V. VALUE BASED QUESTIONS
Question 1. Write short note on discipline in dealing with competitors.
Answer: Each entrepreneur is expected to be a member of healthy competition. Unhealthy competition leads to downfall of the enterprise in the long run. Discipline in dealing with competitors, always leads to better quality products and more consumer satisfaction. Depending on illegal activities, malpractices etc. for getting major share of the attitude is undesirable. Every producer has the right, to sell. This right could not be taken away.

Question 2. Write short note on Legal Responsibility.
Answer: Every entrepreneur is expected to fulfil all its statutory and legal responsibilities. This is the duty of each entrepreneur. He must pay license fees, taxes, social security contributions, minimum were; interest on loans, dividends, etc. well in time. Moreover any recent changes in the laws must be taken care of. Enterprise comes under many laws like, Factories . Act, Minimum Wages Act. Payment of Wages Act etc. Fulfilment of legal aspects is the legal as well as moral duty. Violation of laws leads to punishment or fine. This leads to loss of goodwill, affects faith of shareholders and also results in loss of money, time and energy.

Question 3. “Synergy can be a positive or negative T outcome of combined efforts”. Explain with the help of an example.
Answer: According to the American Heritage Dictionary, the term ‘synergy’ is derived ; from the Greek word sunergos, meaning “working together.”
When two or more people or organizations combine their efforts, they can accomplish more together than if you added their accomplishments achieved separately…” Positive synergy is sometimes called the 2A + 2B = 5AB effect. Individually each subsystem can produce two units of output. And if we combine their efforts and work together effectively, the two subsystems can produce five units of output.
Mergers and acquisitions are corporate- level strategies designed to achieve positive synergy. The 2004 acquisition of AT&T Wireless by Cingular was an effort to create customer benefits and growth prospects that neither company could have achieved on its own—
Values:

1. offering better coverage,
2. improved quality and reliability,
3. a wide array of innovative services for consumers,
4. broadening the firm’s product or market mix will result in a higher level of performance.
   When two or more people or organizations combine their efforts, and if they can produce less than. If added their accomplishments achieved separately. Negative synergy can be called the 2A + 2B = 3 AB effect. When an individuals operating alone can each produce two units of output. However, with negative synergy, the combination of their efforts results in less output than what they would have achieved if they had each worked alone.

Negative synergy can result from:

1. inefficient committees, business units that lack strategic planning,
2. poor functioning of joint efforts,
3. inefficient workers,
4. if one of the individual dominate and control the group decision or less effective group decisions.

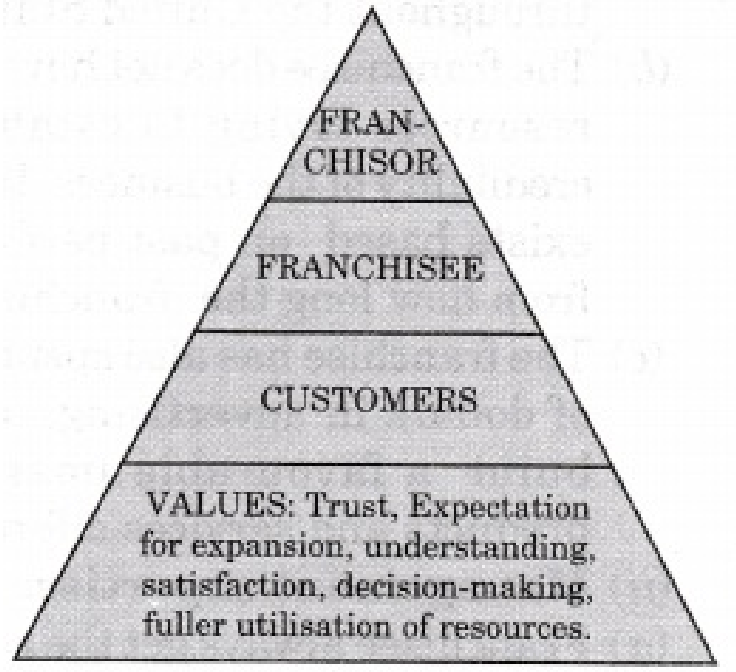
Question 4. Read the following case study of an Shri Jhunjhunwala and write down the values that can help him to bring a positive change and sustain growth in the enterprising world?
Shri Jhunjhunwala is an Entrepreneur Shri Jhunjhunwala of Varanasi is a businessman engaged in the production of "Jhula Vanaspati". He started his business career from a humble beginning. He had a small retail shop of oil and ghee. His earning was limited and not sufficient to meet the needs of his family. He started looking for an opportunity to earn more. One of his relatives owned an oil factory which was running at a loss. The relative was willing to sell it. Jhunjhunwala thought he can run the factory and earn profit out of it. He bought his relative's factory. The factory took a new birth and today it is earning huge profit. "Jhula Vanaspati" is now a reputed brand of ghee in that part of the country. He says business is an opportunity, it involves risk and it is a challenge.
Answer:

1. Adaptability: It is the ability to adjust to new situations-and find creative solutions to problems.
2. Opportunity: It means a chance to do something new. When his problem is solved by him in a challenging way, he find opportunities.
3. Competitiveness: It also implies that competition is perceived as a challenge which motivates the entrepreneur to strive harder. The advertisements that we see in newspapers, journals and on TV will indicate the continuous competition among entrepreneurs and how they constantly strive to maintain their competitive edge. For a successful entrepreneur competition is a tonic for further growth.
4. Confidence: Self-belief is a very important trait of all successful entrepreneurs. They strongly believe that they can do what they set out to do.
5. Dedication: All successful entrepreneurs are consumed by a goal or purpose. As project champions they are dedicated to fulfillment of their vision.
6. Vision and Drive: The ability to see the end results of one's goals while working to achieve them and the desire to work hard to accomplish one's goals are other important traits of successful entrepreneurs.
7. Honesty: A successful entrepreneur is invariably honest. Contrary to popular beliefs all great entrepreneurs have always had the commitment to tell the truth and deal with people fairly. It is one trait that guarantees sustainable growth.

VI. HIGHER ORDER THINKING SKILLS
Question 1. These concept began back in the 1850's when Isaac Singer invented the sewing machine. In order to distribute his machines outside of his geographical area, and also provide training to customers, Singer began selling licenses to entrepreneurs in different parts of the country. Identify the concept and explain it by giving value points to it.
Answer:

1. Franchising,
2. Franchising is a process by which the rights of producing or selling any product or service are provided to another enterprise. It is also associated to fulfilment of some terms, conditions or requirement by the enterprise. These conditions

are laid down by the parent company.



The franchisee sells the franchisor's product or services, trades under the franchisor's trade mark or trade name and benefits from the franchisor's help and support.
In return, the franchisee usually pays an initial fee to the franchisor and then a percentage of the sales revenue.
The franchisee owns the outlet they run. But the franchisor keeps control over how products are marketed and sold and how their business idea is used.

Question 2. Explain the advantages of franchising to franchisee.
Answer: One of the most important advantages of buying a franchise is that the entrepreneur does not have to incur all the risks associated with creating a new business. Typically, the areas that entrepreneurs have problems with in starting a new venture are product acceptance, management expertise, meeting capital requirements, knowledge of the market, and operating and structural controls. In franchising, the risks associated with each are minimized through the franchise relationship, as discussed below:
Advantages to the franchisee:

1. Product acceptance: The franchisee usually enters into a business that has an accepted name, product or service. Example: In case of Subway,
(a) Any person buying a franchise will be using the Subway name, which is well known and established throughout the United States.
(b) The franchisee does not have to spend resources trying to establish the credibility of the business. It already exists based on past performances from how long the franchise exist.
(c) The franchise has also spent millions of dollars in advertising, and thus build a favourable image of the products and services offered.
2. Management expertise:
(a) Franchisee always get the advantage of managerial assistance provided by the franchisor.
(b) Special training programme and education provided by them on all aspects of operating the franchise like classes in accounting, personnel management marketing and production. Example: McDonald's, for example, requires all its franchisees to spend time at its school, where everyone takes classes in these areas. In addition, some franchisors require their new franchisees to actually work with an existing franchise owner or at a company-owned store or facility to

get on-the job training.
Once the franchise has been started,

- Most franchisors will offer managerial assistance on the basis of need.
- Toll-free numbers are also available so that the franchisee can ask questions anytime.
- Visit the local franchisees to offer advice and keep the owners informed of new development.
- The training and education offered is actually an important criterion that the entrepreneur should consider in evaluating any franchise opportunity.
- If the assistance in start-up is not good, the entrepreneur should probably look elsewhere for opportunities unless he or she already has extensive experience in the field.

3. Capital requirements:
   (a) The franchise offers an opportunity to start a new venture with up-front support that could save the entrepreneur's significant time and huge investment of capital. They also provide initial investment to start operation.
   (b) Some franchisors conduct location analysis and market research of the area which include an assessment of traffic, demographics, business condition and competition.
   The initial capital required to purchase a franchise generally reflects a fee for the franchise, construction costs and the purchase of equipment.
   The layout of the facility, control of stock and inventory and the potential buying power of the entire franchise operation can save the entrepreneur significant funds.
4. Knowledge of the market:
   (a) Any established franchise business offers the entrepreneur years of experience in the business and knowledge of the market.
   This knowledge is usually reflected in a plan offered to the franchisee that details the profile of the target customer and the strategies that should be implemented once the operation has begun.
   This is particularly important because of regional and local differences in markets.
   (b) Competition, media effectiveness, and tastes can vary widely from one market to another. Given their experience, franchisors can provide advice and assistance in accommodating any of these differences.
   Most franchisors constantly evaluate market conditions and determine the most effective strategies to communicate to the franchisees. Newsletters and other publications that reflect new ideas and developments in the overall market are continually sent to franchisees.
5. Operating and structural controls: Two main problems that generally an entrepreneur face during the start-up:
   (a) Maintaining quality control of products and services.
   (b) Establishing effective managerial controls. The franchisor, particularly in the food business, identifies purveyors = and suppliers that meet the quality standards established.
   Some of the supplies are actually provided by the franchisor. Standardization in the supplies, products and services provided helps ensure that the entrepreneur will maintain quality standards. Administrative controls unusually involve financial decisions related to costs, inventory and cash flow and personnel issues such as criteria for hiring/firing, scheduling and training to ensure consistent service to the customer. These controls are usually outlined in manual supplied to the franchisee upon completion of the franchise deal. Although all the above are advantages to the franchisee, they also represent important strategic considerations for an entrepreneur who is considering growing the business by

selling franchises. Since there are so many franchise options available for an entrepreneur, the franchisor will need to offer all of the above services in order to succeed in the sale of franchises. One of the reasons for the success of such franchises as McDonald's, Burger King, KFC, Boston Market, Subway, Midas, Jiffy Lube, Holiday Inn, Mail Boxes and Merry Maids is that, all these firms have established an excellent franchise system that effectively provides the necessary services to the franchisee.

Question 3. What are the advantages of franchising to the franchisor?
Answer: The advantages a franchisor gains through franchising are related to expansion risk, capital requirements and cost advantages that result from extensive buying power.
It is clear from the Subway example that Fred De Luca would not have been able to achieve the size and scope of his business without franchising it. In order to use franchising as an expansion method, the franchisor must have established value and credibility that someone else is willing to buy.
Quick expansion:
(a) Franchising for allows an entrepreneur an easy way to start the business the venture and to expand quickly using little capital.
(b) It helps to reflect on the problems and issues that an entrepreneur faces in trying to manage and grow a new venture.
Cost advantages: Many franchise businesses produce parts, accessories, packaging and raw materials in large quantities, then in turn sell these to the franchisees.
The franchisee are usually required to purchase these items as part of the franchise agreement and they usually benefit from lower prices.
One of the biggest cost advantages of franchising a business is the ability to commit larger sums of money to advertising.Each franchisee contributes a percentage of sales (1 to 2 %) to an advertising pool.

Question 4. Explain various types of mergers with the help of an example.
Answer: The term merger depends on the:

- Economic function
- Purpose of the business transaction
- Relationship between the merging companies.

1. Conglomerate:
   (a) A merger between firms that are involved in totally unrelated business activities.
   (b) There are two types of conglomerate mergers: pure and mixed.
   • Pure conglomerate mergers involve firms with nothing in common.
   • Mixed conglomerate mergers involve firms that are looking for product extensions or market extensions. Example: A leading manufacturer of athletic shoes merges with a soft drink firm. The resulting company is faced with the same competition in each of its two markets after the merger as the individual firms were before the merger. One example of a conglomerate merger was the merger between the Walt Disney Company and the American Broadcasting Company.
2. Horizontal merger: A merger occurring between companies in the same industry. Horizontal merger is a business consolidation that occurs between firms which operate in the same space, often as competitors offering the same goods or service. Horizontal mergers are common in industries with fewer firms, as competition tends to be higher and the synergies and potential gains in market share are much

greater for merging firms in such an industry.
Example: A merger between Coca-Cola and the Pepsi beverage division. The goal of a horizontal merger is to create a new, larger organization with more market share.
If the merging companies' business operations are very similar, there may be opportunities to join certain operations, such as manufacturing and reduce costs.

3. Market extension mergers: A market extension merger takes place between two companies that deal in the same products but in separate markets. The main purpose of the market extension merger is to make sure that the merging companies can get access to a bigger market and that ensures a bigger client base.
   Example: A very good example of market extension merger is the acquisition of Eagle Bancshares Inc. by the RBC Centura. Eagle Bancshares is headquartered at Atlanta, Georgia and has 283 workers. It has almost 90,000 accounts and looks after assets worth US $1.1 billion.
   Eagle Bancshares also holds the Tucker Federal Bank, which is one of the ten biggest banks in the metropolitan Atlanta region as far as deposit market share is concerned.
   One of the maj or benefits of this acquisition is that this acquisition enables the RBC to go ahead with its growth operations in the North American market. With the help of this acquisition RBC has got a chance to deal in the financial market of Atlanta, which is among the leading upcoming financial markets in the USA. This move would allow RBC to diversify its base of operations.
4. Product extension mergers:A product extension merger takes place between two business organizations that deal in products that are related to each other and operate in the same market. The product extension merger allows the merging companies to group together their products and get access to a bigger set of consumers. This ensures that they earn higher profits.
   Example: The acquisition of Mobilink Telecom Inc. by Broadcom is a proper example of product extension merger. Broadcom deals in the manufacturing of Bluetooth personal area network hardware systems and chips for IEEE 802.11b wireless LAN.
   Mobilink Telecom Inc. deals in the manufacturing of product designs meant for handsets that are equipped with the Global System for Mobile Communications technology. It is also in the process of being certified to produce wireless networking chips that have high speed and General Packet Radio Service technology. It is expected that the products of Mobilink Telecom Inc. would be complementing the wireless products of Broadcom.
5. Vertical merger: A merger between two companies producing different goods or services for one specific finished product. A vertical merger occurs when two or more firms, operating at different levels within an industry's supply chain, merge operations. Most often the logic behind the merger is to increase synergies created by merging firms that would be more efficient operating as one. Example: A vertical merger joins two companies that may not compete with each other, but exist in the same supply chain. An automobile company joining with a parts supplier would be an example of a vertical merger. Such a deal would allow the automobile division to obtain better pricing on parts and have better control over the manufacturing process. The parts division, in turn, would be guaranteed a steady stream of business. Synergy, the idea that the value and performance of two companies combined will be greater than the sum of the separate individual parts is one of the reasons companies merge.

Question 5. Explain the disadvantages of franchising to the franchisee.
Answer: Some of the key disadvantages of this mode of expansion are:
Right and the only way of doing things: Franchisees are required to operate their businesses according to the procedures and set forth by the franchisor in the franchisee agreement. Entering into a franchise contract limits the degree of freedom for the franchise. The franchisee is not completely independent. It shows that, one gets an over-guided and over-influenced degree of control exerted by the franchisor. This restrictions results in losing the freedom to innovate to some extent.

1. Continuing cost implication:
   Excess of the original franchise fee and royalties, a percentage of revenue gets shared perpetually with the franchisor. The franchisor may also charge additional amounts towards sharing the cost for services provided such as advertising and training.
2. Risk of franchisor getting bought:
   When the franchisor either fails or gets bought out by another company, the franchisee faces serious problems and difficulties.
3. Inability to provide services:
   (a) Anytime if there is a problem and inability of the franchisor to provide services advertising and location.
   (b) When promises made in the franchise agreement are not kept, the franchisee may be left without any support in important areas.
   For example, Curtis Bean bought a dozen franchises in Checkers of America Inc., a firm that provides auto inspection services. After losing Rs 200,000, Bean and other franchisees filed a lawsuit claiming that the franchisor had misrepresented advertising costs and had made false claims including that no experience was necessary to own a franchise.

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