Entrepreneurship

A South African Perspective

Looking Back Study Sections

Chapter 1:

Looking back

1. What do high-potential entrepreneurs do?
   - They establish and grow their businesses.
   - They create jobs.
2. Describe what entrepreneurs do.
   - They identify opportunities in the market.
   - They are willing to take calculated risks.
   - They gather and apply resources appropriately to make profit.
   - They establish and grow their own businesses, alone or with a team.
   - Their motive is to make profits.
   - They create value for themselves and society.
   - They are creative and innovative in various ways.
3. Distinguish between small-business owners and entrepreneurs.

   They also own their businesses and are of critical importance to the economy, but they
   - are not engaged in any new or innovative practices
   - stabilise at a certain stage
   - only grow with inflation
   - see their principal purpose as being to further their personal goals, for example to be autonomous and to ensure their security.
4. What determines an entrepreneurial orientation?
   - A person's entrepreneurial orientation is determined by personal characteristics, the culture of the society, education, work experience and the entrepreneurial inclination of the family.
5. Name the four distinct phases of the entrepreneurial process.
   - Identify and evaluate the opportunity.
   - Develop the business plan.
   - Determine the resources required.
   - Start and manage the enterprise.
6. Name the five perspectives of entrepreneurship research.
   - Economic
   - Behaviourist
   - Management science
   - Social science
   - Entrepreneurship
7. Describe the impetus entrepreneurship gives to the economy.
   - SMMEs are the only growth sector in the economies of all leading countries.
   - SMMEs contribute to the economies of the country in various ways, such as economic growth, wealth generation, creation of employment opportunities and an increased flow of capital.
8. List the main components of the model for entrepreneurship development.
   - Entrepreneurial orientation
   - Supportive environment
   - Cooperative environment

Key terms

Business plan
Commitment
Creativity and innovation
Economic impetus
Entrepreneur
Entrepreneurial orientation
Entrepreneurial process
Entrepreneurial success factors
Feasibility study
Gross domestic product (GDP)
High-potential entrepreneurs
Independent ownership
Recognition of opportunities
Resources
Risk orientation
Small-business owner
Small, medium and micro enterprises (SMMEs)
Viability study

Chapter 2:

Looking back

1. List various reasons why entrepreneurship is important for a country such as South Africa.
   - Creates and drives new businesses
   - Boosts the survival and growth of the economy
   - Creates employment
   - Reduces the level of poverty
   - Forms a direct link between the entrepreneur and the customer
   - Sustains economic growth and development
   - Presents a career option for women and youth
2. Provide the four definitions of entrepreneurs within the entrepreneurial process.
   - Potential entrepreneurs
   - Intentional (nascent) entrepreneurs
   - Start-up (early-stage) entrepreneurs
   - Established entrepreneurs
3. Name the various levels of entrepreneurial sophistication.
   - Basic survivalist
   - Pre-entrepreneur
   - Subsistence entrepreneur
   - Micro-entrepreneur
   - Small-scale entrepreneur
4. Name the dominant characteristics and/or entrepreneurial success factors that are found in successful entrepreneurs.
   - Passion
   - Locus of control
   - Need for independence
   - Need for achievement
   - Risk taking and uncertainty
   - Creativity and innovation
   - Leadership
   - Good human relations
   - Positive attitude
   - Determination and persistence
   - Persistent problem solving
   - Commitment
5. Briefly discuss the managerial success factors that entrepreneurs need to manage their businesses successfully.
   - Planning
   - Knowledge of competitors
   - Mainly market oriented
   - Client service
   - High-quality work a priority
   - Financial insight and management
   - Knowledge and skills with regard to the business
   - The use of experts
6. Indicate the difference between the push and pull factors of entrepreneurship by referring to their definitions.
   - Push factors are those factors that encourage entrepreneurship due to traditional jobs being less attractive or because an individual does not have any other career choice or option.
   - Pull factors are those factors that encourage people in conventional positions to leave their current jobs to become entrepreneurs due to an opportunity that they spotted in the market.
7. Briefly discuss the challenges facing entrepreneurs and SMMEs in South Africa.
   - Lack of start-up and expansion finance
   - Access to markets and gaining market credibility
   - Access to appropriate technology
   - Access to resources (especially human resources – managing people)
   - Several other barriers
8. List and discuss the types of women entrepreneurs.
   - Traditional
   - Innovative
   - Domestic
   - Radical
9. Name the most significant barriers or problems that women entrepreneurs face.
   - There is limited networking for women in specific industries.
   - Women entrepreneurs lack start-up funds.
   - Banks/financial institutions readily criticise business plans without giving direction or guidance.
   - Exposure to the media is very expensive.
   - No database of women entrepreneurs by sector is available.
   - There is replication and duplication of too many craft centres or groups in an area.
   - Courses offered by training institutions focus on training the traditional manager and not the entrepreneur.
   - Financial barriers
   - Labour legislation

- Development opportunities and networking
- Cultural and societal values
- Education and training
- Family responsibility

10. Explain the characteristics of the informal and survivalist environment.
    - It is mostly in a rural area.
    - There is no domestic running water or electricity.
    - The level of formal education is low.
    - Economic activity is low.
    - Such entrepreneurs live in shacks.

11. Briefly explain how student entrepreneurship can be encouraged.
    - Innovative educational programmes
    - Business development
    - Special projects
    - Student businesses

Key terms

Background of entrepreneurs
Emerging entrepreneurs
Entrepreneurial sophistication
Established entrepreneurs
Informal and survivalist environment
Intentional (nascent) entrepreneurs
Inventors
Investors
Necessity entrepreneurs
Opportunity entrepreneurs
Potential entrepreneurs
Pull factors
Push factors
Small, medium and micro enterprises (SMMEs)
Social entrepreneurs
Start-up (early-stage) entrepreneurs
Success factors
Technopreneurs
Tourism entrepreneurs
Women (female) entrepreneurs
Youth entrepreneurship

Chapter 3:

Looking back

1. Define creativity and include all the variables of a possible definition.
   - The product of creativity is firstly a product or result of a thinking process.
   - This product or idea should have novelty as a result and should create value.
   - It should involve unconventional thinking.
   - The thinking process is supported by performance motivation.
   - The initial problem is normally vague and unstructured.

2. Graphically illustrate the creativity model and explain its contents.
   - See Figure 3.1.

3. List the myths of creativity.
   - Creativity is an innate skill and cannot be acquired by means of training.
   - You need to be a rebel to be seen as creative.
   - Artists are the only creative beings.
   - You need to be "crazy" before creativity will kick in.
   - High intelligence and creativity go hand in hand.
   - The group is always right.
   - All new products were accidental discoveries.

4. List and discuss the potential blocks to creativity.
   - Environmental barriers:
     - Social environment
     - Economic environment
     - Physical environment
   - Cultural barriers
   - Perceptual barriers

5. Graphically illustrate the creativity process.
   - See Figure 3.2

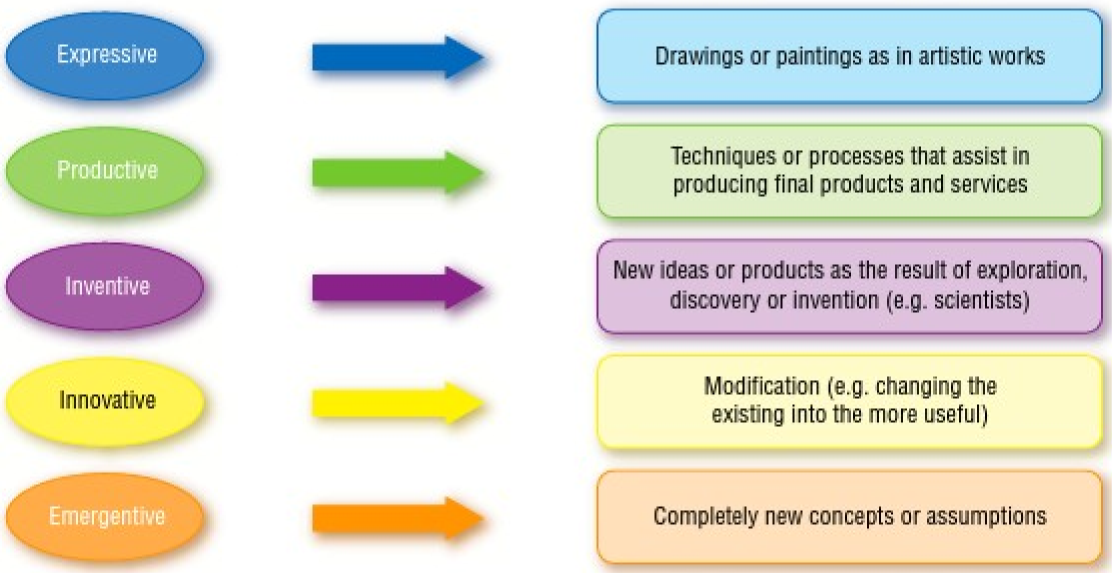

Figure 3.1 Types of creativity

Source: Adapted from Sawyer (2012)

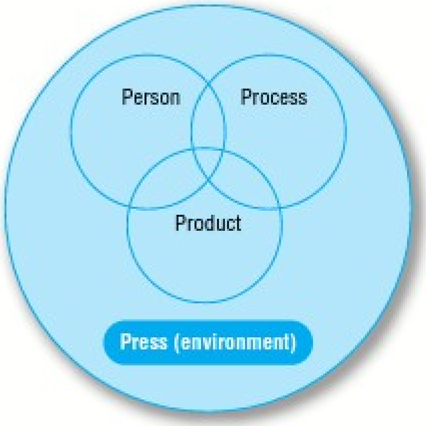

Figure 3.2 The 4P model of creativity

Source: Couger (1995) (reprinted with permission of South-Western, a division of Thomson Learning)

Chapter 4:

Looking back

1. What is the window of opportunity?

   The window of opportunity is the time period available for creating new ventures.

2. When pursuing opportunities, what factors make it easy for smaller entrepreneurs to effectively take advantage of opportunities overlooked by larger companies?

   Larger organisations'

   - organisational inertia
   - organisational complacence
   - bureaucracy.

3. For what reasons do larger organisations leave gaps in the market that smaller firms can effectively take advantage of?

   - Failure to take advantage of new opportunities
   - Underestimation of opportunities
   - Technological inertia
   - Cultural inertia
   - Politics and internal fighting
   - Government intervention to support SMMEs

4. What is the difference between an idea and an opportunity?

   - An idea does not necessarily automatically translate into an opportunity.
   - An opportunity is an idea that is attractive, durable and timely and anchored in a product or service that creates or adds value for the end-user.

5. What are the common generators of business ideas and opportunities in southern Africa?

   - Skills, expertise and aptitude
   - Common needs
   - Existing problems
   - Everyday problems
   - Other sources

6. What criteria are used to screen opportunities?

   - Industry and market issues
   - Economics
   - Harvest issues
   - Management team
   - Fatal flaw issues
   - Personal criteria
   - Strategic differentiation

7. What actions are required of the entrepreneur when 'seeing' the window of opportunity?

   - Actively searching the market for gaps that have been left open by competitors
   - Identifying ways that customer needs can be served while providing and making use of a sustainable competitive advantage
   - Creativity and innovation

8. What actions are required of the entrepreneur when 'locating' the window of opportunity?

   - Understanding the location of the window of opportunity
   - Positioning the product or service favourably in relation to competitors' products and services

9. What actions are required of the entrepreneur when 'measuring' the window of opportunity?

   - Ensuring that the opportunity is feasible and viable by carrying out feasibility and viability studies

- Performing market research in order to be in tune with market trends

10. What actions are required of the entrepreneur when 'opening' the window of opportunity?
    - Starting the business activity
    - Obtaining the commitment of the venture's stakeholders
    - Relationship and network building between the entrepreneur and stakeholders

11. What actions are required of the entrepreneur when 'closing' the window of opportunity?
    - Creating and maintaining a sustainable competitive advantage
    - Ensuring that the product or service offers unique service features, value for money, customer convenience, customer experience and notable product attributes

12. What is a sustainable competitive advantage and what are the bases of competitive advantage?
    - Sustainable competitive advantage exists when a firm offers a product or service that customers perceive to be superior to those of the competitors and one that the competitors find very difficult or impossible to imitate.
    - The bases of competitive advantage are:
      - Unique service features
      - Value for money
      - Customer convenience
      - Customer experience
      - Notable product attributes

Key terms

Ambiguity
Closing the window
Entrepreneur
Fatal flaw issues
Idea
Idea generation
Locating the window
Market
Market capacity
Market conditions
Market share
Market size
Measuring the window
Opening the window
Opportunity
Opportunity evaluation
Seeing the window
Stakeholders
Sustainable competitive advantage
Uncertainty
Value addition
Venture
Window of opportunity

Chapter 5:

Looking back

1. Define a business plan.

   The business plan is a written presentation that carefully explains the business, its management team, its products or services and its goals, together with strategies for reaching the goals.

2. List the reasons for compiling a business plan.

   - To obtain funding
   - To serve an internal purpose
   - To be used as a tool for reducing risks

3. Name the components to be included in a standard format or layout of a business plan.

   - Cover sheet
   - Table of contents
   - Summary
   - Products and/or services description
   - Marketing plan
   - Operations plan/the team
   - Sustainability plan
   - Management plan
   - Financial plan/critical risks
   - Appendices

4. Briefly explain how one should select the most appropriate business plan.

   Select a business plan according to the unique requirements of the specific business:

   - Know how the new or existing business is going to operate.
   - Consider the exact purpose(s) of the specific business plan.
   - Study and understand the different types of business plans from which to choose.

5. List the different situations that will require a different type of business plan.

   - To obtain a loan
   - To attract shareholders or partners
   - To sell the business
   - To provide direction for management and staff in a new or existing business
   - To prepare the business for a merger with another business
   - To prepare the business for the takeover (acquisition) of another business
   - To help position the business in the market

6. Briefly explain the problems experienced when drawing up a business plan.

   - Lack of proven market demand
   - Lack of objectivity
   - Ignoring competition
   - Inappropriate market research
   - Inability to produce according to quantity and quality required
   - Underestimating financial requirements
   - Insufficient proof that loan repayments will be made timeously
   - Lack of a unique product or service
   - Disregard for legal requirements
   - Ignoring the potential influence of the external environment
   - Lack of sufficient financial commitment by the founders
   - Lack of appropriate business experience by management and staff
   - Failure to anticipate obstacles
   - Lack of a logical sequence
   - Failure to indicate the stage in the product life cycle at market entry

7. Briefly describe the two main aspects to consider when drawing up a business plan for obtaining a loan.

   - Establish who the potential creditors will be and which criteria they apply to assess a loan application.
   - Determine whether the business plan will have credibility among potential creditors.

8. Explain how to adapt the standard business plan for use as a strategic document.

   A well-prepared business plan should equally well be used as a strategic plan. In order to avoid the need for a separate strategic plan, the business plan should have the following qualities:

   - It must be flexible in order to allow for changes in the environment.
   - It must be realistic with regard to quantifiable projections, otherwise the staff will discard it as a pipe dream.
   - It must include precise objectives and time schedules.
   - It must include all the implementation and control elements of the normal strategic plan.
   - Top management must endorse it.

9. Briefly describe how the Internet can be used as a tool for drawing up a business plan.

   The Internet can serve as:

   - An important source of information in the preparation of the business plan for such components as the industry analysis, competitor analysis and measurement of market potential
   - A valuable resource in planning and decision making at a later stage
   - A very good marketing tool for any business, be it advertising or direct selling
   - A valuable source of information on competitors
   - A means of gathering valuable information through news groups and other online groups

   Software that can assist entrepreneurs in their task of writing a business plan is also readily available on the Internet.

Chapter 6:

Looking back

1. What are some of the major characteristics of the acquisition and use of financial resources?
   - Financial resources are cash or anything that may be readily converted into cash.
   - Financial resources can be used to acquire other resources.
   - Finance can be obtained from different sources:
     - Money invested by the entrepreneur, called equity financing
     - A loan from outsiders such as individuals, banks and lending institutions, called debt financing
     - Revenue generated from the sale of goods and/or services
     - Other: government support programmes, venture capital funds, companies, mortgages, long-term investments, leasing, etc.

2. What are the major concerns of entrepreneurs when employing people? What steps can they take to address these concerns?
   - Major concerns:
     - Accurately forecasting human resource needs
     - Recruiting candidates
     - Selecting the best person for the job
   - Steps to address concerns:
     - List the tasks to be performed
     - Group each person's tasks and describe them (job description)
     - Determine the qualifications and skills needed to perform the tasks (job specification)
     - Recruit people who can perform the tasks in the job description and meet the job specification
     - Interview candidates
     - Appoint the best person for the job

3. What are some of the major issues related to the acquisition of physical resources?
   - It is important to plan the acquisition of resources carefully because this can be an expensive exercise (e.g. in the case of fixed assets) and timing can be crucial (e.g. in the case of raw materials).
   - The location decision is important when acquiring fixed assets.
   - The different benefits offered and types of coordination required should be considered when deciding between the many sources of raw materials and general supplies.

4. Identify the main legal forms a profit company can take in South Africa.
   - State-owned companies
   - Private company
   - Personal liability company
   - Public company

5. Define each of the following terms: sole proprietorship, partnership and private company.
   - In a sole proprietorship, one owner conducts business in his or her personal capacity with limited statutory requirements.
   - In a partnership, a minimum of two and a maximum of 20 people conclude an agreement to do business together in their personal capacities, with limited statutory requirements and with a common purpose of financial gain.
   - A private company is a legal entity that issues shares to a minimum of one and a maximum of 50 shareholders, and has to register with CIPC.

6. Compare the major tax considerations of a partnership with those of a private company.
   - In a partnership, each partner is taxed on his or her individual share of the income generated by the business, while the shareholders pay tax on the dividends they receive.

7. What is intellectual property, and why is it considered an asset to a business?
   - Intellectual property refers to all creations or products of the human mind. It is considered an asset to a business because it can be used for commercial gain.

8. Patents are often imitated. What can an entrepreneur do to protect his or her product? What procedures must be followed to file for a patent?
   - The entrepreneur should not tell anyone about the product invention before applying for a patent.
   - Imitating a patent is a criminal offence.
   - To apply for a patent an entrepreneur must do the following:
     - Search the patent office registers to make sure that the patent does not already exist.
     - Apply for a patent at the Registrar of Patents by completing the application forms and paying the registration fees.

9. What are the benefits of a trademark to an entrepreneur?
   - It prevents consumers from becoming confused about the source or origin of an entrepreneur's product or service.

10. Differentiate between the need for an Unemployment Insurance Fund (UIF) and a Compensation Fund.

- Both funds are to the benefit of employees.
- Contributions to both funds are enforced by law.
- Employers are obliged to contribute to the Compensation Fund irrespective of the employee's annual earnings, while they only have to contribute to the UIF if the employee's annual income is less than a certain amount.
- Both the employer and the employee contribute equally to UIF, while employers' contributions to the Compensation Fund may not be recovered from employees.
- The UIF provides benefits to employees when they become unemployed or deceased, while the Compensation Fund compensates an employee who sustains an injury while on duty.

11. What are the essential ingredients of an acceptable written contract?
    - The small print containing many stipulations and terms of the agreement must be acceptable.
    - The contracting party must not be a front company or a representative of the real company.
    - Legal advice should be obtained for the wording of difficult agreements and for understanding incomprehensible terms.
    - All pages must be completed in full and signed by both parties.
    - A copy of the signed agreement must be provided for safekeeping.

12. List the conditions legislated by the Basic Conditions of Employment Act.
    - Working time
    - Leave
    - Job information and payment
    - Termination of employment
    - Child labour and forced labour

13. Explain the steps an entrepreneur should follow to adhere to the Skills Development Act and the Skills Development Levies Act.
    - Skills Development Act:
      - Register with a SETA.
      - Appoint a skills development facilitator.
      - Complete a Workplace Skills Plan.
      - Submit the Workplace Skills Plan to the SETA.
      - Engage in learnerships.
      - Submit annual training reports.
      - Claim grants from the SETA.
    - Skills Development Levies Act:
      - One per cent of the remuneration paid to directors of a company and members of a close corporation must be deducted and paid to the government as a skills development levy at the end of each financial year.

Chapter 7:

Looking back

1. Discuss the process of business start-up.
   - Planning the venture through the business plan
   - Organising the venture through the gathering of resources and various registrations
   - Leading by managing the functions in the enterprise
   - Controlling the business through record keeping, internal control, ethics, quality and risk management
2. List the factors to consider in the physical establishment of a business.
   - Access to target market
   - Availability of raw materials
   - Support and technical infrastructure
   - Transport infrastructure
   - Labour and skills accessibility
   - Climatic conditions
3. List the factors to consider in selecting a shopping centre as a location for a business.
   - Feet count
   - Parking
   - Maintenance
   - Conditions of lease agreements
   - Security
   - Attitude of centre management
   - Location within the centre
4. Which strategies can be followed in the management of risk?
   - Retention
   - Reduction
   - Avoidance
   - Transfer
5. Why does a firm need a quality system?
   - Improvement of performance, coordination and productivity
   - Greater focus on the business objectives and on customers' expectations
   - Achievement and maintenance of the quality of the product to meet the customers' stated and implied needs
   - Management confidence that the intended quality is being achieved and maintained
   - Evidence to customers and potential customers of the organisation's capabilities
   - Opening up new market opportunities or maintaining market share
   - Certification/registration
   - Opportunity to compete on the same basis as larger organisations (e.g. ability to tender or submit price quotations)
6. List some of the unethical behaviour found in firms.
   - Skimming – concealing income to avoid taxes or even claiming excessive expenses
   - Deception of consumers through advertisements or claims
   - Inaccurate reporting of financial information and state of affairs
7. Why are accounting, record keeping and internal control necessary?
   - To maintain source documents and provide an audit trail
   - To provide an accurate, thorough picture of operating results
   - To permit a quick overview of present and past operating results
   - To facilitate prompt filing of reports and tax returns to all government agencies
   - To offer financial statements for use by management and other stakeholders

Chapter 8:

Looking back

1. Describe the steps in predicting the financial needs of the venture.
   - Step 1: Project the firm's sales, revenues and expenses over the planning period.
   - Step 2: Estimate the levels of investment in current and fixed assets that are necessary to support the projected sales.
   - Step 3: Determine the firm's financing needs throughout the planning period.
2. List the sources of short-term finance available.
   - Acceptance credits
   - Bank credit
   - Bills of exchange
   - Customer advance payments
   - Factoring
   - Shipper's finance
   - Trade credit
3. List the sources of medium-term finance available.
   - Instalment sale
   - Leasing finance
   - Medium-term loans
4. List the sources of long-term finance available.
   - Debentures
   - Equity capital
   - Long-term loans
   - Retained earnings
5. Briefly describe what venture capitalists look for in an investment.

   An attractive business opportunity:
   - Feasible business concept
   - Large operating margins
   - Large, sustainable growing markets
   - Profitability

   Competitive business venture:
   - Experienced and balanced management team
   - Unique and competitive product or service

   Feasible exit options:
   - Global growth potential
   - Harvest potential within three to five years

   Strategic fit with fund or portfolio:
   - Industry sector
   - Size and terms of investment
   - Skills and experience required for the industry sector
   - Stage of the firm in the venture life cycle
6. List the five key factors in the process of attracting an investment.
   - Making contact
   - Deal screening
   - Deal evaluation
   - Deal structuring
   - Post-investment activity

Key terms

Acceptance credits
Bank credit
Bills of exchange
Customer advance payments
Deal evaluation
Deal origination
Deal screening
Deal structuring
Debentures
Equity capital
Factoring
Financial requirements
Going public
Initial public offering
Instalment sale transaction
Leasing finance
Long-term finance
Medium-term finance
Mortgage bonds
Ordinary shares
Overdraft facility
Preference shares
Private equity market
Private placement
Retained earnings
Shipper's finance
Short-term finance
Trade credit
Venture capital

Chapter 9:

Looking back

1. Describe how an enabling business environment can be created.
   - There should be adequate access to venture capital.
   - Training and development programmes should encourage entrepreneurship.
   - Infrastructural development is a prerequisite for any economic activity at an advanced level.
   - Deregulation with regard to economic activities, as well as legal regulations, is necessary.
   - Financing should be made available by ordinary financial institutions such as banks.

2. List the institutions that can help to create a cooperative business environment.
   - Tertiary institutions for education and training
   - Institutions giving business support, finance and/or training
   - Involvement through SMME development units
   - NGOs
   - International aid agencies

3. Briefly discuss the different types of business networks.
   - Social networks refer to communication between different parties. An exchange of information, goods and services usually takes place.
   - Personal networks refer to those persons with whom one has a direct relationship, and the focus is on the individual.
   - Extended networks focus on a network of firms and/or organisations rather than on an individual. Examples are AHI, NAFCOC, etc.

4. List the support services provided by **seda**.
   - Business support information and company registrations
   - Business analysis and advisory services
   - Exporter development programme
   - Mentorship
   - Supplier development
   - Skills development

5. Identify at least five reasons why an entrepreneur should consider doing business with Business Partners.
   - The organisation has a flexible approach to doing business.
   - It offers a business opportunity and is prepared to make investments when other institutions are not.
   - It offers peace of mind – viability is evaluated by an independent party.
   - It offers investment decisions based on sound business and investment principles.
   - It offers information, advice and guidance on business-related issues.

6. Briefly describe what counselling objectives should entail.

   Counselling objectives should
   - identify problems and their source
   - evaluate actual against expected performance
   - develop action plans for bringing performance up to minimum expectations.

Chapter 10:

Looking back

1. List the key concepts that you can identify from the definition of a family business.
   - Influenced by family ties
   - Achieves the vision of the family
   - More than one generation
2. Name the two dominant systems in a family business.
   - Family system
   - Business system
3. List the subsystems of a family system.
   - Family
   - Family by marriage
   - Parents
   - Brothers and sisters
   - Family inside and outside the business
4. List the subsystems of a business system.
   - Managers
   - Owners
   - Employees
   - External networks
5. What problems exist in family businesses?
   - Failure to raise capital for growth
   - Inability to balance family and business needs
   - Poor estate planning
   - Reluctance to let go
   - Inability to attract the right successor
   - Sibling rivalry
   - Inability to retain non-family members
   - Favouritism
   - Unclear expectations
   - Lack of entrepreneurial drive
   - Emigration
6. Why can a family business be a good place to be?
   - Strong family culture
   - Greater sensitivity
   - Job creation
   - Specialist knowledge
   - Freedom to express creativity
7. What options are open during succession?
   - Appoint a family member.
   - Appoint a caretaker manager if the family member is still too young to take over.
   - Appoint a professional manager if no family member wants to take over.
8. Identify five critical steps to succession.
   - Define what the owners and family want to happen.
   - Evaluate and test the succession goals.
   - Develop a preliminary succession plan.
   - Communicate and adapt the plan.
   - Implement the plan.
9. What category questions can be asked to formulate a family creed?
   - Management philosophy and objectives
   - Jobs and remuneration
   - Leadership
   - Shareholding
   - Board of directors
   - Communication
   - Employees
   - Changes in creed

Chapter 11:

Looking back

1. Explain the key elements of the franchising concept.
   - A franchise operation is a contractual relationship between the franchisor and the franchisee.
   - The franchisor offers, or is obliged to maintain, a continuing interest in the business of the franchisee in such areas as know-how and training.
   - The franchisee operates under a common trade name, format and/or procedure owned or controlled by the franchisor.
   - The franchisee has made, or will make, a substantial capital investment in the business from his or her own resources.

2. Identify the three types of franchising.
   - The first type is the dealership, a form commonly found in the car industry. The manufacturers use franchises to distribute their product lines.
   - The second (and most common) type is referred to as business format franchising. This is the type that offers a name, image and method of doing business, such as McDonald's, KFC, Nando's, Spec-Savers and Supa Quick.
   - The third type of franchise offers services.

3. Identify the key elements of the franchise contract.
   - The duties of the franchisor
   - The duties of the franchisee
   - The protection of the franchisor's intellectual property
   - Restraints of trade on the franchisee and the franchisor
   - Payment obligations
   - Termination of the agreement

4. What are some of the major advantages of developing franchises within the emerging entrepreneurial sector?
   - Emerging entrepreneurs enjoy far greater consumer loyalty than can be found in traditional trading areas.
   - Although the process of transferring the necessary skills is a much more intense and costly affair, standards and adherence thereto are seldom questioned.
   - The selection of management and operational staff in the operations of emerging franchisees is a more efficient process because of the virtual absence of cultural and communication gaps.
   - The aspirations and expectations of emerging entrepreneurs are generally modest, thus reducing pressure on the profitability of the business during the early days.

Chapter 12:

Looking back

1. Give five reasons for buying an existing business rather than starting a new one.
   - It is a going concern.
   - A successful existing business may have a better chance of continuing to be successful.
   - An existing business may have the advantage of already having the best location.
   - Experienced and reliable employees are already on the payroll of the business.
   - Suppliers are also established.

2. Give five reasons for starting a new business rather than buying an existing one.
   - The existing business was never profitable, but the owner has disguised it by employing a creative accounting technique.
   - The existing business may have a poor reputation or image.
   - Some employees inherited with the business may not be suitable.
   - The business location may be not all that favourable.
   - The equipment, facilities and inventory may be obsolete.

3. Where will you start when looking for a business to buy?
   - Identify businesses for sale.
   - Identify businesses which may be for sale if the price is right.

4. What questions should be addressed when evaluating a business to buy?
   - Why is the business for sale?
   - Is the business profitable?
   - What skills and competencies are needed to be able to manage the business?
   - What is the history of the business in terms of previous owners, its reputation and public image?
   - What is the physical condition of the business, its facilities and all other assets?
   - What is the degree and scope of competition?
   - What is the situation regarding the existing and potential market size?
   - What important legal aspects must be considered?

5. Identify the basic quantitative methods that can be used for determining a fair value for a business, and indicate the essence of each one.
   - *Asset-based method.* The value of the business is determined by subtracting total liabilities from total assets.
   - *Market-based method.* This valuation technique relies on the financial markets to estimate the value of the business.
   - *Excess earnings method.* This method uses a combination of the value of the business's existing assets and an estimation of the future earnings.
   - *Capitalised earnings method.* This is another variation of the earnings approach. The basis for this method is to determine the net earnings for the coming year by using the income statements of previous years.
   - *Discounted future earnings method.* The value of a business is based on the present value of its future earnings.

6. Give a few non-quantitative factors that can be used in valuing a business.
   - Competition
   - Employee contracts
   - Future community developments
   - Legal commitments

7. What are the steps to follow in the negotiation process?
   - The identification and approach of the business for sale.
   - The signing of a non-disclosure document that ensures the secrecy of the parties' negotiations.
   - The signing of a letter of intent by the buyer before making a legal offer.
   - The buyer's due diligence investigation.
   - Drafting of the purchase agreement.

- Closing of the deal by signing the necessary documents.
- Making the transition to being a successful business owner (the buyer).

8. What is the difference between price and value?
   - The value of a business is set in the marketplace and is what someone is willing to pay for it. It is ultimately set by the buyer.
   - The seller determines a price for the business by using a computational method.

9. What are the different sources of power that may play a role during the negotiation process?
   - Information about elements in the external environment, such as the market, competition, and the social, economic, political and technological environments
   - Timing
   - Pressure from other people
   - Eagerness to strike the deal

10. State the traps to avoid when buying a business.
    - Legal circumference
    - Attraction to status and size
    - Unknown territory
    - Opportunity cost
    - Underestimation of other costs
    - Greed
    - Being too anxious and impatient