MNE3701 May/June 2025 Exam
Student Number: 59415983

Questions Answered:
Section A - All questions
Section B - question 2 and question 4

SECTION A

Question 1.1:

The ABC Inventory Classification System categorizes inventory into three classes (A, B, C) based on their value and importance:

- Category A (High-value items, low quantity): These are the most valuable items that contribute the most to the total inventory cost. They require tight control and accurate records.
  - *Example for hair salon:* High-end imported hair weaves and wigs.

- Category B (Moderate value and quantity): These are mid-value items that require regular monitoring.
  - *Example:* Hair dyes, shampoos, and conditioners.

- Category C (Low value, high quantity): Low-cost items that are used frequently but contribute less to the total inventory value.
  - *Example:* Towels, combs, and disposable gloves.

Question 1.2:

The pricing strategy used by Murunga is value-based pricing. She offers high-quality services in a pleasant environment at an affordable rate, targeting aspirational middle-class clients. This is evident from the case: *“The product is really affordable… [but] it is high quality services offered in a space that has good ambiance.”*

Question 1.3:

1.3.1 Murunga opted for equity financing, by selling a minority stake in her business to TBL Mirror Fund.

1.3.2

1. Capital Injection: She received much-needed capital to expand her salon chain.
   - *Proof:* “The combination of cash injection and expertise will help her to scale her business much faster.”

2. Technical Expertise: The investor brought operational experience and guidance.
    - *Proof:* “Peta Klaassen, a seasoned franchise CEO, was brought in to assist with product development.”

Question 1.4:

1. Risk Identification: Recognize potential risks such as financial losses, theft, or customer dissatisfaction. Things like having review/hotline pages/forms can assist you.

2. Risk Assessment: Measure how likely the risk is and how severe its impact would be.

3. Risk Mitigation Strategies: Develop policies to reduce risks:

4. Risk Transfer: Use insurance to cover theft, fire, or liability.

5. Contingency Planning: Have backup suppliers, emergency funds, and crisis management plans.

6. Financial Controls: Conduct audits and track inventory to avoid fraud.

7. Legal Compliance: Register the business, meet tax obligations, and follow labor laws.

Question 1.5:

1. Payback Period: Measures how long it takes to recover the initial investment.

2. Net Present Value: Calculates the value of future cash flows in today’s terms, accounting for inflation and interest. Can be used for accurate forecasting.

3. Internal Rate of Return: The discount rate that makes the net present value equal to zero. Useful for comparing multiple projects. For example Murunga can use IRR to decide between opening a salon in Nairobi vs. Kampala.

SECTION B

Question 2.1:

1. Trade Credit: Supplier delivers goods now, payment later.
2. Installment Credit: Buyer makes monthly payments, including interest.
3. Revolving Credit: Credit line reused up to a limit (e.g., credit cards).
4. Open Account Credit: Buyer pays the full amount at a set date.

Question 2.2:

1. Need Recognition: Realizing a need (e.g., a salon customer wants a new hairstyle).
2. Information Search: Customer looks for options.
3. Evaluation of Alternatives: Compares salons based on price etc.
4. Post-Purchase Evaluation: Feels satisfied or not based on service.

Question 2.3:

1. Existence: Business starts; focus on survival and getting customers.
2. Survival: Enough revenue to cover costs. Murunga reached this stage early on.
3. Success: Profitable, with standard systems.
4. Take-off: Scaling the business (e.g., franchising). Requires formal processes, financing, and delegation.

Question 4.1:

1. Firm's Age: New firms often rely on personal savings or equity; mature firms access credit.
2. Industry Type: Tech firms attract venture capital; manufacturing may need asset-based loans.

3. Growth Plans: Aggressive expansion (like franchising) may require equity or long-term debt.

Question 4.2:

- B2B (Business-to-Business): One business sells to another (e.g., Microsoft office software to Unisa).
    - *Advantage:* Larger orders,like how many licenses Microsoft sold to Unisa.

- B2C (Business-to-Consumer): Direct to consumers (e.g., Neo Amadiva salon services).
    - *Advantage:* Brand loyalty.

- C2C (Consumer-to-Consumer): Peer sales (e.g., Facebook Marketplace).
    - *Advantage:* Low overhead costs, but risks of scams as well.

Question 4.3:

1. Rebrand the stable to attract younger riders.

2. Diversify services (e.g., horse therapy, horse dating etc.).

3. Market aggressively using social media and influencers.

4. Offer loyalty programs to keep customers.

Question 4.4:

1. Percentage of Sales: Set budget as a percentage of revenue. Risky if sales drop.

2. Competitive Parity: Match competitor spending. Doesn’t ensure strategy fit.

3. Objective and Task: Define goals, then budget. Most logical.

4. All-You-Can-Afford: Spend what’s left after costs. May limit growth.

Declaration

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