TEXTBOOK QUESTIONS SOLVED

A. VERY SHORT ANSWER TYPE QUESTIONS
Question 1. What are the two ways in which an organisation can expand?
Answer: Internal Expansion and External Expansion are the two ways in which an organisation can expand.

Question 2. Who is a franchisor?
Answer: The owner or person offering the franchise is known as the franchisor.

Question 3. Who is a franchisee?
Answer: The franchisee is the person who purchases the franchise and is given the opportunity to enter a new business with a better chance to success than if he or she were to start a new business from nothing.

Question 4. What is franchising?
Answer: Franchising is an arrangement through which the manufacturer or sole distributor of a trademarked product or service gives exclusive rights of local distribution to independent retailers in return for royalties and conformance to standardized operating procedures.

Question 5. Which is the most popular form of franchising?
Answer: Business format franchise opportunity is the most popular form of franchising.

Question 6. What is acquisition?
Answer: Acquisition or take over is enveloping in itself a range of acquisition transactions by a firm.

B. SHORT ANSWER TYPE QUESTIONS-I
Question 1. Explain in brief the three ways in which an organisation can expand externally.
Answer: The three ways in which an organisation can expand externally are:

1. Franchising: Franchising is an arrangement through which the manufacturer or sole distributor of a trademarked product or service gives exclusive rights of local distribution to independent retailers in return for royalties and conformance to standardized operating procedures,
2. Merger: It is the combining of two firms into a single large firm.
3. Acquisition: Acquisition or takeover is enveloping in itself a range of acquisition transactions by a firm.

Question 2. Enumerate the importance of franchising.
Answer: Importance of Franchising:

1. Proven idea: Business is based on a proven idea. Success of the product can be checked in the market and is also known.
2. Profit from brand recognition:Franchises develop an image in the marketplace. This saves both time and money of advertising, promotion, recognition, etc. Image of the product

is a favourable one and is in the minds of consumers.
3. Recognized brand name and trademarks: Entrepreneur gets a recognized brandname and trademarks. Benefit from any advertising or promotion by the parent company automatically benefits the franchise.
4. Support from parent company: The franchisor gives support in the form of training, help setting up the business, a manual telling how to run the business and ongoing advice.
5. Exclusive rights of the territory: The franchisor can't sell any other franchises in the same territory which leads to the creation of monopoly power in the territory.
6. Easier Financing: Financing the business becomes easier due to the associated brand name. Banks are more likely to lend money to buy a franchise with a good reputation.

Question 3. Differentiate between consolidation and merger.
Answer:

Merger	Consolidation
(i) In a merger, one company takes over another, including all assets and liabilities. The company that takes over remains active, while the one that is acquired essentially ceases to exist.	(i) In a consolidation, two or more companies merge to form one new, larger company. All of each company's assets and liabilities then become the property of the new company.
(ii) Firms involved are differently sized.	(ii) Firms involved are nearly equally sized.

Question 4. Name the two forms that merger can take place.
Answer: Two forms of merger are:

1. Amalgamation: Amalgamation is a union of two or more companies, made with an intention to form a new entity or company.
2. Absorption: It means an existing company taking over one or more company. In this case one or more company will close down their business and this business will be continued by the name of the existing company.

Question 5. Explain the types of acquisition.
Answer: There are four types of acquisitions:

1. Friendly acquisition: Here, both the companies approve of the acquisition under friendly terms. There is no use of force or pressure and every thing gets over cordially.
2. Reverse acquisition: Here, a private company takes over a public company.
3. Rack flip acquisition: Here, the purchasing company becomes a subsidiary of the purchased company.
4. Hostile acquisition: Here, the entire process is based on force. The smaller company is forced to say yes to the acquisition or the bigger company just buys off all its share.

Question 6. What is value addition? Explain by giving examples.
Answer: Value addition refers to creation of a competitive advantage by, combining, packaging features and benefits or through any other method that results in greater customer acceptance. Its examples are:

1. Offering one year of free support on a new computer would be a value-added feature.
2. Turning cotton into fabric. Here, fabric has more usefulness than cotton.
3. Turning milk into cheese. Cheese has got more specific uses than milk.
4. Packaging ready-to-use grated cheese into serving size packets.
5. Turning wood into paper. Utility of paper is more than wood.

C. LONG ANSWER TYPE QUESTIONS

Question 1. Explain the types of franchising.

Answer: Following are the types of franchising:

1. Product Franchise Business Opportunity: Here, the manufacturers use the product franchise to govern how a retailer distributes their products. The manufacturer grants a store owner the authority to distribute goods by the manufacturer and allows the owner to use the name and trademark owned by the manufacturer. The store owner purchases the inventory in return for these rights. Example: Some tire stores.
2. Manufacturing Franchise Opportunity: It provides an organisation with the right to manufacture a product and sell it to the public, using the franchisor's name and trade mark. This type of franchising is very common. For example, in the food and beverage industry, bottlers of soft drinks, etc.
3. Business Franchise Opportunity Ventures: Here, a business owner purchases and distributes the products for one specific company. The company provides customers or accounts to the business owner. In return, the business owner pays a fee as compensation. Example, vending machine routes and distributorships.
4. Business Format Franchise Opportunity: Here, a company provides a business owner with a proven method for operating a business using the name and trade mark of the company. The company provides a significant assistance to the business owner in starting and managing the company. The business owner pays a fee or royalty in return.

Question 2. What are the disadvantages of franchising to the franchisee?

Answer: Disadvantages of franchising :

1. Higher cost: Costs may be higher than expectations. The costs include initial costs of buying the franchise, you pay continuing management service fees and you may have to agree to buy products from the franchisor, this may be more than the expectations.
2. Huge restrictions: The franchise agreement usually includes strong restrictions on how to run the business. Franchise might not be able to make changes to suit the local market.
3. Risk: There is a risk that the franchisor might go out of business and in this case a huge risk is involved.
4. Bad reputation: Other franchisees could give the brand a bad reputation, so the selection process needs to be perfect.
5. No sale option: Franchise finds it difficult to sell to someone if willing to sell due to any reason. It can only be sold to someone approved by the franchisor.

Question 3. What is synergy? In what forms can it take place?

Answer: Synergy is the benefit that results when two or more firms together achieve something either one couldn't have achieved on its own. It's the concept of the whole being greater than the sum of its parts.

For example, if firms A and B merge and the value of the combined entity— V(AB)—is expected to be greater than (VA+VB), the sum of the independent values of A and B, the combined entity is said to be benefitting through synergy. Synergy can take place in two forms:

1. Operating synergy: This refers to the cost savings that come through economies of scale or increased sales and profits. It involves raising scale of production by changing all factors of productions of the firm. It leads to the overall growth of the firm.
2. Financial synergy: It is the type of synergy which is due to

financial factors such as lower taxes, higher debt capacity or better use of idle cash. When a loss making firm merges with a profitable firm and the combined firm can set off such losses against its profits, a financial synergy, known as tax shield, occurs.

Question 4. What are the different types of value added?
Answer: The different types of value added are as follows:

1. Quality Added Value: It is adding convenience, ease of use, etc. that customers value. For example, turning a commodity into a branded product or design enhancements.
2. Environmental Added Value: It is value added which employs methods or systems that do not harm the environment. For example, using less fuel, using recycled material for packaging.
3. Cause-related Added Value: Here, the business contributes part of the revenue from a commodity to a cause. For example, a business may donate a percentage of revenue from each transaction to a orphanage.
4. Cultural Added Value: It uses methods or systems of production involving cultural aspects. For example, using a combination of English and the regional language in written communications.

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