



UNIVERSITY
OF
JOHANNESBURG

**COLLEGE OF BUSINESS & ECONOMICS
JOHANNESBURG BUSINESS SCHOOL
DEPARTMENT OF BUSINESS MANAGEMENT
FINAL WRITTEN EXAMINATION**

SUBJECT: Entrepreneurship 3A / Intrapreneurship 3A
CODE: INT3A01 / EMT3A01
DATE: June 2018
TIME ALLOWED: 180 Minutes
TOTAL MARKS: 150

EXAMINER(S): Dr H Boikanyo (APK) & Dr V Kalitanyi (APB)
MODERATOR: Dr J Le Roux (external)
NUMBER OF PAGES: 6

INSTRUCTIONS:

- This is a closed-book assessment.
 - Question papers must be handed in together with your answer books.
 - Read the questions carefully and answer only what is asked.
 - Answer all the questions.
 - Number your answers clearly.
 - Write neatly and legibly on both sides of the paper in the answer book, starting on the first page.
 - Structure your answers by using appropriate headings and subheadings.
 - The general University of Johannesburg policies, procedures and rules pertaining to written assessments apply to this assessment.
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QUESTION 1**[71 MARKS]**

In a courageous move to take over a failing company, Adam Johnson saw potential in the almost bankrupt Saratti Motor Spares Company in Melville Johannesburg. Adam had been watching the company and saw that although there is no shortage of sales and the business stays open after hours and on weekends. The reasons for its slide were therefore not terminal but rather caused by mismanagement and financial carelessness.

Adam's plans for the next few years are extensive. He plans to buy the motor spares shop in the next two years and even expand it into other African countries. He would need a lot of resources to realise his ambition as the store is well inventoried and has a staff complement of 7. Adam's early calculations led him to believe that he will have to bring in at least 2 new shareholders to provide the resources needed to realise the growth ambition.

- 1.1 Based on Adam's ambition, which legal form of business can Adam consider as a growth option? Discuss the advantages and disadvantages of the option you chose. (8)
- 1.2 Discuss the direct and indirect types of tax implications on Adam's business imposed by the South African Revenue Service (SARS). (6)
- 1.3 Develop a financial plan as part of a business plan for Saratti Motors and include any four types of *establishment costs as well as* the reasons for the costs he needs to plan for when taking over the business. You do not have to provide any calculations. (8)
- 1.4 Develop a strategy document for Saratti Motor Spares for internal purposes containing amongst others, a vision for the company. (5)
- 1.5 Should Adam decide to borrow money from a bank, demonstrate to him the role banks play as financial intermediaries and the reason for the existence of a banking system. (6)
- 1.6 Would you consider Adam's business as an entrepreneurial business or a small business? Motivate your choice based on the information in the case study. (2)
- 1.7 The South African government encourages SMME establishment, growth and development. Explain why South African businesses need to grow. (4)
- 1.8 Critically examine the term "business growth" (4)

- 1.9 As a young business looking for growth opportunities, would an *offensive merger* or an *alliance* work better for Saratti Motor Spares? Motivate the reason for your choice by illustrating the differences between the two strategies and discussing any two advantages and disadvantages of each strategy. (12)
- 1.10 Describe two strategic characteristics of growing firms this business may display when Adam takes it over. (4)
- 1.11 Compare the forms of internal expansion and growth strategies Adam can follow and give practical examples of what Adam can do to expand internally. (12)

QUESTION 2**[43 MARKS]**

Read the case study below and answer the questions that follow:

SUCCESS STORY

Dirt poor as a child, Lebo Gunguluza, entrepreneur and motivational speaker became one of SA's youngest self-made black millionaires at 27. Lebo is a skilled salesman, passionate about entertainment and media and a networker of note. Fuelled by an appetite for risk and the desire to build a business that would earn him and his wife enough, he started Gunguluza Entertainment. He approached some friends who owned a struggling nightclub in Sandton and undertook to attract the crowds if they let him keep the proceeds of the club goers and they could make their money selling drinks. For a few months he did really well, earning more than R5 000 per evening but then a copycat came and stole his idea. They reduced their drinks prices, but still the clubbers descended in droves. Gunguluza lost clients, as well as R7 million worth of other business. He was in debt to the tune of R4 million. He could no longer pay salaries and had to retrench staff.

Lebo was broke, but he refused to see himself as a failure. He sold a building he owned and he and his wife bought a Primi Piatti franchise. With his background in entertainment, he was determined to build the restaurant. Due to his flair for fun, it soon became one of the most popular Primi sites in SA making handsome profits and allowing him to pay back his debt. These days, he leaves nothing to chance. Each of the dozen companies in the Gunguluza group has its own MD, with Gunguluza playing an operational role in running the group which now employs about 150 people.

Source: <http://www.entrepreneurmag.co.za> accessed on 14.10.2011

- 2.1 Would you consider The Gunguluza Group a family business? Give reasons for your answer based on the information from the case study. (2)
- 2.2 What is your understanding of a family business? (5)
- 2.3 Compare and contrast the systems present in a family business and examine reasons why the systems may influence business success. (6)

- 2.4 Explain which **three** networking principles worked well for Lebo? Substantiate your answer with examples from the case study. (6)
- 2.5 Prepare the section of the franchise contract that spells out Lebo's duties. (12)
- 2.6 Despite Lebo's drive and motivation to be successful, his nightclub failed. Evaluate the nightclub's value proposition and competitive advantage and suggest how these factors could have been employed to save the nightclub. (12)

QUESTION 3**[26 MARKS]**

Read the case study below and answer the questions that follow.

BUSINESS SUCCEEDS BY FOCUSING ON SMALL DETAILS

"We started with nothing, borrowing from family and friends, but it has been an exciting journey. I am a fighter who will ensure that Mpho and I get out of this business what we put in it."

These are the words of Makoekie Tsotetsi who together with her husband Mpho, have built Impota – a construction business that aims to muscle in on the turf of dominant large players. This one-and-a-half-year-old Soweto based business is an example of the new breed of entrepreneurs who with their 'can do attitude' have entered industries previously closed to them.

"We have run a number of businesses in the last six years that did not grow past their survivalist stages and the profits were not reflecting the efforts we put into them. So we decided to enter the building industry," says Makoekie.

Impota has been awarded ten Gauteng-based tenders since June last year. Makoekie says these jobs are a result of registering on as many government tender databases as possible. She says their success is based on meeting the needs of the client. "The quality of every job is seen as a platform to grow beyond our small beginnings," says Tsotetsi. Impota treats even small renovation projects with the same attention to detail as other, more lucrative projects and led to them becoming a contractor of choice for projects in and around Soweto.

The main challenges Impota has faced up to now include education and access to finance. However, failure to access non-government contracts disappoints Tsotetsi the most. She says big players in the industry have not played open cards when it comes to empowerment. Unfortunately, big companies who build in Soweto don't believe black people are good enough to deliver at the levels they want.

"My husband and I approached the SABS (South African Bureau of Standards) to have our construction work certified, but they require a comprehensive and costly

quality system. With a quality approval stamp from the SABS, we may convince the private sector that our work is good enough", says Makoekie. The SABS will test and certify Impota's products and services to meet world class standards. The SABS develops compulsory specifications based on national standards and monitors and enforces compliance with such technical regulations, but only after a thorough inspection of business premises and construction sites.

At the same time, Impota needs to raise funds to grow the business. They departed mostly from their original business plan because they were forced to take on any work they could get to survive. The directors know that raising funds and putting their business on the map will take a big chunk out of their already limited cash resources. "We want to use finance houses and consultants who are dedicated to the industry, even if it means sacrificing some control of the business." says Makoekie.

- 3.1 Makoekie realised that quality approval from the SABS may convince the private sector clients that Impota's work is good enough. Explain to the directors what a quality system is and the similarities or differences between an operating system and a quality system in a manufacturing environment such as Impota. (4)
- 3.2 Illustrate eight important reasons Impota needs a quality system. (8)
- 3.3 One of the main challenges Impota faced so far is access to finance which could be the reason they fail to obtain non-government contracts. Makoekie needs to raise funds to grow the business even if it means they have to sacrifice some control of the business. Propose *Venture Capitalism* as the most suitable source of long term finance for Impota and discuss it with the directors, with the emphasis on a definition, function and requirements of venture capitalists. (8)
- 3.4 Considering the difficulty the Tsotetsi's had raising finance, they request you to propose either a financial lease or an operating lease as an alternative. (6)

PLEASE TURN OVER FOR MORE QUESTIONS

QUESTION 4**[10 MARKS]**

Read the short advert below and answer question 4.1.

BUSINESS FOR SALE:

A family owned health club, close to town in Vanderbijlpark is for sale. The club is open for a little more than a year. The club is laid out according to a modern and unique design. Many local fitness fanatics have joined, but there are new faces every day. The club has excellent growth potential due to the Gautrain station being built nearby.

Only serious buyers need to apply. Management accounts available for perusal on request.

Asking price: R1million

Reason for selling: we want to start a new business.

Employees: 4

- 4.1 Discuss 5 valid reasons for buying the health club as an existing business and 5 reasons for NOT buying it. (10)

END OF ASSESSMENT