rogério fought against this, warning of the risks of derailing the project and all the work done on the prototype and graphics engine (the result of extensive research carried out by specialized employees, who were the company's main asset). They also realized that because the graphics engine wasn't yet fully developed, dismissing these employees would endanger the whole project. Despite all the warnings, some employees were dismissed and those who resigned were never replaced so the company's operating costs could be kept low. "We exceeded the expectations of the first round and the international feedback was great! We felt really down about this situation. But we never thought of giving up!" recalls Roberto.

What now?

They lacked the money to continue MoveInteractive's main project, but Roberto and Rogério didn't want to let the company and the project disappear. So, to avoid bankruptcy the brothers decided to buy the shares held by the venture capital institutions. In 2007, the company had a basic structure and was facing huge difficulties. So, it was time to try to find other options. Thus, in addition to the multimedia department's work, MoveIntercative also produced a simple videogame for kids based on a license from SIC, a Portuguese private TV Channel. At

the same time, Roberto and Rogério made several contacts in order to find a new partner to finance the second round of videogame production and succeed in attracting the attention of international publishers again. Unfortunately, the majority felt that the change in the structure of the company had increased its risk and they felt that it would be impossible to complete the project. In early 2008, the company established an agreement with a videogame representation agency called DDM6, which believed in the potential of the business, considering it one of the best projects at the 'Game Connection' held in the French city of Lyon in December 2007. Despite being aware of the company's size and structure DDM6 agreed to make efforts in order to find a partner to finance the second round. However, after an exhaustive audit at the company's offices, the agency concluded that the small number of employees (seven at that time) presented a big risk for the production process required to develop the videogame. So, another door was closed!

Dead-end Game??

In effect, Roberto and Rogério had an ambitious project and true entrepreneurial spirit, but they didn't have the money to make it a reality. Thus, they searched for different ways to do this: an entrepreneurship award, a financial subvention, creation of a multimedia department, partners, investors and venture capital. They thought that the venture capital would solve their problem and that, finally, they would be able to produce the videogame Ugo Volt. But they were wrong, it didn't solve anything. Many videogame publishers were interested in their project, but it just wasn't enough. After 8 years, Ugo Volt never got off the drawing board and MoveInteractive didn't have sufficient capital to produce the videogame. The technology that was innovative at that time became outdated and it would require significant investment to buy new equipment and to hire new qualified employees. They would probably need two more years to produce a new prototype and then present it again to the international publishers to remind them of Ugo Volt. It would be difficult! The project may have failed but the dream remained! As true entrepreneurs, Roberto and Rogério Varela are now involved in a new project, still in the videogame world, called ActuatedCharacter, where the main objective is to create cheap bipedal robots that can run and jump.

Required:

Carefully consider the following questions and answer them based on the Google case study above as well as your broad appreciation of application issues in entrepreneurial financing.

- a. Explain how you would classify sources of funding that MoveInteractive pursued in its efforts to support the production of Ugo Volt. Justify your answer. **(5 marks)**
- b. Was money the key to success for the Varela brothers in their Ugo Volt project?
(5 marks)

- c. What other options could they have considered to finance their Ugo Volt project?
(5 marks)
- d. Suggest the types of funding you think would be most ideal in supporting nascent businesses ideas in a fast changing technological environment like the one MoveInteractive was entering.
(5 marks)
- e. Using case-based and any other examples, identify the key risk considerations that potential investors make when deciding to fund new small business ventures.
(5 marks)
- f. Discuss the advantages of local financing institutions collaborating with international institutions in offering finance to small businesses such as MoveInteractive. (10 marks)
- g. Identify the benefits of using venture capital finance in a small business such as MoveInteractive.
(5 marks)
- [Total: 40 marks]

SECTION B: (Choose any 3 questions from this Section).

QUESTION 2

Critically evaluate the accessibility and suitability of financing provided by micro-finance institutions to new business ventures in Zimbabwe.
(20 marks)

QUESTION 3

Planning and forecasting play a critical role in the management of a new enterprise. Discuss.
(10 marks)

How beneficial is the adoption of a venture life- cycle approach to financing your new business venture?
(10 marks)
[Total: 20 marks]

QUESTION 4

Identify the various public sector interventions that are availed to finance new small business ventures in Zimbabwe.
(10 marks)

To what extent are these interventions helping in meeting the demand for new business finance in Zimbabwe? (10 marks)
[Total: 20 marks]

QUESTION 5

Evaluate the attractiveness of venture capital financing in the Zimbabwean context. (10 marks)

Discuss the merits for youth and women finance offered by banks such as Women Micro-Finance Bank and Empower Bank in Zimbabwe. (10 marks)
[Total: 20 marks]

QUESTION 6

Discuss the factors that influence valuation of new business ventures. (10 marks)

Identify and briefly discuss each of the major risks that new venture financiers look out for as they screen businesses for possible funding. (10 marks)
[Total: 20 marks]

END OF EXAMINATION PAPER.