





## MNE3701

May/June 2018

### Entrepreneurship and Small Business Management

Duration 2 Hours

70 Marks

**EXAMINERS**

FIRST

SECOND

EXTERNAL

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MS NM MMAKO

DR MN MOOS

Programmable pocket calculator is permissible

Closed book examination

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue

This paper consists of 20 pages

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**INSTRUCTIONS**

This paper comprises two sections, namely **section A** and **section B**.

**Section A**

- This section is **compulsory**.
- The total for this section is **30 marks**
- Questions must be answered on the **examination paper**, in the spaces provided

**Section B**

- Section B comprises **three** questions
- You must answer **any two (2)** of the three questions
- Each question is worth **20 marks**
- The total for this section is **40 marks**
- Indicate the numbers of the questions you have answered on the **cover** of this book, in the box provided

This is a **closed-book examination**. You may not consult notes of any kind, or any person, except the invigilator, during the examination session

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**SECTION A**

- This section is compulsory
- Read the following case study and answer **ALL SEVEN (7)** questions in this section. Use the space provided below each question, for your answer.
- The total for this section is **30 marks**

**Taking your store to your customers**

Producers can use several channels to get their products to the market. Sometimes these distribution channels are long and complicated, using several intermediaries between the producer and consumer. However, as Sarah Hammet, owner of Feeling Special Fashions has shown, it does not have to be that complicated.

Hammet sells clothing especially designed for senior citizens. It is called “adaptive” clothing – dresses and separates for seniors whose mobility and ability are restricted. Hammet bypasses the usual intermediaries, such as retail stores, and takes her product directly to the customers. She sells clothing at 50 nursing homes and retirement communities in 2 states and the District of Columbia.

Four days out of the week, every spring and fall, Hammet and an assistant load half a dozen racks of clothes into the back of a van and hit the road. She conducts fashion shows and offers individual consultations at every facility they visit. This type of personal selling has been effective for Hammet, who thought up the idea in the early 1980s while visiting her elderly father in a Kentucky nursing home. There, she was appalled by the careless and drab manner in which patients were dressed. Hammet perceived a need and stepped in to fill the gap.

Comfort Clothing Inc., located in Canada, manufactures the clothing she sells. The items are stylishly designed, and come in various colours and prints. The clothing is different in that armholes are bigger, buttons often hide Velcro fastenings, and waists are uncinched and come with optional belts. The garments can be stepped into, rather than being pulled on over the head. They are washable and cost between \$40 and \$60. Through a combination of creative merchandising and personal selling, Hammet has established a growing business.

(Adapted from Byrd, M. J. & Megginson, L. C. 2013 *Small Business Management*, 7<sup>th</sup> edition, McGraw-Hill Irwin.)

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**Question 1.1**

What type of distribution channel does Feeling Special Fashions use? Motivate your answer with evidence from the case study (2)


**Question 1.2**

1 2 1 Identify and describe the sales strategy that Feeling Special Fashions follows (2)

1 2 2 Describe two (2) advantages of such a sales strategy (2)


**Question 1.3**

Describe any three (3) advertising (promotional) methods that would be most appropriate to use for the type of business concept Hammet has (6)



**Question 1.4**

Identify and describe the type of operations process that Comfort Clothing Inc uses (2)


**Question 1.5**

Product-oriented and service-oriented operations are similar, in that they change inputs into outputs. Complete the following table (6)

<b>Feeling Special Fashions</b>	<b>Comfort Clothing Inc.</b>
<b>INPUTS</b>	
<b>PROCESSES</b>	
<b>OUTPUTS</b>	





## SECTION B

- Answer ANY TWO (2) of the following three questions in this section, in the space provided for each question
- Please indicate the numbers of the questions you have answered on the cover of this book

## QUESTION 2

- 2 1 Entering the entrepreneurial environment is a high-risk decision. The entrepreneur therefore has to incorporate effective risk management in the management of a business. Briefly discuss the five (5) steps required to develop and implement a risk management programme (5)
- 2 2 As a small business manager, you have to understand the following financial terms and know how to make the calculations involved. Calculate the following amounts, using the information provided in the table below (10)
- 1 Net fixed assets (1)
  - 2 Current liabilities (1)
  - 3 Total assets (1)
  - 4 Total debt (1)
  - 5 Current ratio, and evaluate the financial performance of the business in terms of its current ratio (3)
  - 6 Debt ratio, and evaluate the financial performance of the business in terms of its debt ratio (3)

Gross fixed assets	R95 000
Accounts payable	R20 000
Retained earnings	R120 000
Accumulated depreciation	R20 000
Long-term loan	R15 000
Mortgage bond	R30 000
Inventory	R70 000
Short-term loan	R20 000
Accounts receivable	R50 000
Cash	R10 000

- 2 3 The quality of a firm's employees determines its potential. To recruit effectively, you must know where and how to find qualified applicants. Describe any five (5) sources of employee recruitment that an entrepreneur can use to find suitable applicants for the business (5)
- [20]**

**[TURN OVER]**








**QUESTION 3**

- 3 1 Only a few small businesses focus on proper capital budgeting analysis. Instinct and intuition are two inaccurate variables in capital budgeting analysis. Discuss the six (6) reasons why small businesses generally neglect to use theoretically sound financial management methods (6)
  
  - 3 2 A simplified model of consumer behaviour consists of three (3) components: the decision-making process, and psychological and sociological influences. Briefly discuss the impact of psychological and sociological influences on consumer behaviour (8)
  
  - 3 3 In credit sales, the seller provides goods or services to the buyer, in return for the buyer's promise to pay later. The major reason for granting credit is to make a sale. Describe the types of **credit** available to small business owners (6)
- [20]**
















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**ROUGH WORK PAGE 2**  
**(Will not be marked)**