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May / June 2025 MNE3701

Entrepreneurship and Small Business Management

70 Marks

Exam date: 16 May 2025

Duration: 3 Hours (From 12h45 to 15h45)

Examiners

First : Dr. SJ Chiromo

Second : Ms. WT Sami

External: Dr Maleepile Ramogale

This paper consists of seven (8) pages.

**Instructions:**

- (1) Submit your answers as a **single document** in **PDF format**. It is preferable for you to type your answers (Font: Arial 12) and then convert your document to PDF format for submission. However, if this is not possible, you may also write your answers down and scan them to a PDF file. Please write legibly.
- (2) Start with a cover page stating the **module code (MNE3701)** and your **student number**.
- (3) Make sure that each question and sub question is clearly numbered.
- (4) Please ensure that your PDF document is NOT encrypted to a "secured" mode and that it is NOT password-protected as these files cannot be marked. Virus- infected files will also not be marked.
- (5) Submit your answers in one PDF document by using the **Assessment option on myExams**.
- (6) You need to answer the questions in your own words. **Plagiarism will not be tolerated and may result in disciplinary action**, if detected.

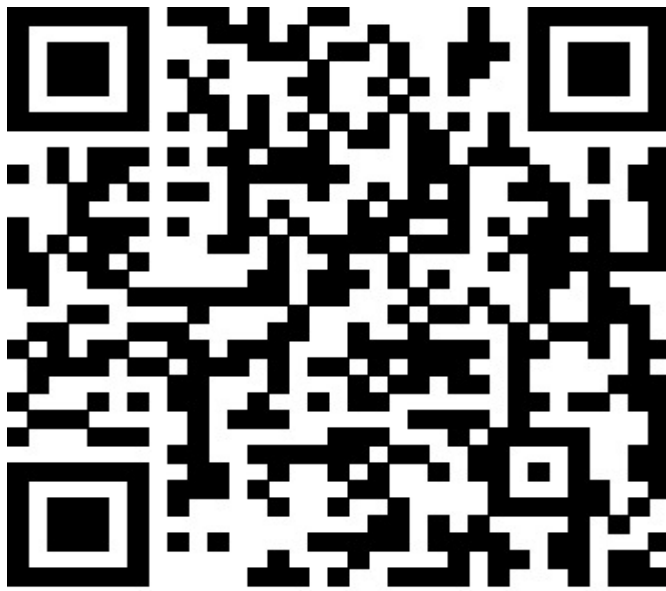
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(7) Please include the following declaration at the end of your examination answer:

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**SECTION A**

- This section is compulsory.
- 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**.

**“I am more interested in being a small fish in an ocean than being a big fish in a small pond,” says Kenyan entrepreneur Maureen Murunga.**

A former banker, Murunga is the founder and CEO of Neo Amadiva, a high-end salon chain based in Nairobi. Earlier this year Dutch-based private equity fund TBL Mirror Fund bought a minority stake in the chain for an undisclosed amount. This first-of-a-kind deal in the Kenyan market demonstrates the increasing investor interest in consumer driven businesses. Murunga says welcoming new investors into her business “was a no-brainer”, adding that the combination of cash injection and expertise will help her to scale her business much faster. “I think I will be making a much more interesting return [in the future] than if I hang on to the full ownership of the company.”

Murunga previously worked with Barclays Bank in Johannesburg, but quit her job to pursue her passion for beauty. She tells *How we made it in Africa* that watching the documentary *Good Hair* produced by US comedian Chris Rock helped her to realise the opportunities in the hair care industry. “What I noticed was the amount of money we spend on hair. I also noticed that black people were mostly consumers but were rarely involved in the creative side, sourcing, manufacturing and selling of products. It is bizarre. I did my research and looked at other parts of the world and it was the same trend. I figured because I loved beauty anyway, it made sense to invest in the industry”. In 2010 Murunga bought an existing salon chain and rebranded it to Neo Amadiva in the hope that starting with a salon business would give her the insight and learning needed to venture into something bigger.

“My vision is to eventually get to the top of the food chain. I am very interested in manufacturing, be it hair or skin care products. Manufacturing is very capital intensive and I did not have the finances that would allow me to start from there. So I decided to start from the bottom to gain market experience. My interactions with customers will eventually translate into products consumers want.” After four years of running the business and despite the difficulties she has faced, Murunga says, “the rewards have been immense”. “When you become an entrepreneur you have to be prepared for the inevitable which is nothing is guaranteed. It’s a big risk but I have a vision and I am very passionate about it. This is not something I am willing to give up on. It is something I have to pursue or at least die trying.

“I gave myself 10 years to do this. There are difficulties but I don’t wake up any morning and feel I have made a mistake. I wake up most mornings in a panic, but I don’t feel like

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I made a mistake. I know what I am doing is exactly right and Neo Amadiva can make a difference.” Neo Amadiva targets “the growing aspirational black middle class” in the region. “The product is really affordable... [but] it is high quality services offered in a space that has good ambiance. The people I am really looking at are the generation Y. They are young enough to experiment, they are still trying to find out what fits and they are not committed to any brands yet. “This business is about people,” says Murunga.

### **Expansion plans**

Murunga’s vision is to own and operate 10 stores by 2016. The bigger vision, she says, is to have up to 200 franchise branded stores in urban areas across East Africa. She explains that it is achievable to have some 70 franchise stores within the next seven years. She notes that TBL Mirror’s technical expertise will come in handy in executing her ambitious expansion plan. TBL has brought in Peta Klaassen, the former Chief Executive Officer(CEO) of Wave, a franchise salon store with 200 branches across Belgium, Netherlands and Luxembourg, to help Neo Amadiva in product development. Murunga reiterates that her ambitious expansion was achievable, noting that when she quit her job she never planned to “sit around and run one salon for the rest of my life”. “I wouldn’t be doing this if it was not a scalable business. I would not leave my job to go set up one shop. As Africans we need to get over the fear of dreaming big. We should believe that a small venture can turn into something really big. Java [House] started with one coffee shop. Who would have thought that 14 years later they would be in every mall in Kenya? It is because they were not building a coffee shop, they were building a brand.”

### **Dream big**

Murunga advises other entrepreneurs in Africa to dream big, be resilient and consistent and keep an open mind. She notes that “being an entrepreneur is volatile” and one has to be “prepared for a lot of no’s but they should not give up knocking”. “I think the biggest thing is you have to be very clear on your vision and define it. Some entrepreneurs waver a lot. They are so worried about making ends meet that they will change their concept to fit whatever comes their way. You have to stand firm in your dream because you are the biggest advocate of your dream. I have to add though, that you should not be too arrogant not to listen to other people or read the market. Sometimes you can be completely off the mark.”

(Source:<http://www.howwemadeitinafrica.com/nairobi-salon-owner-sees-big-money-in-the-beauty-business>)

### **Question 1.1**

Managing costs can be a complex challenge but there are approaches such as the ABC method that can help minimize these costs. Describe the ABC Inventory Classification System and give examples of each category for an item common to a hair salon such as the one in the case study.

(7)

**Question 1.2**

Murunga states, “The product is really affordable, but it is high quality services offered in a space that has good ambiance”. Identify and describe the pricing strategy that you think would be followed for this product. Motivate your choice with evidence from the case study. (2)

**Question 1.3**

The financing option that a business pursues may have long-term financial consequences. To make an informed decision a business owner needs to understand the trade-offs between the different options.

1.3.1 What type of financing did Murunga opt for? (1)

1.3.2 Describe any two (2) benefits for her choice of financing and substantiate your answer with examples from the case study. (4)

**Question 1.4**

Murunga realised that to become an entrepreneur is very risky. Regardless of the nature and size of a business, risk management is a serious issue. Small businesses often pay insufficient attention in analysing potential risks. Explain the basic ways to manage risk in a small business in detail . (10)

**Question 1.5**

Capital-budgeting analysis helps managers to make decisions about long-term investments. Explain the three (3) techniques, commonly used when managers make capital-budgeting decisions. (6)

**TOTAL SECTION [30]**

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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 In credit sales, the seller provides goods or services to the buyer in return for the buyer's promise to pay later. The major reason for granting a credit is to make sales. Discuss the FOUR (4) different types of credit that a small business owner can make use of. (8)
- 2.2 Briefly describe each stage of the customer decision making process. (4)
- 2.3 Describe the four (4) stages of small business growth and how management requirements change as the firm moves through these stages. (8)

**[20]****QUESTION 3**

- 3.1 Iris and Erin are starting a new company decorating wedding cakes that are unique in their design and structure. Both women are certified chefs and have ten years of experience between them. Discuss the seven (7) issues that they should consider in choosing between a general partnership and a private company. Which form would you recommend and why? (9)
- 3.2 To recruit effectively, the small business manager must know where and how to find qualified applicants. Sources are numerous, and it is impossible to generalise about the best source in view of the differences in companies' personnel needs and quality of the sources from one locality to another. Explain the strengths and weaknesses of any four (4) sources of employees. (8)
- 3.3 Discuss the three (3) main considerations in evaluating a channel of distribution. (3)

**[20]****QUESTION 4**

- 4.1 The nature of a firm affects its financing sources. Describe any three (3) basic factors that determine how a firm is financed. (6)

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- 4.2 Describe B2B, B2C, and C2C businesses and the advantages of each of these types of businesses. (6)
- 4.3 Holley and Ellison are sisters whose parents started a stable 15 years ago boarding pleasure horses. Their parents want the sisters to take over the operation as they would like to retire and the business is starting to suffer. Explain what the sisters could do to move the company out of the decline stage of the product life cycle and provide relevant examples. (4)
- 4.4 William is analysing his financials and determining a budget for promotional activities for his company. He has data from last year's budget, past financial statements, projections for next year's budget as well as a general idea of what the competition spent last year. Explain the four (4) methods that William can use to determine the new promotional budget and what concerns he should be aware of during the process. (4)

**[20]****TOTAL SECTION B [40]****TOTAL [70]**