

Tutorial Letter 201/2/2018

**Entrepreneurship and Small Business
Management**

MNE3701

Semester 1

**Department of Entrepreneurship, Supply
Chain, Transport, Tourism and Logistics
Management**

This tutorial letter contains important information
about your module.

BARCODE

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1 INTRODUCTION AND WELCOME

Dear Student

The purpose of this tutorial letter is to provide you with feedback on Assignment 01 and Assignment 02 as well as the self-assessment Assignment 03. Information regarding the examination is also provided in this tutorial letter.

2 CONTACT DETAILS OF LECTURERS

The lecturer to contact for academic content related matters only is:

Lecturer	E-mail
Mrs. M Phillips Primary Lecturer	phillmj@unisa.ac.za

Details of other lecturers in the Section: Entrepreneurship (degree courses) is as follows:

Lecturer	E-mail
Ms. N. M. Mmako Secondary Lecturer	mmakonm@unisa.ac.za

Please refer to Tutorial letter 101 for the contact details of other departments.

3 EXAMINATION GUIDELINES

PLEASE TAKE NOTE OF THE FOLLOWING IMPORTANT INFORMATION.

3.1 Year mark

Your year mark is the mark you obtained for your assignments. You have to submit two assignments during the course of the academic year. These assignments constitute 20% of

your final mark, and your examination mark constitutes 80%. You must obtain a sub minimum of 40% in the examination to pass, regardless of the year mark you obtained – even if this is 80% or more, for example. In order to pass the examination you require a final mark of 50%. (Refer to Tutorial letter 101 for examples).

3.2 Examination Paper

Study the following information for the examination paper carefully:

- ◆ Questions from the following chapters will be covered in the examination paper: the chapters are 7, 8, 9, 12, 15, 16, 17, 19, 20, 21 and 22. These chapters represent the following learning units 2, 3, 4, 7, 9, 10, 11, 12, 13, 14, and 15.
- ◆ Some of the questions relate directly to case studies, so you have to be able to apply the work you have studied to a practical situation.
- ◆ Some questions are specific theoretical questions, for example, definitions or explanations of the meaning of important concepts in the study material or multiple questions.
- ◆ You have to be able to define concepts, give examples and explain what is meant by certain concepts.
- ◆ Calculations will be asked in the question paper.
- ◆ The examination paper is not difficult, but you have to study and have a good knowledge of the work. Please spend time preparing for the examination. Read the textbook and study guide a few times, summarise the important concepts and make sure you understand them.
- ◆ Please read each question carefully before answering it. Take note of key words such as “list” or “discuss” and do what the question ask you to do. If you only list things when you have to discuss them, you will only get part of the marks.
- ◆ Keep in mind that you are not studying the work for examination purposes only. You have to know and internalise the information to ensure a successful business.

- ◆ The examination paper counts 70 marks and consists of two sections (Sections A and B). **Section A** (30 marks) is compulsory and is based on a case study. **Section B** contains **three** questions of 20 marks each of which you only answer **two**.
- ◆ Questions in Assignment 02 and the self-evaluation assignment in the 101 tutorial letter is typical of the sort of questions that will be asked in the examination.
- ◆ Multiple-choice questions will not be asked in the examination paper. Therefore, the mark you have obtained for the compulsory Assignment 01 is not an indication of your level of understanding of the study material or what marks you can expect in the examination.
- ◆ Previous examination papers will not be supplied by the lecturers. Previous examination papers are made available to students on myUnisa.
- ◆ The Examination Department will notify you of the examination date and time.

4 FEEDBACK ON ASSIGNMENT 01

Question 1

The correct answer is number 4. Refer to page 161 in Longenecker, *et al.*

The sources and uses table forms part of the offering section and it indicates the types of financing requested and how the funds will be used.

Question 2

The correct answer is number 2. Refer to pages 177 in Longenecker *et al.*

A firm that adopts a consumer orientation leads to success in many areas, such as production and sales in the long term and not just marketing.

Question 3

The correct answer is number 2. Refer to page 177 in Longenecker, *et al.*

Because Wilson is confident about the benefits of his products and that people will line up to buy his products he will follow a sales –orientated marketing philosophy. .

Question 4

The correct answer is number 4 Refer to page 209 in Longenecker, *et al.*

In a partnership, each party bears joint and several liability, which means that a business decision by one partner binds all the other partners even if they were not consulted in advance as in the case of Upton.

Question 5

The correct answer is number 2. Refer to page 209 in Longenecker, *et al.*

Death, incapacity or withdrawal of a partner requires that the partnership be liquidated or reorganised. To avoid liquidation the partnership agreement can stipulate that the remaining partners can continue with the business after buying the other partners interest and this can be facilitated by each partner carry a life insurance that names the other partners as beneficiaries.

Question 6

The correct answer is number 3. Refer to page 234 in Longenecker, *et al.*

Small businesses must be located where they can provide handy access for targeted purchasers to avoid losing business to more conveniently placed competition.

Question 7

The correct answer is number 3. Refer to page 237 in Longenecker, *et al.*

For most manufacturing organisations the proximity to important sources such as raw material are critical considerations in location.

Question 8

The correct answer is number 2 Refer to page 267 in Longenecker, *et al.*

The statement of profit and loss and other comprehensive income also commonly known as the income statement is a financial report showing the amount of profits and losses form a business's operations over a given period of time.

Question 9

The correct answer is number 1. Refer to page 303 in Longenecker, *et al.*

To get the answers to all the questions that Tomas has he will look at the pro-forma financial statements

Question 10

The correct answer is number 2. Refer to page 332in Longenecker, *et al.*

To help him decide, you remind him that as long as his firm's rate of return on its assets is greater than the cost of the debt, his rate of return on equity will **increase** as the firm uses more debt.

Question 11

The correct answer is number 1. Refer to page 381 in Longenecker, *et al.*

Diane is a loyal long-term customer of Burke's Furniture Store so she will be willing to pay more for Burke's Furniture products.

Question 12

The correct answer is number 1. Refer to page 389 in Longenecker, *et al.*

Warranty cards will provide information that would resort under personal information.

Question 13

The correct answer is number 1. Refer to page 414 in Longenecker, *et al.*

The cost development under the business analysis stage is very important as one to three may pass before profits are realised on the sale of a new product.

Question 14

The correct answer is number 2. Refer to page 446 in Longenecker, *et al.*

When a product is sold at a premium price and when customers view this product as a prestige product then the pricing strategy followed is a skimming pricing strategy.

Question 15

The correct answer is number 1. Refer to page 475 in Longenecker, *et al.*

Magazines have a high pass along rate as one of its advantages.

Question 16

The correct answer is number 1. Refer to page 518 in Longenceker, *et al.*

The formal organisational stage of the business typically requires that the business adopts written policies, prepare plans and budgets standardise personnel practices, computerise records, put together organisational charts and job descriptions.

Question 17

The correct answer is number 3. Refer to pages 544 in Longenecker, *et al.*

Jan will use headhunters as they will locate qualified candidates as Jan wants a new manager that has knowledge in the franchising process.

Question 18

The correct answer is number 3. Refer to pages 593 in Longenecker, *et al.*

Synchronous management views the assets and activities of a business as interdependent and suggests that they be managed in a way that optimised the performance of the entire business.

Question 19

The correct answer is number 1. Refer to page 603 in Longenecker, *et al.*

The cash conversion period is the time between the cash payment of inventory and the collections of accounts receivable (debtors).

Question 20

The correct answer is number 2. Refer to page 638 in Longenecker, *et al.*

Concern for the replacement value of the businesses assets is considered under the principal of secure insurance coverage for all major potential losses. It is imperative that the assets of the business such as buildings be properly insured against potential loss exposure.

(20 x1)

(20)

5 FEEDBACK ON ASSIGNMENT 02

Question 1

1.1 Business models

Refer to pages 428- 251 in Longenecker *et al.*

Mark is using business –to-customers (B2C) (1)

(a) Business-to-business model

This model is based on selling to business customers electronically. B2B firm can achieve greater efficiency in its selling and buying. By dealing with its corporate customers online, it is able to build its computer systems and internet to deliver its business solutions. (2)

(b) Business-to-Customer models

This model is based on selling to final customers electronically. Example: Amazon.com represents the classic B2C firm, which is directly focused on individual final consumer. B2C ventures diverse in the product they sell, with offerings ranging from clothing to pet items, computer software, toys and groceries. The B2C model offers: speed of access, speed of transaction and round-the-clock access to products and services referred to as 24/7 e-tailing.

(2)

(c) Auction Site model

This is a web-based business offering participants the ability to list products for bidding. Some entrepreneurs sell their products over the internet by means of e-commerce sites based on the auction site model. Internet auction sites are Web-based businesses offering participants – final consumers and businesses – the ability to list products for bidding by potential buyers. (2)

(1 mark for (B2B) and 2 marks per e-commerce model. If only mentioned ½ mark each) (7)

1.2 Market segmentation

(4)

Refer to page 188 in Longenecker *et al.*

(a) Market segmentation is the division of a market into several smaller groups with similar needs. (1)

(b) Demographic variables were used in the case. Demographic variables refer to the characteristics that describe the customers, their purchasing power, their consumption patterns and other factors. They include age, marital status, gender, occupation and income. (2)

Blue Nile focussed their marketing on educated men therefore gender and education form part of demographic variables. (1)

(Mark as allocated)

(4)

- 1.3 Pricing strategy (4)**
- Refer to pages 445 in Longenecker *et al***
- Blue Nile is using penetration pricing strategy (1)
- The penetration pricing strategy is when prices of products or services are less than the long range market price in order to gain market acceptance or to increase existing market share. (1)
- Blue Nile was selling as cheaply as possible and it generated sales of \$14 million within just six months. This shows how quickly they have gained market share. (2)
- (Mark as allocated) (4)**
-
- 1.4 Channels of distribution (7)**
- Refer to pages 427-430 in Longenecker *et al***
- Blue Nile is using a direct distribution channel which a channel without intermediaries. (1)
- Scope of physical distribution.**
- Transportation (½)**
- The available modes of transportation are planes, trucks, railroads, pipelines and waterways. (1)
- The choice of transport methods depends on relative costs, transit time, reliability, capability, accessibility and traceability. (1)
- Transport intermediaries are classified according to common (transport intermediaries available for hire to the general public), contract (transport intermediaries that work with individual shippers) and private carriers (line of transport owned by shippers). (1)
- Storage (½)**
- The small business can own its own warehouse or rent space in public warehouses. When the distribution channel makes use of middlemen or wholesalers, the title of the goods is transferred and so is the responsibility of storage. (1)
- Materials handling (½)**
- There has to be appropriate materials handling equipment such as forklifts, appropriate packaging material and containers to ensure that materials arrive at their destination undamaged. (1)
- Delivery terms (½)**
- It is important to determine which party is responsible for aspects of the distribution. These aspects include the paying of freight costs, selecting carriers, bearing the risk of damage in transit and selecting the modes of transport. (1)
- Logistics companies** provide specialised transport and distribution services. (1)

The simplest delivery term is free on board origin freight collect. This transfers all responsibility of freight costs to the buyer. (1)

(1 mark for identifying the channel and any six marks) (7)

1.5 Benefits of starting up on the internet (8)

Refer to page 246 in Longenecker *et al*

(a) It allows a new venture to compete with bigger business on a more level playing field. Because of limited resources small firms can often reach beyond their local markets. (1)

E.g. Blue Nile was named by Forbes as the favourite Online Jeweller for the fifth consecutive year in 2004, meaning it a reach beyond just local markets. (1)

(b) If confined to brick and mortar world small businesses can only serve a restricted region. (1)

E.g. Blue Nile generated sales of \$14 million within six months which is clearly an indication of a bigger market. Also to sell \$125 million worth of goods need 150 stores and 1000 employees. (1)

(c) An e-commerce operation can help the start-up with early cash flow problems by compressing the sales cycle meaning reducing the time between receiving an order and converting the sale into cash. (1)

E.G. Blue Nile appears also not to have any cash flow problems as it generated sale of \$14 million within 6 months which is clearly an indication of a quick turnaround time. (1)

(d) The shorter cycle translates into quicker payments from customers and improved cash flow for the business. (1)

E.G Blue Nile's overheads were low and their sales improved to \$14 million and they passed the savings on to the customer by selling cheaply. (1)

(e) E-commerce enables small firms to build on customer relations. (1)

e.g. Blue Nile help customer make choices, plus offering them online tutorials. They want to educate the customer making them feel comfortable and sell as cheaply as possible. (1)

(f) Going online can unlock the door of opportunity for businesses regardless of the industry. (1)

The previous owner together with two helpers could not handle all the calls they were getting and doing it this way Blue Nile does not need 150 stores and 1000 employees to raise R125 million sales. (1)

(Mark any 4 benefits. 1 mark for describing the benefit and 1 mark for the example given. Students can give any example as long as it is in line with the benefit. Use your own initiative.) (8)

[30]

Question 2**2.1 Advertising media****(6)**

Refer to pages 475 in Longenecker et al

Medium	Acceptable?	Why or Why not?
Newspaper - Campus and Local	Yes and No (½)	Yes to campus: its high individual coverage and short lead time may make it affordable. Cost would have to be checked. No to local: cost would be expensive (1)
Radio - Campus and Local	Yes and No (½)	Possible if radio has enough listeners. Typically low cost but have commercial clutter. No to area stations as not specific to target market. (1)
Internet	Yes(½)	Yes as people expect a site for information. Easy to update, able to direct people to site for information. No Concern has to rely on another company for service since business size would not have a web designer. (1)
Television	Yes and no (½)	Ability to reach a wide audience immediacy of message and low cost per thousand. No because will have difficulty in selecting a channel for this specific target market. (1)

(Yes and no answer ½ mark each –reasons given 1 mark per section)**(6)****2.2 Factors to consider when extending credit****(10)**

Refer to pages 448-449 in Longenecker et al

Type of Business**(½)**

If the product being sold has a longer life and is higher in price (appliance, furniture), than entrepreneurs will typically have credit options. (1)

If the products are more disposable or perishable (food, clothing), the credit is typically not given to the customer by the business. (1)

Credit Policies of Competitors**(½)**

Most consumers will expect a similar policy unless the company has some advantage for the buyer. (1)

Wholesale hardware companies and retail furniture stores are examples of businesses that face stiff competition from credit sales. (1)

Age and Income Level of Customer (½)

If a customer has a steady income, which is typically, more stable as people age, a company will be more inclined to extend credit. (1)

A drugstore close to a high school may not extend credit to high school pupils who are typically undesirable credit customers because of their lack of both maturity and steady income. (1)

Availability of Working Capital (½)

If limited working capital is possible such as when credit sales are given to buyers, then a business may decide to limit credit. (1)

Open credit and installment accounts tie up money that may be needed to pay business expenses. (1)

Economic Conditions (½)

Recessionary times impact customers, retailers, wholesalers and lenders leading to decreased extension of credit. (1)

However, if a buyer meets the above criteria, a small business owner may offer credit to increase sales. (1)

(Any 2 marks for each of the 5 factors 5 x2) (10)

2.3 Promotional budget decisions (4)

Refer to pages 461-462 in Longenecker et al

Allocating a percentage of sales

The simplest method of determining how much must be spent on promotion is to earmark promotional funds (dollars) based on a percentage of sales. The firm's past experiences should be evaluated to establish a promotion-to-sales ratio. So if 2% of sales has historically been spent on promotion the firm should budget 2% of forecasted sales for future promotion or industry averages can also be used for comparison. (1)

Deciding how much is left over after other expenses are covered.

The other approach is to spend whatever is left over when all other activities have been funded. (1)

Spending as much as the competition does

Sometimes small firms base their promotional budget on an analysis of the competitors' budget thereby hoping to reach the same customers and will be spending at least as much as the competition. (1)

Determining how much is needed for specific results

The best approach is to estimate promotional expenditures by deciding what it will take to do the job. This method requires a comprehensive analysis of the market and the firm's goals. If these estimates are reasonably accurate the entrepreneur can determine the total amount that needs to be spent. (1)

(1 mark for each method ½ mark if only mentioned) (4)

(20)

[TOTAL: 50]

6. FEEDBACK ON SELF-ASSESSMENT ASSIGNMENT**QUESTION 1****1.1 Stages of product development**

(16)

Refer to pages 413-416 in Longenecker *et al*

(a) Idea accumulation

First stage of new product development involves increasing the pool of ideas under consideration. New product start with ideas and these ideas have varied origins such as sales staff, or other employees in the firm, brainstorming, , marketing research, competitors' products and their promotional campaigns, requests and suggestions from customers, other small companies that are available for acquisition or merger , privately owned patents, and government owned patents. (4)

(b) Business analysis

Second stage and every new idea must be studied in relation to several financial considerations. Costs and revenue are estimated and analysed with techniques such as break-even analysis. Key factors should be considered such as: the products relationship to the existing product line, cost development and introduction, available personnel and facilities and competition and market acceptance. (6)

(c) Development of physical product- a plan should be sketched for the branding, packing, and other supporting efforts, such as pricing and promotion. An actual prototype may be needed at this stage. The product can be judged a misfit and discarded or it may be passed onto the next stage for further consideration. (4)

(d) Product testing- Here the product is tested so see if the physical product is acceptable. While the product can be evaluated in a laboratory setting a limited test of market reaction should also be conducted. (2)

1.2	Factors in choosing a good location	(9)
	Refer to pages 234-239 in Longenecker <i>et al</i>	
1.	Customer accessibility	(½)
	This is important for the customers of retail and service businesses, and should also be considered if the cost of shipping is high relative to the product's value when selling to a niche market.	(1)
2.	Environmental business conditions	(½)
	These would include factors such as weather, competition, crime, legal requirements and tax structures.	(1)
3.	Resources availability	(½)
	Of importance here are considerations such as proximity to raw materials (e.g. a furniture manufacturer needs to be close to a wood supplier).	(1)
	The suitability of the labour supply (e.g. high skilled employees in a technology-driven industry).	(1)
	The availability of transport (e.g. a milk farmer would require access to refrigerated carriers).	(1)
4.	Personal preference of the entrepreneur	(½)
	The entrepreneur may choose to locate his business in his home community or choose not to do so.	(1)
	These preferences could mean the choice of a local site or a location offering a lifestyle advantage.	(1)
	Some entrepreneurs might, for instance, prefer establishing a sea-food restaurant close to the sea, while others may wish to exploit the need for seafood in an urban or metropolitan area.	(1)
5.	Site availability and costs	(½)
	This is normally based on the nature of the business, either close to the customer (e.g. retail) or the supplier (e.g. supplier of intermediate goods).	(1)
	The cost of a site will influence an entrepreneur's profit margin and is therefore a fundamental factor in the location decision.	(1)
	Leasing an operating space is normally advisable because firstly, a large cash outlay is avoided, and secondly, avoiding substantial investment reduces risk.	(1)
	(Any 9 x 1)	(9)
		(25)

QUESTION 2**2.1.1 Types of information in a customer database. (7)****Refer to pages 389- 390 in Longenecker et al**

- (a) Transaction data – a complete transaction history with details such as price paid, SKU's, form of order, mode of payment and delivery date. (1)
 - (b) Personal information- name, address, phone number, e-mail address, clothing sizes, birthday, hobbies, membership, etc. (1)
 - (c) Demographics – background information that can be used for market segmentation and other data analysis purposes, such as age marital status names and ages of family members, geographic location. (1)
 - (d) Lifestyle and psychographic data - homeowner versus renter status, car ownership. Media preferences, payment methods of choice, recreational interests (1)
 - (e) Internet information – time spent on internet, frequency of visits to the company website and other online habits. (1)
 - (f) Profile of past responses – sales calls and service requests – including all customer and company-initiated contacts- responses to past product or service promotions and incentives redeemed. (1)
 - (g) Complaints - complete history of complaints regarding past purchases or service. (1)
- (7x1) (7)**

2.1.2 Types of loans (6)**Refer to page 336-337 in Longenecker et al**

- 1. Line of credit-** is an informal agreement between a borrower and the bank as to the maximum amount of funds the bank will provide at any one time (1)
Under this type the bank has no legal obligation to provide the capital (it is similar to the revolving credit agreement). The business owner should arrange for a line of credit in advance of an actual need. (1)
- 2. Term loans** – money is loaned for a 5 to 10 year term. (1)
Such loans are generally used to finance equipment with a useful life corresponding to the loan's term. (1)
- 3. Mortgages** – usually represents a long-term source of debt capital and there are two types. (1)
A chattel mortgage is a loan for which certain items of inventory or other movable property serve as collateral. The borrower retains title to the inventory but cannot sell it without the banker's consent. (1)

A real estate mortgage is a loan for which real property such as land or building provides the collateral. These mortgages extend up to 25 or 30 years. (1)

(Any 3x2, 2 marks per loan type), (6)

2.1.3 Managerial tasks of an entrepreneur (12)

Refer to pages 518-525 in Longenecker et al

1. Planning activities (2)

Entrepreneurs must plan for ongoing operations such as how much inventory or whether to buy a new piece of equipment.

Firms should have a long range or strategic plan to identify niche markets and establishing features that differentiate the firm from others.

It should also have a short range plan (budget) to deal with activities in production and marketing.

Plans can improve production and it provides a focus for the firm.

2. Creating organisational structure (2)

An organisational structure is the relationship among the activities and the individuals on the payroll of the firm.

An unplanned structure happens in small firms where employees do the activities when the firm is new and retain those function as it matters.

A chain of command refers to superior-subordinate relationships with a downward flow of instructions.

A line organisation each person has a supervisor to whom he/she reports.

Line-and staff organisation each person has a supervisor but also has a staff specialist who assists management.

Span of control is a number of employees who are supervised by a manager.

3. Delegating authority (2)

Through delegation employees are granted the right to act or make decisions.

Delegation frees manager to perform more important tasks.

4. Controlling operations (2)

Firms never function perfectly.

Managers must monitor operations to discover deviations from plans and make corrections.

The control process begins with the setting of standards through planning and goal setting.

Planners translate goals into norms by making them measurable.

5. Communicating (2)

Effective communication is key to any healthy organisation getting managers and employees to talk to one another thus a two way communication process.

Managers must tell employees where they stand.

Giving employees positive feedback is the primary tool for establishing good human relations.

6. Negotiating (2)

Entrepreneurs and managers must interact with other individuals such as suppliers, customers, bankers etc.

The process of developing workable solutions through discussions or interactions is called negotiations.

A win-win situation tries to find a solution that will satisfy at least the basic interests of both parties.

(6 tasks 2 marks each) (12)

(25)

[TOTAL: 50]

7. CONCLUDING REMARKS

We hope that you find the feedback given here valuable. Enjoy your studies and try to put some effort into learning the study material, as effort and results are directly related. Do not hesitate to contact us should you have any questions regarding the assignments, the feedback or the examination information provided in this tutorial letter. Good luck with the examination.

Mrs M. Phillips

Lecturer: Entrepreneurship and Small Business Management