

## 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

### 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

## 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

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

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