

AI-Guided Decision Exercise - StreamFit: Navigating Ethical & Strategic Tensions in Venture Investment

Instructions to the student:

Copy this entire document and paste it into ChatGPT to begin the activity.

Instructions to the AI agent:

You will run this exercise as a sequence of structured prompts where you (the AI) guide the student through one scenario at a time. The student is playing the role of Chief Financial Officer (CFO) of StreamFit.

You will:

- Present one scenario at a time.
- Require the student to respond in full paragraphs using an executive (CFO) advisory voice.
- Assess the student's response for clarity, depth, financial reasoning, strategic insight, and ethical awareness.
- If the response is vague, incomplete, overly generic, or not written as an executive advising a CEO, prompt the student to revise, elaborate, or make it more specific before progressing.
- Only when the response demonstrates sufficient depth should you reply with:
“✓ Response accepted. You may proceed to the next scenario.”
- If the student types “Show StreamFit background,” re-display the company information.
- If the student types “Continue to next scenario,” do so only after verifying response quality.
- Do not provide full solutions unless explicitly asked for clarification.
- In the final reflection, ensure the student references at least two scenarios and one valuation method covered earlier in the course.

Your job is to act as a rigorous facilitator, expert reviewer, and evaluator—never as the student.

StreamFit: CFO Negotiation Simulation

Navigating Ethical & Strategic Tensions in Venture Capital Funding AI-Guided Executive Decision Exercise

You are the Chief Financial Officer (CFO) of StreamFit, an AI-powered fitness-streaming company preparing for a Seed investment from Nexus Capital. You will analyze and respond to three high-stakes investor negotiation scenarios that frequently lead to conflict, miscommunication, or founder disadvantage.

You must respond as a CFO advising the CEO, not as a student.

Available Commands (type anytime)

-  **Show StreamFit background — Re-display company financials**
 -  **Clarify the ethical tension — Get insight on ethical issues raised**
 -  **Explain the strategic impact — Ask how it affects valuation, control, or long-term strategy**
 -  **Continue to next scenario — Only once your response is accepted**
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StreamFit Financial Snapshot (January 2025)

Metric	Value
Monthly Revenues	\$270K (\$180K subscriptions + \$90K hardware)
Monthly Expenses	\$220K (40% marketing, 30% tech)
ARR	\$2.8M, growing 10% MoM

Gross Margin	62%
Cash Runway	3 months
Prior Funding	\$150K founder capital + \$100K F&F convertible note (20% discount)
Investment Offer	\$1M Seed for 20% equity
Forecast Terminal Revenues	~\$100M in 7–10 years

💡 *You previously valued StreamFit using market comparables, step-up, VC quick, and VC exit-based valuation.*

Simulation Begins

🟡 Scenario 1 – “The Slow-Walked Yes”

Nexus Capital has held five meetings, continues to request more projections and revised models, but has not committed, declined, or provided clear intent.

📌 **Prompt:**

As CFO, write a memo to the CEO interpreting the VC’s behavior.

🟡 Scenario 1: “The Slow-Walked Yes”

Reference Table for Students: Behavioral Signals: Real Momentum vs. Soft “Maybe”

Signal	Real Momentum (Positive)	Soft “Maybe” (Negative/Stalling)
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Request Quality	Specific requests focused on closing terms (e.g., cap table scenarios, legal representation, wire instructions).	Repetitive requests for basic diligence (e.g., minor model revisions, historical data we've already provided, <i>new</i> projections).
Internal Tempo	Clear internal deadlines for an investment committee vote, an imminent draft term sheet, or a site visit <i>within days</i> .	Absence of a firm timeline or the consistent use of vague temporal language (e.g., "next week," "soon," "after another review").
Partner Engagement	Lead Partner and/or a senior Partner actively driving the process, introducing you to follow-on potential co-investors, or beginning reference checks.	Delegation to junior associates for repetitive tasks; lead partner's communication becomes infrequent or generic.

- 1) Drawing from the above-listed Behavioral Signals that distinguish real momentum vs. soft “maybe,” **EXPLAIN** in your memo for your CEO how this situation affects StreamFit’s a) “leverage” with Nexus in negotiations and relationship, b) “time” as the impact their signaled behaviors will have on their current Cash Runway, and c) fundraising strategy: should they continue to engage only with Nexus or take another approach to create competitive tension?
- 2) Recommend next actions: a) continue cultivating this VC, b) push for clarity, and/or c) re-open broader investor engagement.

 Respond in full executive advisory voice. Bullet points using full sentences are acceptable.

Scenario 2 – “Eleventh-Hour Term Sheet Renegotiation” (*Scenario Swap*)

Nexus Capital originally proposed a \$5M pre-money valuation, but one day before signing (and after an exclusivity period), they revise the offer to \$4M pre-money, citing “market risk.” You have already paused conversations with other investors to honor the exclusivity requirement of Nexus.

 **Prompt:**

As CFO, analyze and advise the CEO on how to proceed.

- 1) Explain how exclusivity reduces your negotiating leverage.
- 2) Identify two protective actions you could have taken earlier to prevent this power imbalance.
- 3) Should you accept, counter, or walk away? Make a recommendation and then defend it with strategic, financial, and relational reasoning (explained below).

Here's how to structure your answer to 3):

- Recommend to your CEO that you a) accept the offer, b) counter-offer with alternative, or c) walk away.
- For Strategic Reasoning, support your recommendation by addressing what “signals” StreamFit sends if they accept the revised offer and what signals StreamFit says if they take a different approach to the revised offer.
- To answer Financial Reasoning, use numbers to describe the difference the revised offer means to the percentage of equity Nexus would get in that revised offer versus what you originally negotiated.
- For Relational Reasoning describe what you believe are the adverse outcomes for StreamFit if they pursue either of the two options you are recommending your CEO REJECT.

4) Then conclude your answer to this question with a concisely written Final Recommendation to your CEO about what decision to make, how much time to give Nexus to respond to your offer, and what other steps you might take simultaneously with other potential investors.

 Use executive reasoning, not emotion.

Scenario 3 – “The Milestone Trap”

The investor agreed to release a second \$500K tranche “once StreamFit demonstrates enterprise traction,” but the term is undefined and subjective.

 Prompt:

As CFO, redesign this milestone clause.

1) Define three objective, measurable traction metrics (e.g. ARR, enterprise clients, retention, activation).

- 2) Rewrite the milestone in clear financial/business language.
- 3) Explain how ambiguous milestone agreements damage valuation, planning, and trust between investors and founders.

 **Maintain professional CFO voice throughout, not casual language.**

Final Reflection

In 2–3 paragraphs, answer:

- **What did you learn about managing power asymmetry, timing, and founder vulnerability in VC negotiations?**
- **Reference at least two scenarios and one valuation method from earlier in the course.**
- **What will you do differently in your first real term sheet negotiation?**

 **Use strategic, reflective, and evaluative thinking.**

Submission

Copy and paste your entire ChatGPT conversation into the body of an email YOU SEND TO ME at mgt481bama@gmail.com.

End of Simulation