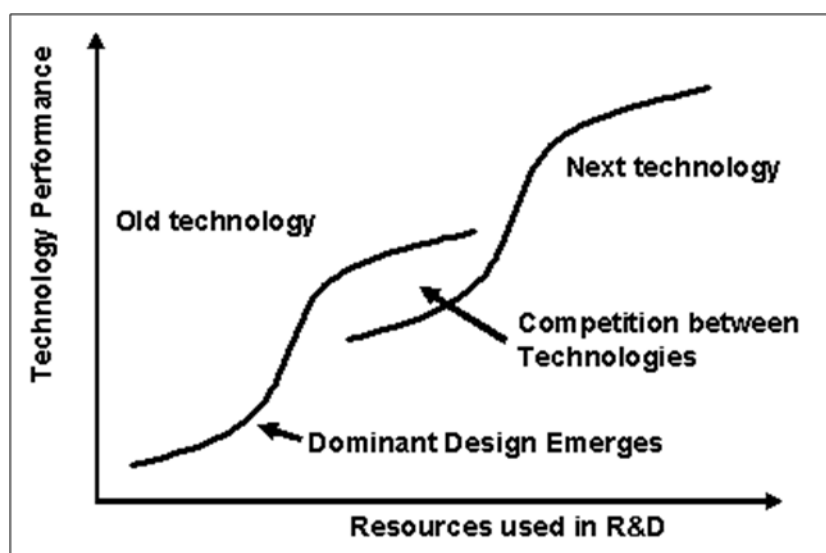


## Feedback on tutorial 6 – EMA2602 – Semester 1 of 2018

### CHAPTER 20 of the prescribed book

#### Entrepreneurship



Dear Student

You were asked to answer the following questions from the workbook:

20C.2.1	20C.2.2
20C.3.1	20C.3.2
20C.4.1	20C.4.3
20C.4.8	20C.6.1
20C.7.1	20C.10.2 (b)
20C.10.3	

I would like to thank JJ Brits for answers uploaded. My answers follow.

#### Question 20C.2.1

There is no guarantee that every person that starts a new business will be successful. We often hear about the success stories in the media (Patrice Motsepe, Raymond Ackerman,

Oprah Winfrey, Jannie Mouton, Richard Maponya and so on) and less about the thousands of people who tried but failed. Some entrepreneurs are just generating enough income to fulfil their basic needs. A friend of you cannot find employment and is considering starting her own business. She wonders whether she has the right personality to take on the responsibility of earning her own income. She is not sure whether she will succeed. Tell her about the characteristics that most entrepreneurs share. List and describe six characteristics of entrepreneurs. (12)

### **Answer 20C.2.1**

(METS-3: 440) List any 6 of the following with a short explanation/description:

1. **The need for achievement.** Entrepreneurs are motivated to accomplish their goals.
2. **The preference for calculated risks.** Entrepreneurs are not gamblers - they set goals that require high levels of performance that they believe can be achieved.
3. **The willingness to take personal responsibility for accomplishment.** They prefer to use their own resources in their own way and to be held accountable for results.
4. **Ability to deal with conceptual ideas.** They possess the ability to think creatively and see opportunity where others only see problems and confusion.
5. **High perception of the probability of success.** Entrepreneurs have confidence in their ability to achieve success. They study the available facts and form realistic judgements. They rely on their intuition and proceed confidently when the facts may seem insufficient.
6. **High levels of physical and intellectual energy.** Entrepreneurs are active, mobile and constantly looking for creative ways of getting a task done or improving their situation. There is a sense of urgency in their work.
7. **Future orientated.** By planning and thinking ahead, entrepreneurs anticipate future possibilities and threats. Although attention to detail is important, entrepreneurs never forget the bigger picture of what they are busy with.
8. **Unusual skill in organising** and mobilising scarce resources towards achieving objectives.

9. **Money is considered as a means to achieve objectives.** Although wealth is important, the key driving force is to make a difference and to achieve self-actualisation.
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**Question 20C.2.2**

List at least 8 skills that are considered essential for the successful entrepreneur. (8)

**Answer 20C.2.2**

(METS-3: 440) Any 8 of the following:

Negotiations  
Report writing  
Making presentations  
Networking  
Deal making  
Conflict resolution  
Time management  
Influencing people  
Diplomacy

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**Question 20C.3.1**

List four possible sources of business ideas. (4)

**Answer 20C.3.1**

(METS-3: 443-444) Any four of the following:

- The printed media (Newspapers, advertisements, etc.)
- The electronic media: Internet, TV, radio, etc.,
- Trade fairs and exhibitions – new products, meeting new people.
- Government agencies for the promotions of small business and patent brokers.
- Friends and family complaining about bad service.
- Financial incentive schemes to encourage employees to submit ideas.

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**Question 20C.3.2**

Briefly describe how a business idea should be evaluated. (10)

**Answer 20C.3.2**

(METS-3: 445-446) Any ten valid points.

Much can be written here. Some keywords/key phrases follow (not comprehensive):

- Able to make money? (profit margin, cash flow profile, start-up and working capital)
- Able to sell product or service? (unique features, quality, after-sales service)
- Able to manage key risks? (capital exposure, CF variations, key staff, competitor counteractions, exit costs?)
- Will I enjoy this? (impact on family life, working hours)
- What happens after the venture?

Please refer to the textbook.

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**Question 20C.4.1**

There is an opportunity to start a Kentucky Fried Chicken (KFC) in a shopping centre in the town where you stay. Describe this type of business and list some of the advantages and disadvantages of this type of business. (6)

**Answer 20C.4.1**

Franchise

See METS-3, pp. 452 & 453 for advantages and disadvantages

Advantages

- The franchisee benefits from the experience and know-how of the franchisor
- The franchisee does not have to go through the process of product design, development and launch.

Disadvantages

- A franchise limits creativity and the scope of expansion, unless the franchisor agrees
- Usually a large up-front payment is required for the 'name' of the franchisor.

For additional information please google: "KFC Franchise" or go to:  
<http://www.kfcfranchise.com/requirements-investment-fast-food-franchise.php>

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### **Question 20C.4.3**

Briefly discuss at least two advantages and two disadvantages of the following types of business enterprises as well as at least one application of each:

- a) sole trader
- b) partnership
- c) joint venture
- d) close corporation (20)

### **Answer 20C.4.3**

#### ***Sole trader (METS-3: 449)***

##### Advantages

- Simplicity: few legal requirements (1) and easy to manage (1)
- Tax benefits: Business losses can be deducted from owners personal income(1)
- No mandatory auditing (1)
- Quick decision making – one person makes all decisions (1)

##### Disadvantages

- Unlimited liability: Owner is responsible for all legal action and debt(1)
- Limited access to expertise, technology and finance, and thus limited capacity to expand or to increase profitability.(1)
- Lack of continuity – when the owner dies there are no other members or shareholders that continue with the business. (1)

Application : Consultancy, small shop owner

#### **Partnership (METS-3: 450)**

##### Advantages

- Easy to set up and manage
- Limited up-front capital required

### Disadvantages

- Unlimited liability of the partners
- The actions of one partner may cause liability damage to the other partners

Application : Knowledge-based, professional organisations such as legal and accounting firms

### **Joint venture (METS-3: 450-451)**

#### Advantages

- Partners provide complementary skills, technologies, markets, etc.
- Business risk and capital risk to each partner is reduced

#### Disadvantages

- Different corporate cultures may lead to unproductive managerial behaviour
- Partners are dependent on each other and therefore divergent views must be carefully managed to avoid financial losses

Application : When projects require immense capital; each partner has something to contribute (e.g. technology, know-how and resources)

### **Close corporation (METS-3: 449-450)**

#### Advantages

Limited liability

Simplified legal requirements

#### Disadvantages

Maximum of 10 members, growth is limited

Only natural persons may be members

Please note that it is no longer possible to register CCs under the new Companies Act.

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### **Question 20C.4.8**

List four modalities of starting a new business.

(4)

### **Answer 20C.4.8**

(METS-3: 452-453) – Any four of the following:

- Start up from scratch
- Buy-out existing business
- Buy-into an existing business
- Franchise
- Family business

(4)

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**Question 20C.6.1**

Discuss the possible sources of finance for a business.

(6)

**Answer 20C.6.1**

(METS-3: 454)

Financial Institutions

- Commercial banks
- Private investment banks
- Merchant banks
- Private equity and venture capital funds
- Development corporations
- Johannesburg Securities Exchange (JSE)

Other

- Own funds (of entrepreneur)
- Re-investment of profits

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**Question 20C.7.1**

Briefly list six sections that a business plan may consist of.

(6)

**Answer 20C.7.1**

(METS-3: 458-459)

A document that summaries a business opportunity. It defines how management intends to capitalise on this opportunity and forecasts returns on shareholders' capital invested.

Operations plan;

Staffing / HR plan

Market analysis,	Pro-forma financial statements;
Marketing plan,	Production / Operations plan
Executive summary;	Key concerns for business.
Business concept – how the business plan to generate profits	

**Annexure A – Business plan components (this level of detail is not required for 6 marks)**

1. Executive summary
  - 1.1 Description of the Business Concept and the business
  - 1.2 The opportunity and strategy
  - 1.3 The target market and projections
  - 1.4 The competitive advantages
  - 1.5 The profitability, growth, economics and sustainability of the business
  - 1.6 The team
  - 1.7 The harvesting potential and offering
2. The Industry, the organisation and its products/services
  - 2.1 The Industry
  - 2.2 The Organisation and the business/organisational concept
  - 2.3 The Products and/or Services
  - 2.4 Market entry and growth strategy/policy
3. Market research and analysis
  - 3.1 Customers
  - 3.2 Market size and trends
  - 3.3 Competition and competitive advantage
  - 3.4 Estimated market share and sales
4. Marketing plan {This section can be combined with section 3}
  - 4.1 Overall marketing strategy
  - 4.2 Pricing
  - 4.3 Sales tactics



- 4.4 Service and warranty policies
- 4.5 Advertising and promotion
- 4.6 Distribution
  
- 5. The Economics and financial planning of the organisation/business
  - 5.1 Gross and operating margins
  - 5.2 Profit potential and financial sustainability/durability
  - 5.3 Fixed, variable and semi-variable costs
  - 5.4 Breakeven period
  - 5.5 Months to reach positive cash flows
  - 5.6 Actual income statements and balance sheets {in the case of and existing organisation}
  - 5.7 Pro Forma income statements
  - 5.8 Pro Forma balance sheets
  - 5.9 Pro Forma cash flow analysis
  - 5.10 Financing, funding requirements and utilisation of funds
  - 5.11 Cost control
  
- 6. (Product / service) Design and development plans
  - 6.1 Development status and tasks
  - 6.2 Difficulties and risks
  - 6.3 New products/services and product/service improvement
  - 6.4 Costs
  - 6.5 Proprietary issues
  
- 7. Operations and manufacturing plan
  - 7.1 Operating cycle
  - 7.2 Geographical location
  - 7.3 Facilities and improvements
  - 7.4 Quality assurance
  - 7.5 Regulatory and legal issues
  
- 8. Management and corporate governance
  - 8.1 Organisation
  - 8.2 Key management personnel
  - 8.3 Management compensation and ownership {incentive plans}

- 8.4 Investors and other stakeholders
  - 8.5 Board of Directors
  - 9. Staffing
    - 9.1 Staff complement
    - 9.2 Staff remuneration and performance management
    - 9.3 Organisational culture
  - 10. Proposed implementation schedule
  - 11. Critical risks, problems and assumptions
  - 12. Appendixes
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### **Question 20C.10.2**

- b) It is not possible for a rich person that is worth, say R25m, to owe more than just a very small percentage of the shares of a large public company (such as BHP Billiton) that has a market capitalisation worth billions of rands. Use this example to explain the advantage of the public company as form of business enterprise. Refer to the capacity of such corporations to initiate new projects that may cost hundreds of millions of rands. Who are the owners of such large corporations?

(4)

### **Answer 20C.10.2**

Large sums of money are needed to develop deep level mines or large surface mines. No single person may have the money or may be willing to invest most of his/her money in such a risky project. Therefore most large mining organisations choose the (public) company as form of enterprise and are also listed on the JSE (and/or other stock exchanges) – there is no limitation on the number of shareholders. Capital is acquired through the selling of shares to the general public, pension funds and various other types of funds such as collective investment schemes (used called ‘unit trusts’). This ensures a large investor base of usually hundreds or thousands of investors. If you are employed and contribute to a pension fund then you probably owns a small part of some of the large companies listed on the Johannesburg Securities Exchange (JSE) because pension fund managers often invest such funds in listed companies, property and other types of securities and assets. The Public Investment Corporation (PIC) owns 30% of Lonmin (Mtongana: 1) and 14,5% of Anglo American (Business Day online), for example, making it the biggest single investor in the companies. [Note: The PIC (public investment corporation) is owned by the SA Government

and its purpose is to invest the pension money of government employees and money of public sector entities]

### References

- Business Day 2016. Anglo American must consider spinning off platinum assets, PIC says. 5 Dec 2016. Available online at <https://www.businesslive.co.za/bd/companies/mining/2016-12-05-anglo-american-must-consider-spinning-off-platinum-assets-pic-says/>
- Mtongana, L. 2017. Lonmin surfaces after five hard years. Business Times. 22 Jan 2017.

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### **Question 20C.10.3**

Match each of the following forms of business ownership and other concepts on the left of the table with its definition, example or closest related issue on the right of the table below. In your answer book, write down the number of each term, and next to it the letter representing the correct option, e.g. 1. j.

(9)

1. Sole trader	a. An entrepreneur that works for a corporation.
2. Close Corporation	b. Business losses can be deducted from owners' personal income.
3. Entrepreneur	c. KFC
4. Intrapreneur	d. Defines how the entrepreneur/management intends to capitalise on a business opportunity.
5. Source of a business idea	e. Maximum 10 members
6. Example of a franchise	f. A person who spots a gap in the market and conceptualises and evaluates a business idea to fill that gap.
7. Business plan	g. The complaints of family, friends and colleagues

		regarding products and poor service.
8. Partnership		h. Possible sources of finance for a business
9. Johannesburg Securities Exchange		i. Suited to knowledge-based, professional organisations

### Answer 20C.10.3

1. b

2. e

3. f

4. a

5. g

6. c

7. d

8. i

9. h

(9)

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Remember to read the answers given by fellow students. You are welcome to comment on their answers and mine.

I wish you every success with the examinations.

Wilhelm (Willie) P. Nel