

**MNE3701**  
**MAY/JUNE 2018**  
**SECOND PAPER**  
**ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT**

| STUDENT NUMBER |  |  |  |  |  |  |  |
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INVIGILATOR**

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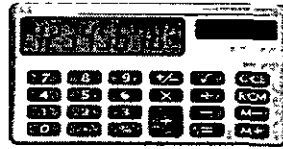
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**MNE3701  
SECOND PAPER**

May/June 2018

**Entrepreneurship and Small Business Management**

Duration 2 Hours

70 Marks

**EXAMINERS**

FIRST

MRS MJ PHILLIPS

SECOND

MS NM MMAKO

EXTERNAL

DR MN MOOS

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This paper consists of 22 pages

**THIS IS A FILL-IN EXAMINATION PAPER AND THE WHOLE PAPER MUST BE SUBMITTED AT THE END OF THE EXAMINATION SESSION. THIS PAPER REMAINS THE PROPERTY OF THE UNIVERSITY****INSTRUCTIONS:**This paper comprises two sections, namely **section A** and **section B**.**Section A**

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

**Section B**

- Section B comprises **three** questions
- You must do **any two** 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

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

**SECTION A**

- Read the following case study and answer **ALL FIVE** questions in this section. Use the space provided below each question for your answer.
- The total for this section is **30 marks**.

**Buying Diamonds Online**

Mark Vadon, looking for an engagement ring for his fiancé, was completely turned off when a jeweller advised him to pick a ring that "spoke" to him. At home he went to his computer looking for websites dealing with diamond rings and found a site run by Doug Williams, an independent Seattle diamond wholesaler. Williams had discovered that by listing basic information about purchasing diamonds, he attracted men like Vadon.

After buying a diamond ring from Williams, Vadon flew to Seattle to talk to him about business. Both men were impressed with the other. Williams was blown away by Vadon's research and knowledge of the subject. Furthermore, Vadon was impressed that Williams, with two helpers, could not answer all the calls they were getting. Vadon surmised that if there are a lot of guys out there like him, this could be a winner. Over dinner he struck a deal with Williams to buy his business, went back to California, raised \$57 million from venture capitalists and closed the deal in May 1999. Vadon's venture not only survived the dot-com explosion, it has thrived ever since.

Vadon used the money to build a full-service e-commerce website (bluenile.com) and to assemble teams to handle various business activities. Within six months, Blue Nile generated \$14 million in sales. Vadon's focus is on marketing to men rather than women. He feels that educated men making good incomes would be drawn to a website offering more insight into selecting fine jewellery. His aim is to educate the customer, make him feel comfortable and sell as cheaply as possible.

If Blue Nile were a traditional bricks-and-mortar jeweller, Vadon says, it would take 150 stores and 1000 employees to sell \$125 million worth of goods. "Our overhead is low and we pass that savings on to our customers. We don't understand why anybody would trade anywhere but with us." His approach appears to be working. In January 2004, Forbes magazine named Blue Nile the Favourite Online Jeweller for the fifth consecutive year.

[Adapted from Byrd, M J & Megginson, L C 2013 Small Business Management: An Entrepreneur's Guidebook 7<sup>th</sup> edition McGraw Hill New York]

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**Question 1.1**

Product-oriented and service-oriented operations are similar, in that they change inputs into outputs. Complete the following table for Blue Nile by providing two examples of each of the following (6)

|                  |
|------------------|
| <b>INPUTS</b>    |
| <b>PROCESSES</b> |
| <b>OUTPUTS</b>   |

**Question 1.2**

Explain the four (4) methods of determining how much a small business should spend on promotion (8)

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**Question 1.3**

In marketing, distribution encompasses both the physical movement of products and the establishment of intermediary relationships to achieve product movement

1 3 1 What type of distribution channel is being used by Blue Nile? (1)

1 3 2 Briefly explain the major considerations in structuring a distribution channel with specific reference to the scope of physical distribution (7)

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**Question 1.4**

- 1 4 1 Define market segmentation (1)  
1 4 2 Describe the segmentation variables that were used in the case and motivate your answer with an example from the case study (3)

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**Question 1.5**

Identify and describe the pricing strategy that you think Blue Nile is using and motivate your answer with evidence from the case study (4)

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**SECTION B**

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

**QUESTION 2**

- 2 1 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 2 Only a few small businesses focus on proper capital budgeting analysis. Instinct and intuition are two inaccurate variables in capital budgeting analysis. Discuss the four (4) reasons why small businesses generally neglect to use theoretically sound financial management methods (4)
- 2 3 The forecasting process requires that an entrepreneur exercise good judgement in planning, particularly when such planning forms the basis for raising capital. Discuss any six practical suggestions about good judgement when making financial projections (forecasts) (6)

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**QUESTION 3**

- 3 1 One of the responsibilities of a small business owner is to evaluate and introduce new products in the market. This responsibility requires the setting up of processes for developing new products. Explain in detail the four stage structured approach to the new product development process (8)
- 3 2 Thandi is a new customer at Edgars, a retailer. Upon applying for credit the consultant, asked Thandi to fill out a customer profile questionnaire in order to collect data to build a customer database. Discuss any six (6) categories of information that will be included in the questionnaire for such a database (6)
- 3 3 Sales promotion serves as an inducement to buy a certain product while typically offering value to prospective customers. Sales promotion includes any promotional technique, other than personal selling or advertising, which stimulates the purchase of a particular good or service. Discuss the four (4) most widely used sales promotional tools (6)
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**QUESTION 4**

- 4 1 Managing costs can be a complex challenge but there are approaches such as the ABC method that can help minimise these costs. Describe the ABC Inventory Classification System and give examples of each category for a food item common to a restaurant (7)
- 4 2 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)
- 4 3 Define business risk and explain its two (2) dimensions (3)
- 4 4 Compensation and incentives are important for motivating employees to improve productivity and in attracting employees to the business. Explain the various employee compensation and incentive packages or plans that an employer can consider to remunerate employees (5)
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**TOTAL [70]**

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**ROUGH WORK PAGE 2**

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