

Questions 1-6

- Read the article below about business start-ups and answer questions 1-6 on the opposite page.
- For questions 1-6, mark **one** letter **A, B or C** on your Answer Sheet.

FINANCING BUSINESS START-UPS

Three venture capitalists, Michael Flowers, Reg Greenham and Lee Wang, were asked about financing business start-ups. According to Michael Flowers, when starting a new business, it is important to accept professional management, and hire an effective CEO. Entrepreneurs should, even before they begin to raise money, ask how they can use the least financing possible. They should purchase goods and services at discounts, and require customers to settle accounts promptly.

When Greenham is considering whether to finance a new venture, his biggest concern is price. 'I am always looking for great ideas and market opportunities with strong leadership, at reasonable prices.' He also looks for entrepreneurs who are able to articulate the corporate vision, and he tries to be open-minded about financing first-time entrepreneurs. He acknowledges that many investors are unwilling to back a younger person's first business.

Greenham was asked about 'angels' – those rich people who sometimes put money into uncertain business ventures. He agreed that angel investors can be valuable to a start-up, in particular because they can offer advice and access to useful people. He warned, however, that angel investing is becoming increasingly sophisticated, and said that in many cases it may be preferable to obtain early high-risk capital elsewhere.

Wang agrees that those entrepreneurs with some capital already can consult so-called angels. 'However, for those seeking funds for the first time, this normally involves too much time. There is no substitute for aggressively working to bring in money from family and friends. It is unlikely that bids for funding from government programmes will in reality be successful.'

Many start-up companies approach venture capitalists who manage organised funds. Greenham likes to co-invest with other venture capitalists so that there is more than one decision-maker when there are problems. He suggests that in their search for capital, companies should identify teams that have a history of successful co-operation. He adds that these investors, in turn, should always impose conditions that are reasonable.

According to Wang, too many start-up companies overlook marketing issues. 'In the early days, the founder can focus too much on the product itself, and not on how it is promoted. Entrepreneurs should also introduce customers who can attest to their entrepreneurial skills to potential investors. Also, they should think about how to give up control. It does not matter ultimately who takes charge, but entrepreneurs must develop suitable exit strategies.'

- 1** Flowers says that entrepreneurs should

 - A** obtain funds from a range of sources.
 - B** try to get reduced prices from suppliers.
 - C** take full control of management of the business.

- 2** In the second paragraph, Greenham says that he

 - A** is willing to pay more for special opportunities.
 - B** is not prepared to offer support to first-time entrepreneurs.
 - C** likes entrepreneurs who can describe their aims clearly.

- 3** What advantage of 'angel' investors does Greenham mention?

 - A** They have experience of operating in complicated business situations.
 - B** They can help the entrepreneur find contacts.
 - C** They are quick to assess levels of risk.

- 4** In the fourth paragraph, what does Wang say about entrepreneurs seeking funding for the first time?

 - A** They should avoid seeking help from people they already know.
 - B** They are likely to get support from the government.
 - C** They may find that getting funding from 'angels' takes too long.

- 5** In the fifth paragraph, Greenham says that new companies seeking funding should

 - A** look for investors that have worked well together in the past.
 - B** ensure that start-ups are timed for when conditions are favourable.
 - C** require that one venture capitalist has decision-making powers.

- 6** According to the sixth paragraph, new companies should

 - A** think more carefully about how goods and services will be sold.
 - B** consult customers for feedback on the product.
 - C** delegate responsibility to others from the beginning.

Questions 7-12

- Read the article below about starting an internet business and answer questions 7-12 on the opposite page.
- For questions 7-12, mark **one** letter **A**, **B** or **C** on your Answer Sheet.

If you've ever had an idea for a product or service that you think could net you a fortune, you may well have considered setting up an internet business with the aim of sitting back and watching the money roll in. The internet has certainly revolutionized the way we live our lives, and offers a place where individuals can compete with global organisations. But just how easy is it to get started?

The starting point for any new business is to create a business plan. Jeffery Macklin from FDU, a company that provides part-time finance directors to start-up businesses, says that the objective of the business plan is to tell a simple yet compelling story that leaves the reader wanting to meet the management team and find out more about the proposition. 'It should be as succinct and accessible as possible, and around 20 pages at most,' he says.

There are many different financing options available to aspiring entrepreneurs. For sensible businesses, raising funds will involve several sources. Bank finance in the form of a loan or overdraft is usually cheaper than selling shares or equity in your business, but equity investment is ideal for those businesses that do not want to increase their level of borrowing, or are unable to provide the necessary security.

If you're considering equity investment, two options are so-called 'business angels' and venture capitalists. Business angels are wealthy individuals who look to invest in growing companies wanting to raise between £ 10,000 and £ 250,000. They will also offer contacts and advice. Venture capitalists will only invest – usually a minimum of £ 2m – if they can see a significant return in three years, say.

One important area where internet businesses often fail is marketing, according to Lisa Richards, a partner at accountants Smith Cooper. 'Too many people fall into the trap of developing their product or service and then expecting orders to come racing in,' she says. 'But with no shop window through which to promote yourself, how are potential customers going to find you?' However, if properly worked out, While starting up an internet business can be one of the toughest things you ever do, it can also be the most rewarding.

- 7** What point is made in the first paragraph?
- A** Most people's ideas for internet businesses are unrealistic.
 - B** The way business operates has been changed by the internet.
 - C** Profit levels tend to be very high for internet businesses.
- 8** What does Jeffery Macklin say about start-up internet businesses?
- A** They think their first business plans are fully effective.
 - B** They need to produce brief explanations of their ideas.
 - C** They only employ finance directors on a part-time basis.
- 9** What is encouraged in the third paragraph?
- A** reducing amounts borrowed from banks
 - B** ensuring the security of loan funds
 - C** combining finance from various places
- 10** According to the fourth paragraph, business angels
- A** provide other forms of support as well as investing money.
 - B** expect quick results from the companies they invest in.
 - C** set a high minimum level of investment.
- 11** What is meant by 'racing in' in line 25?
- A** beating the competition
 - B** arriving in large quantities
 - C** being quick to deal with
- 12** What would be the best title for the article?
- A** Don't Aim Too High
 - B** Check Every Detail
 - C** Think Before You Jump

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