

higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

N470(E)(J12)H
JUNE EXAMINATION

NATIONAL CERTIFICATE

**ENTREPRENEURSHIP AND BUSINESS MANAGEMENT N6
(Second Paper)**

(4090336)

**12 June 2014 (X-Paper)
09:30–12:00**

OPEN-BOOK EXAMINATION

This question paper consists of 15 pages.

DEPARTMENT OF HIGHER EDUCATION AND TRAINING
REPUBLIC OF SOUTH AFRICA
NATIONAL CERTIFICATE
ENTREPRENEURSHIP AND BUSINESS MANAGEMENT N6
(Second Paper)
TIME: 2½ HOURS
MARKS: 150

NOTE: If you answer more than the required THREE questions, only the first THREE questions will be marked. All work you do not want to be marked must be clearly crossed out.

INSTRUCTIONS AND INFORMATION

1. Answer only THREE questions.
 2. Read ALL the questions carefully.
 3. Number the answers according to the numbering system used in this question paper.
 4. Marks will not be allocated for copying directly from the textbook.
 5. Neatness and systematic presentation of facts are required.
 6. Start each question on a NEW page.
 7. Write neatly and legibly.
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QUESTION 1

In a global economy, currently characterised by increased competition and advances in all fields, owing to rapid technological progress and formulation of new policies, a company that wishes to stay competitive, must consider the option of internationalisation. As borders are being gradually diminished and technological advances eliminate distance, companies can now access easily and freely (due to trade liberalisation) international markets of interest. Hence, the present market condition facilitates international operations, both on a global and, especially on an EU level, due to the rapid expansion of the EU market.

- 1.1 Formulate THREE major driving forces that have considerably contributed to the globalisation process in the case study. (3 × 2) (6)
- 1.2 Read the case study below and answer the questions.

ALEX AND CHRIS COWE

The Cowes, a dog-loving husband and wife team, talk about how important it is to match your passion with preparation when considering franchising:

'Why would an about-to-be-made redundant Human Resources Director of a major US global manufacturer and his stay-at-home wife choose to take on a franchise?

Well, to turn a love of dogs into a challenging and satisfying enterprise, that's why!

As hosts for Barking Mad, Fife, we had gained meaningful insights into the company which led us to investigate the world of franchising. We knew that being passionate about dogs alone would not be enough; we had to be realistic, self-motivated, business-minded and determined to make this venture profitable.

By the time we launched Barking Mad in the virgin territory of Perthshire and Clackmannanshire in September 2006 we had long since done our homework to ensure our success.

So how would we describe our first 3 years? Packed full of new things to learn, stimulating, rewarding, challenging and never, ever boring!

Not content with one interest and against economic conditions at the time, we took over Fife (an existing concern of 4 years standing) in November 2009. This has meant bringing additional staff on board and learning how to run two businesses. For us, one of the major advantages of being franchisees is the supportive network within Barking Mad.

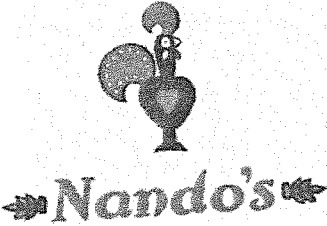
Our continuing success and enjoyment are due in no small measure to our wonderful host families, our loyal customers (old and new) and to each and every dog for whom we have un-diminishing passion.'





The alternative to kennels
Membership: Member - Full
Sector: Animal Care and Training
Contact: Mrs Lee Dancy
Email: hello@barkingmad.uk.com
Website: Barking Mad Ltd
Tel: 015242 76476
Location: Barbon, Carnforth


- 1.2.1 Give the main reason why the Cowes chose to take on a franchise. (1 × 2) (2)
- 1.2.2 Report what Barking Mad franchise contributes to the business. (8)
- 1.2.3 Interpret from the case study, the advantages that the franchisees received. (2 × 2) (4)
- 1.2.4 Which type of franchise was Barking Mad? (1 × 2) (2)
- 1.2.5 Give the topics that must be included in the service of Barking Mad's package. (4 × 2) (8)


1.3 Study the following brands to differentiate the driving force that is applicable on each brand.


1. 

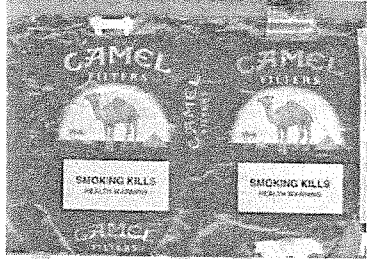
2. 

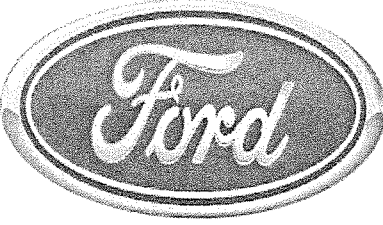
3. 

4 + 5. 

6. 

7. 

8 + 9. 

10. 

(10 × 2)

(20)
[50]

QUESTION 2

Study the case study and answer the questions.

CUSTOMS & EXCISE

The University of Nottingham Business School is one of Europe's leading research-led business schools. As an endorsement of the international quality of its work, the School was awarded a Grade 5 in the 2001 Research Assessment Exercise. The School offers expertise in a broad range of areas, including entrepreneurship, management buy-outs, corporate social responsibility, business ethics, corporate governance, risk management, financial services, strategy, international marketing and operations management.

Many of the Business School's consultants have worked in industry, and offer highly specific expertise. Professor David Paton is a Professor of Industrial Economics and a member of The University of Nottingham Tax Research Institute. In 1999, his expertise in tax was called upon by the government for a specific purpose. The advent of online betting - which being offshore was not subject to tax in the same way as high street betting - was reducing gambling tax revenue for the government as well as the income of UK high street betting shops.

The Department of Customs & Excise invited tenders to investigate whether to remove tax or change the way in which tax was paid by high street betting shops. The Nottingham team - led by Professor David Paton, Professor Donald Siegel and Professor Leighton Vaughan Williams of Nottingham Trent University - won the tender. Their report, titled 'Economic Analysis for the Options for Taxation of Betting', recommended a shift from tax on bets to tax on gross profits. 'This would protect tax revenues for the government, enable high street betting shops to operate on a level playing field, and reduce the tax burden on UK gamblers,' stated Professor Paton. In 2002, the gambling tax law was reformed.

As well as operating as part of a team, there are many occasions when Professor Paton is called to provide specific expertise as an individual consultant. In 2004, a story in the media revealed that teenagers had the right to abortion without their parents being informed by health authorities. Most parents had no idea this was the case.

Sue Axon, a mother, decided to take the Department of Health to court in order to challenge teenagers' right to confidential access to abortion. Such an emotive subject, with profound ethical considerations, naturally requires the highest levels of expertise. Thanks to his published work in titles including The Economic Journal and The Journal of Health Economics, Professor Paton was called as an independent expert witness by Sue Axon's law firm, Ormerods of Croydon.

By conducting an intensive literature search, reviewing arguments and evidence from the US as well as utilising his own research, Professor Paton produced a 200 page report to be presented in court during the 2005 Judicial Review. This report, together with its follow-up, were central to the arguments within the Judicial Review. 'It was a high profile case which received a lot of media attention. My research was under a sharp spotlight so the need to make it as thorough as possible was absolutely paramount,' stated Professor Paton

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|-----|--|---------|------|
| 2.1 | Indicate in what capacity Professor Paton was called upon. | (1 × 2) | (2) |
| 2.2 | Analyse what were the problems that Professor Paton had to solve. | (2 × 2) | (4) |
| 2.3 | Explain FOUR symptoms of each problem. | (8 × 2) | (16) |
| 2.4 | Indicate FIVE solutions that were given. | (5 × 2) | (10) |
| 2.5 | Explain why was a Gr. 5 awarded to the University of Nottingham Business School in 2001. | (4 × 2) | (8) |

BUSINESS STUDIES

- 2.6 Choose a word(s) from COLUMN B that matches a description in COLUMN A. Write only the letter (A–J) next to the question number (2.6.1–2.6.10) in your ANSWER BOOK.

COLUMN A		COLUMN B
2.6.1	Strategy used by Nestlé in the manufacturing of a non-fattening condense milk	A market development B objectives/goals
2.6.2	Strategy a business will use if it wants to increase its profitability	C mission D financial objectives
2.6.3	The attribute which makes the business unique and distinguish it from other businesses	E strategic planning F diversification strategy
2.6.4	Strategy used when Nestlé condense milk is manufactured to getting present customers to purchase more of its product	G competitive edge H product development strategy
2.6.5	It determines the business' basic product/service	I vision
2.6.6	A strategy where the entrepreneur seeks new customers for present products	J market penetration
2.6.7	This is necessary to ensure survival and success in the planning of small businesses	
2.6.8	The best way an entrepreneur can communicate a vision to others is by means of a ...	
2.6.9	What can help you to find your way if you are not knowing where you are going, how will you know when you get there?	
2.6.10	Strategy used when Nestlé starts to manufacture kitchenware	

(10 × 1)

(10)
[50]

QUESTION 3

Vusi Lebone completed a Business Management course. His father passed away a couple of years ago and left him with an amount of R50 000 in a trust fund which he could use once he completed his studies. He then decided to look for an opportunity to start his own business. Vusi Lebone felt that the fast food industry might be a good option and started looking for fast food outlets that were on sale. He identified such an outlet in an industrial area near four large factories and a taxi rank. He obtained the following information about the business:

- Value of stock and building: R55 000
- Stock to the value of R5 000 is old and cannot be used again
- Profit figures for the last three years: R55 000; R49 000; R46 000
- Regular break-ins occurred in the businesses in the area
- There is no other restaurant in this area

The salary of the owner-manager of such an outlet is R3 000 per month and the current interest rate is 15%. Vusi Lebone decided to consult you to assist him in making a decision regarding this business.

3.1 Various possible options that are given as answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number (3.1.1–3.1.12) in the ANSWER BOOK.

3.1.1 What is the net worth of the business?

- A R50 000
- B R15 000
- C R60 000
- D R40 000

3.1.2 How much will Vusi Lebone earn if he invested his money in a bank?

- A R8 500
- B R7 500
- C R5 500
- D R6 500

3.1.3 What is a reasonable salary per year for the manager?

- A R36 000
- B R50 000
- C R60 000
- D R70 000

- 3.1.4 How much will his total income be if he invested the money and worked in a similar outlet?
- A R43 500
 - B R53 500
 - C R33 500
 - D R73 500
- 3.1.5 What is the average net earnings of the business?
- A R30 000
 - B R25 000
 - C R65 000
 - D R50 000
- 3.1.6 What is the extra earning power of the business?
- A R3 500
 - B R4 500
 - C R5 500
 - D R7 500
- 3.1.7 The goodwill of the business is a period of ...
- A 2.
 - B 3.
 - C 4.
 - D 5.
- 3.1.8 The goodwill of the business is ...
- A R22 500.
 - B R16 500.
 - C R14 500.
 - D R15 500.
- 3.1.9 What will the tangible value of the net worth be, if the business had liabilities worth R15 000?
- A R25 000
 - B R30 000
 - C R35 000
 - D R40 000
- 3.1.10 How will you determine the final price of the business?
- A Net worth + goodwill
 - B Net worth + Net earnings
 - C Net worth + Salary
 - D Net worth + Extra earning power

3.1.11 What will the final price of this business be?

- A R59 500
- B R72 500
- C R49 500
- D R39 500

3.1.12 Will you buy this business?

- A This is the business I always dreamt of.
- B The price is too high.
- C Yes and no
- D Rather look for another business

(12 × 2) (24)

3.2 Identify the strategy used in the following descriptions:

3.2.1 Which strategy is used when you lower prices too far below that of your rivals and increase your advertising spending far above that of rivals?

3.2.2 Which strategy is used where rivals concentrate on better quality?

3.2.3 Which risk strategy is followed when the firm's true cost drivers are misunderstood?

3.2.4 Which strategy develops the skill that is required to serve the target market?

3.2.5 Which strategy is used when rivals have had certain products on the market and you launch a full range of new products to disrupt consumer preferences?

3.2.6 Which strategy is used to up-to-date technology to replace existing products or techniques?

3.2.7 A characteristic unique to your product/service, that can be clearly identified by customers advertisement that stands out above the same type of products/services is called ...

3.2.8 Use advertising messages to convince the consumer that their products are peerless and the higher price charged for the product is for the value received by the consumer.

3.2.9 A strategy to strive to improve product performance

3.2.10 This strategy is used to reduce the price of your products below the price of competitors

3.2.11 A strategy that can be used in order to survive and grow.

- 3.2.12 Which risk strategy is followed when focused exclusively on lower manufacturing cost?
- 3.2.13 Which risk strategy is followed when a firm's strategy is so zealous that it locks itself out of other strategic choices?
- 3.2.14 Which strategy is used if the competitors do not concentrate on all the segments of the market?
- 3.2.15 A strategy that recognises that not all the markets are homogeneous.
- 3.2.16 Which strategy is used to attack rivals in places and in times which do not suit them?
- (16 × 1) (16)
- 3.3 Give ONE word/term for each of the following descriptions. Write only the word/term next to the question number (3.3.1–3.3.5) in the ANSWER BOOK.
- 3.3.1 The advantage that is used in the DStv-concept
- 3.3.2 The use of block competitors' offensive
- 3.3.3 The Tracker surveillance system's jingle
- 3.3.4 The use of hide true profitability
- 3.3.5 The use of threat of retaliation
- (5 × 1) (5)
- 3.4 Which types of first movers are used in the following examples?
- 3.4.1 To gain access to least expensive sources of supply
- 3.4.2 New products on the market enjoy such an advantage that competitors are wary of competing against it
- 3.4.3 By pioneering a new operations system that is effective in reducing cost
- 3.4.4 To win customers' loyalty by creating switching cost, for example a computer
- 3.4.5 A retail chain taking up strategic retail sites, to prevent competitors from competing in certain areas.
- (5 × 1) (5)
[50]

QUESTION 4

- 4.1 Choose a/an word/item from COLUMN B that matches a description in COLUMN A. Write only the letter (A–J) next to the question number (4.1.1–4.1.10) in the ANSWER BOOK.

COLUMN A		COLUMN B
4.1.1	That comprises a country's schools, hospitals, railway, high-ways, communication systems and airports	A high price strategy B foreign exchange C density D values and attitudes E aesthetics F Department Of Customs and Excise G medium-price strategy H infrastructure I joint venture J absolute advantage
4.1.2	This refers to the ideas in a culture concerning beauty and good taste	
4.1.3	When it is the only one that can produce a product	
4.1.4	Help determine what we think is right appropriate, important or desirable	
4.1.5	Producing and marketing abroad with a local partner	
4.1.6	That offers the safest approach for the small business	
4.1.7	Comes into the country, which means favourable export and import transactions	
4.1.8	A unique, new, highly desirable product should be positioned in the market as top-of-the-line	
4.1.9	Concentration of population in different areas is important to the entrepreneur in evaluating distribution and communication problems	
4.1.10	This department will see that all businesses do comply with certain export regulations	

(10 × 1) (10)

4.2 Study the case study and answer the questions.

INDITEX: A EUROPEAN SUCCESS STORY

The story of the INDITEX Group from Spain demonstrates how innovative design and trademarks helped a small family-owned business grow into a solid international firm. INDITEX has introduced a kind of revolution in the fashion sector that impelled other companies to rethink their strategy.

INDITEX Group's chairman and founder Amancio Ortega Gaona made his modest start working at the age of 14 as a gofer in a shirt store in La Coruna, Galicia. From the first venture into his own business in 1963, Mr Ortega reached an initial milestone in 1975 with the opening of the first ZARA store in La Coruna.

A decade later, he founded INDITEX as holding company for its various subsidiaries, paving the way for the Group's expansion outside Spain, first to Portugal in 1988, followed by the opening of outlets in New York in 1989 and in Paris in 1990.

INDITEX Group launched the 'Pull & Bear' chain of casual wear in 1991 and in the same year purchased 65% of the 'Massimo Dutti' Group, a high-end fashion concern, which was fully acquired in 1995.

Meanwhile, it continued the drive into the international market by opening various stores in Mexico, Greece, Belgium and Sweden, respectively from 1992-1994. The Group started the 'Bershka' chain targeting the younger female segment in 1998, when it also set up stores in Argentina, Japan, UK, Venezuela, Lebanon, UAE, Kuwait and Turkey.

In 1999, INDITEX acquired 'Stradivarius', making it the fifth chain of the Group, and opened its stores in new countries namely the Netherlands, Germany, Poland, Saudi Arabia, Bahrain, Canada, Brazil, Chile and Uruguay. In 2000, INDITEX built its headquarters in Arteixo, Coruna, Spain, while opening stores in four new countries.

The company was listed in the Spanish stock market in May 2001 with its shares sold out the day it went public, the year when it added six more countries to its global footprint.

INDITEX has seven different firms with seven different trademarks under its umbrella. It has 1,376 stores in 42 countries across the world. INDITEX success lies in the goodwill value of the Group's trademarks: Zara for the middle-class segment, Massimo for the high-end, and Pull & Bear for casual clothing line. The Group does not invest a lot in advertisement campaigns, but it focuses on investment in the 'image' of the shops. It focuses on delivering value for money, and the capacity to adapt to consumer's tastes.

The Group's future looks promising, with its blueprint establishing presence worldwide, while launching a new product line: women's underwear.

- 4.2.1 Indicate the TWO big problems that INDITEX had to overcome in the beginning? (2)
- 4.2.2 Explain what INDITEX had to do to overcome the problems as mentioned in QUESTION 4.2. (7 × 2) (14)
- 4.2.3 Differentiate between a *subsidiary* and a *holding company*. (2 × 2) (4)
- 4.2.4 Name 10 indicators that created INDITEX success. (10)
- 4.2.5 Give 10 reasons why INDITEX trade internationally. (10)
- TOTAL: 150**
- [50]

BUSINESS STUDIES