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<b>ASSESSMENT DATE</b>	TBA	<b>SESSION</b>	TBA
<b>ASSESSOR</b>	Mrs S Hughes		
<b>MODERATOR</b>	Ms C van Tonder		
<b>DURATION</b>	120 min	<b>TOTAL MARKS</b>	100

<b>NUMBER OF PAGES OF QUESTION PAPER (Including cover page)</b>	25
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### INFORMATION/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:
  - Answer **section A** at the back of the answer book. Indicate the correct answer as per the instructions.
  - Answer **section B** in the answer book.
- Number your answers clearly.
- The general University of Johannesburg policies, procedures and rules pertaining to written assessments apply to this assessment

**STUDENT NUMBER:**.....

**SECTION A****[40 MARKS]****QUESTION 1**

Which of the following is the systematic process through which managers regulate organisational activities?

- A Strategic planning
- B Organisational control
- C Organisational goal setting
- D Strategic regulation

**QUESTION 2**

Orile, the new CEO at Odyssey Inc., plans to implement a highly effective systematic process of regulating organisational activities to make them consistent with the expectations that are established by managers within the company. This is referred to as \_\_\_\_\_ control.

- A organisational
- B feedback
- C budgetary
- D systems

**QUESTION 3**

Madison has been assigned to work on the development of a budget that plans future investments in major assets such as buildings and heavy machinery. Madison is working on a(n) \_\_\_\_\_ budget.

- A cash
- B capital
- C revenue
- D operating

**QUESTION 4**

Tammy is a production manager at Eagle's Nest, Inc.. She is concerned that too much money is being wasted on inventory that is sitting in the warehouse too long. She should calculate a(n):

- A current ratio.
- B conversion ratio.
- C profitability ratio.
- D inventory turnover ratio.

**QUESTION 5**

Luke works in an accounting firm that offers services such as tax preparation and external auditing to corporate companies. Luke is currently providing consultation to a client that deals in automobile parts. In this scenario, Luke is most likely a:

- A public accountant.
- B managerial accountant.
- C government accountant.
- D forensic accountant.

**QUESTION 6**

Betty's job entails detecting problems such as fraud, waste, mismanagement, and employee theft at her organization. In this case, Betty is a(n) \_\_\_\_\_.

- A forensic auditor
- B government accountant
- C internal auditor
- D certified public accountant

**QUESTION 7**

The employees of an information technology company complain that the company has been spending a lot of funds in wasteful activities, such as office renovation, instead of revising the employees' salaries. In this case, the company should hire a(n) \_\_\_\_\_ to keep a check on the company's expenses and prevent the problem from aggravating.

- A public prosecutor
- B government accountant
- C internal auditor
- D public accountant

**QUESTION 8**

Marcus is a venture capitalist who invests in start-ups and small businesses. He is interested in investing in an online start-up company that has been in business for a year. Before making a decision, Marcus does some research on the value of the company's assets and liabilities. In this scenario, Marcus is most likely analyzing the company's:

- A income statement.
- B balance sheet.
- C articles of incorporation.
- D operating budget.

**QUESTION 9**

Nestrum, a real estate management company, employs qualified analysts to predict customers' buying habits and budgets. Hence, the company has been able to acquire at least one customer per month. In the given scenario, the analysts most likely need to analyze the company's \_\_\_\_\_ to measure how effectively it has been using its assets to generate revenues.

- A leverage ratios
- B profitability ratios
- C capital budgeting ratios
- D asset management ratios

**QUESTION 10**

Hevron Hrist, a multinational company, finances itself each year by procuring 25 percent of its yearly budget through loans from banks. The remaining budget is covered by the company itself. The given scenario suggests that the firm most likely relies on measuring \_\_\_\_\_ to decide its capital structure.

- A asset management ratios
- B leverage ratios
- C profitability ratios
- D liquidity ratios

**QUESTION 11**

Financial managers evaluate a firm's current strengths and weaknesses by computing ratios that compare values of key accounts listed on their firm's:

- A prospectus and operating budget.
- B statement of cash flows.
- C balance sheet and income statement.
- D cost budget statements.

**QUESTION 12**

Since common stockholders are the true owners, preferred stockholders' dividends are deducted from net income before computing \_\_\_\_\_.

- A the debt ratio
- B the current ratio
- C return-on-equity
- D earnings per share

**QUESTION 13**

A \_\_\_\_\_ is the most common depository institution.

- A not-for-profit organisation
- B savings and loan association
- C credit union
- D commercial bank

**QUESTION 14**

Helmert Federal, a financial institution, acquires its funds primarily from the deposits of its customers, and then uses these funds to make mortgage loans for individuals interested in purchasing real estate properties. Helmert Federal is a(n) \_\_\_\_\_.

- A credit union
- B savings and loan association
- C securities and exchange commission
- D investment bank

**QUESTION 15**

Mr. Troy wants to buy stocks of a local retail company. He needs help with market research and requires some investing advice, as well as someone to do the trading for him. Mr. Troy should contact a(n) \_\_\_\_\_.

- A accredited investor
- B credit union
- C institutional investor
- D securities broker

**QUESTION 16**

Colbert Blanc is a financial intermediary that helps firms raise their capital by facilitating the firms in issuing new securities and making sure that the securities are sold out in the market. In this scenario, Colbert Blanc is a(n) \_\_\_\_\_.

- A securities broker
- B commercial bank
- C investment bank
- D securities dealer

**QUESTION 17**

Carl, a partner at Bacrabs, an advertising agency, plans to open a branch of the agency in his hometown. He understands that the human resource (HR) requirements of the new branch would differ from that of its main office because of the differences in the nature and volume of work. Hence, he decides to examine what needs to be done in each position in the new branch according to the nature and volume of work. In the context of HR planning, which of the following concepts does this scenario best illustrate?

- A Internal recruitment
- B Management development
- C Employee selection
- D Job analysis

**QUESTION 18**

Which of the following is an internal recruitment method?

- A Trade associations
- B University employment centers
- C Promotions
- D Newspaper ads

**QUESTION 19**

Whenever there are job vacancies in the marketing department of Sporlishk, a sports goods manufacturer, the eligible field marketing employees of the company are given physical application forms to apply for those jobs. In the context of human resource (HR) planning, this scenario best illustrates \_\_\_\_\_.

- A internal recruitment
- B employee selection
- C employee separation
- D management development

**QUESTION 20**

\_\_\_\_\_ refers to the process of seeking new employees from outside a firm.

- A Offshoring
- B Onboarding
- C Employee separation
- D External recruitment

**QUESTION 21**

Habib, a writer, uses Microsoft Word to write, edit, and prepare his manuscripts for publication. Microsoft Word helps Habib to complete his work with minimal effort. In this scenario, Habib is using \_\_\_\_\_.

- A system software
- B antivirus software
- C applications software
- D malicious software

**QUESTION 22**

In the context of software, \_\_\_\_\_ is designed for a specific industry or profession.

- A lateral system software
- B vertical applications software
- C horizontal applications software
- D office productivity software

**QUESTION 23**

A business firm notifies all its employees about a general meeting that is to be held the next day and asks them to confirm their attendance at the meeting by clicking on the link provided within the same email message. The firm sends the email through its private network that is accessible only to the management and the employees of the firm. Which of the following information networks is used by the firm to notify its employees?

- A A metropolitan area network
- B An extranet
- C An intranet
- D A peer-to-peer network

**QUESTION 24**

Which of the following is an advantage of a broadband Internet connection?

- A It allows access to only a limited number of websites to avoid security risks.
- B It allows users to quickly download large files such as music, games, and movies.
- C It is based on fiber-optic cable that enables it to efficiently handle many scientific applications.
- D It has less security risks compared to dial-up Internet.

**QUESTION 25**

In the context of challenges to effective communication, the term \_\_\_\_\_ refers to any interference that causes the message you send to be different from the message your audience understands.

- A noise
- B disruptions
- C tardiness
- D interruptions

**QUESTION 26**

Mercy Eston, a start-up company, has a small office space. Its employees often complain about the lack of personal space because of a congested seating arrangement and lack of a proper ventilation system. In this scenario, the employees of Mercy Eston are most likely facing \_\_\_\_\_ to communication.

- A perceptual barriers
- B language barriers
- C organisational barriers
- D physical barriers

**QUESTION 27**

Drumming your fingers on a desk while talking can distract the audience and create a \_\_\_\_\_ to communication.

- A language barrier
- B perceptual barrier
- C cultural barrier
- D body language barrier

**QUESTION 28**

In today's highly competitive global markets, operations managers:

- A realise that a product that offers better features attracts more customers than one that has a lower price.
- B recognize that achieving efficiency is more important than achieving effectiveness.
- C focus primarily on keeping costs low to make a profit while keeping prices competitive.
- D focus solely on the benefits of products, while completely ignoring the costs of manufacturing those products.



**QUESTION 29**

Harry's Inc., a manufacturer of men's apparel, manufactures large quantities of the company's basic clothing lines to keep the manufacturing costs low. Given this information, it can be inferred that Harry's Inc. pursues:

- A just-in-time production
- B mass production
- C mass customization
- D lean production

**QUESTION 30**

In the context of operations management, which of the following plays a supporting role in the process of production of goods?

- A Machining
- B Packaging
- C Marketing and advertising
- D Inventory management process

**QUESTION 31**

Jackson runs a chain of small retail stores called Wandmin that sells bottled water, fresh juices, desserts, and some snacks. All outlets of Wandmin are either in the middle of or at the end of walking trails in Jackson's hilly hometown, where several tourists go hiking. In the context of marketing, which of following utilities does Wandmin most likely provide?

- A Form utility
- B Time utility
- C Place utility
- D Ownership utility

**QUESTION 32**

The coastal town of Olaspen offers various exotic water sports and hiking expeditions to its tourists. The town government of Olaspen advertises its adventure tourism in travel magazines, newspapers, and on the television in neighboring countries. Which of the following marketing strategies does this scenario best illustrate?

- A People marketing
- B Place marketing
- C Event marketing
- D Idea marketing

**QUESTION 33**

In the year 1938, Popoud, a chocolate manufacturing company, was finding it difficult to trade its products because people were reluctant to spend money on nonessential goods. However, the company continued to manufacture chocolates in large quantities. In the context of the evolution of marketing, which of the following eras does this scenario most likely refer to?

- A The selling era
- B The production era
- C The relationship era
- D The marketing era

**QUESTION 34**

Arnoury, a car service station, takes feedback from clients after servicing their cars, which gives the clients a sense of importance. Arnoury's management also ensures rectification and improvement of its services based on clients' feedback. Which of the following marketing strategies does this scenario best illustrate?

- A People marketing
- B Customer relationship management
- C Consumer market segmentation
- D Mass customization

**QUESTION 35**

Rosy's Sweet Treats is a food truck that sells waffles. In this scenario, which of the following is true of Rosy's Sweet Treats?

- A The business deals in pure services
- B The kind of product offered by the business is an example of shopping products
- C The kind of product offered by the business is an example of specialty products
- D The business is a mix of goods and services

**QUESTION 36**

Pearl orders a pair of spectacles from an online store. On delivery, she receives a 50 ml bottle of lens cleaning solution along with the spectacles. In this scenario, the bottle of lens cleaning solution is a(n) \_\_\_\_\_.

- A core product
- B cross product
- C customised product
- D augmented product

**QUESTION 37**

Which of the following statements is true of shopping products?

- A They have widespread distribution
- B They include natural products used in producing other products
- C They are promoted solely by producers
- D They are inexpensive products that consumers buy frequently

**QUESTION 38**

Elvish Toys is a small-scale toy manufacturer. The company sells its products to customers at its own retail shops. In this scenario, it is evident that Elvish Toys sells its products to its customers through a \_\_\_\_\_.

- A direct channel
- B channel intermediary
- C merchant wholesaler
- D independent distributor

**QUESTION 39**

Petrol stations and fast food outlets that often cluster conveniently at the bottom of highway ramps are examples of:

- A information utility
- B ownership utility
- C form utility
- D place utility

**QUESTION 40**

JEMS Enterprise buys wooden furniture, such as tables and chairs, from a furniture manufacturer and sells them to government schools. In this scenario, JEMS Enterprise is a \_\_\_\_\_.

- A broker
- B producer
- C wholesaler
- D retailer

**SECTION B****[60 MARKS]**

**ALTHOUGH YOU RECEIVED THE CASE STUDY IN ADVANCE IT IS INCLUDED HERE FOR YOUR CONVENIENCE. PLEASE ANSWER THE QUESTIONS BELOW WITH REFERENCE TO THE CASE:**

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**Saving Edcon-Why Edcon may be too big to fail**

South Africa's national power utility's woes have threatened to shut down industries, while the flagship airline has received repeated bailouts to keep it afloat. Now, a scramble to help a retailer that sells school shoes and fast fashion suggests it, too, may be seen as too big to fail.

Edcon Holdings Ltd. has roughly 40,000 employees, a supply chain that includes 750 companies and floor space that accounts for a 10th of the occupancy in the country's biggest shopping malls, the most of any company. The SA Federation of Trade Unions (Saftu) says, "Saftu is appalled at the prospect of the imminent liquidation of Edcon, which could lead to the loss of 140 000 jobs, 40 000 employed directly and 100 000 indirectly. It would be the single biggest loss of jobs in the country's history, the country that already has the world's sixth highest rate of unemployment could well move up to first place."

"With the impact on all those dependent of the workers' income, it would mean over a million more South Africans being plunged into deep poverty. Edcon Holdings, which was once South Africa's most profitable retailer, owns Edgars, Jet and CNA. A potential collapse of could exacerbate an unemployment crisis and cause income from commercial property rentals to slide.

The Johannesburg-based company has been in talks with South Africa's biggest lenders and landlords to get more cash and to reduce rentals as it struggles with a debt burden that's a legacy of the way its 2007 takeover by Boston-based Bain Capital Private Equity LP was financed. "If Edcon were to fail, it would be a big challenge for South Africa and it's in everyone's interests to get a deal signed," said Wynand Smit, a property analyst at Anchor Stockbrokers. "Even just closing a lot of stores would be negative for the property sector as the market is very sensitive to vacant space."

Among potential rescuers is the Public Investment Corp., which oversees the pensions of government workers. It's leading talks to provide 3 billion rand (\$220 million) in funding to the company, along with landlords and banks, according to people familiar with the matter. Even so, some have questioned whether helping a struggling retailer whose troubles are due to a private equity deal, sets a dangerous precedent. It would need to be considered "whether a bailout sets a precedent which incentivizes reckless levels of indebtedness among private and listed retailers as they compete for market share," said Daniel King, a Cape-Town based analyst at Avior Capital. Bain handed ownership of Edcon to creditors including Franklin Templeton, Sanford C. Bernstein & Co. LLC and Harvard University Pension Fund in 2016.

In July, Edcon's new CEO Grant Pattison, who replaced Bernie Brookes a year ago, said they would be closing some shops in an attempt to lure their customers to its flagship Edgars clothing chain. Under Pattison's strategy, Edcon has been reducing its footprint from more than 1,300 stores, cutting floor space by 17% over five years to restore profitability. The owners, which took control in a debt-for-equity swap after Bain walked away, have offered landlords a 5% equity stake in Edcon in exchange for a two-year rental reduction,

the Johannesburg-based Sunday Times reported in December 2018, citing a letter to landlords.

### **Edcon is looking for ‘knight in shining armour’ investors**

Edcon has debt of R7bn and has had to fight hard to maintain its relevance in a clothing retail market that has seen local and foreign rivals such as Mr Price and Zara taking market share. CEO Grant Pattison said that the group has successfully negotiated new leases with its landlords as a way to cut costs. Pattison is the former Massmart CEO who was brought into the company in January 2019 to lead the group's turnaround. "Edcon's balance sheet recovery programme has been under way for some time as we continue to focus on completing a recapitalisation of Edcon. Part of the process is the continuing discussions with various stakeholders, which include lenders, landlords, potential new investors, and others," said Pattison. "The group continues to review its strategic alternatives with respect to the group's business and corporate and capital structure, including, inter alia, a merger or acquisition process."

Despite bringing in R5bn in sales and only seeing a 0.6% rise in cost, the company pointed out that profitability remains under pressure, which is why it is working hard to reduce costs and recapitalise the business.

The demise of department stores is not solely a South African problem.

London-based Debenhams Plc said earlier this month it's in talks with lenders as it faces at least 300 million pounds (\$394 million) of debt coming due starting next year. It's also not a first in South Africa. Stuttafords was put into business rescue in October 2017 after the 159-year old retailer became a casualty of a slump in local consumer confidence. Woolworths Holdings Ltd. last year posted its first full-year loss since at least 2002.

### **Unfair Competition**

The bailout for Edcon raises an interesting dilemma, "If government did move to help, one option that could be considered is tax breaks," Smit said. Edcon could also try for so-called rental holidays. Company voluntary arrangements, or CVAs, are a means used by financially distressed businesses to come to an agreement under UK law with unsecured creditors, often by getting more favorable property rental agreements and allowing some outlets to close before their leases expire.

CVAs are becoming more frequent in the U.K.'s shopping districts, with Homebase becoming another in a list of retailers using the process to shutter outlets. While rent holidays are unprecedented in South Africa, and property companies could possibly withstand granting Edcon a rental break, it could mean that "competing retailers may become more emboldened to bargain for fair treatment," King said.

"Edcon's competitors may even view the agreement as somewhat anti-competitive, especially if landlords take an equity stake in Edcon and proceed to give preferential treatment to the tenant." Rising costs have already resulted in South African mining companies cutting tens of thousands of jobs and so "a move to help Edcon would leave the question of what about other struggling companies?" Smit said.

### **Feeling the pinch**

At the end of last year, the company's net debt was R4,2 billion and retail sales dropped by 9,4% in the three months through December 23 (an unusual period for this kind of decline). Some of the other attempts to revive the company include increasing the workforce, decreasing prices and bringing in international brands.

Edcon Holdings announced that they will be closing three of their chains, including Red Square and La Senza lingerie. This is the latest strategy to save the company after dwindling sales and profits. By shutting down the other chains they hope to attract more customers to their flagship Edgars stores.

They will also be focusing on Edgars mainly which sells most of the items that are available in the stores that are being shut down. Other stores that have made the cut include CNA and Jet, however, Boardmans will also be shutting down too. Pattison said that he thinks that the company can turn. He said, "The quicker we can do this, the better".

### **The deal to save Edcon**

A deal to recapitalise the ailing Edcon Group has finally been struck. The Competition Tribunal approved Edcon's acquisition by New HoldCo in a deal that analysts said avoided the total collapse of the company. The tribunal approved the transaction on condition that it promoted black economic empowerment, local procurement and preserved jobs. The funding includes equity for landlords in exchange for little or no rentals and cash from the PIC through the Unemployment Insurance Fund.

Pattison said the Johannesburg-based retailer's wanted to claw back the market its lost to competitors following the onslaught of international brands by focusing on private labels. The March 1 2019 deal includes the removal of all interest-bearing Group debt and a new shareholding structure. Shareholders will mostly include Edcon's existing lenders, the Public Investment Corporation (PIC), participating landlords and Edcon employees. Restoration of the balance sheet will come in the form of cash investment commitments and rent reductions totaling R2.7bn.

It's no surprise that Edcon got the support for the recapitalisation process from the listed property sector given the substantial chunk of space the retailer occupies. "It's a relief for the sector. The recapitalisation, though it comes with rent reductions, will keep malls operating with a major anchor tenant and will save thousands of jobs," Keillen Ndlovu, head of listed property funds at Stanlib told *finweek*.

Aside from rental reductions, Edcon's restructuring process includes significant space rationalisation. JSE-listed real estate investment trust (REIT) Attacq, owner of Mall of Africa, announced that Edcon exposure, (25 499sqm at 31 December 2018, down from 29 262sqm at 30 June 2018) will settle at 22 945sqm of primary gross lettable area (PGLA) by 1 October 2019 for an estimated 3% of the REIT's effective PGLA. Contractual gross monthly rental at this time will be R3.2m, down from R4.1m at 30 June 2018. Owner of Sandton City, Liberty Two Degrees' (L2D), says Edcon currently occupies 5.3% of its current portfolio, which is expected to reduce to 4.3% of gross lettable area (GLA) by 31 December 2019.

Redefine Properties, SA's second-largest REIT and owner of Centurion Mall, has a hefty retail portfolio. The REIT is a significant landlord to Edcon with GLA exposure of 78 760sqm (down from 122 856sqm at August 2018) housing the Edgars and Jet brands. Redefine's equity contribution will amount to R54.6m, the REIT says. As a consequence, Redefine will receive 100% of its rental due from Edcon on 56 788sqm representing in force leases for profitable Edcon stores.

Redefine has also agreed to rental reductions up to a maximum amount of R13.8m over a two-year period in respect of leases totaling 21 972sqm. Other major players in the listed property sector have yet to make their formal announcements on the recapitalisation process. Some like Hyprop Investments Limited, owner of super-regional mall Canal Walk, have significant exposure to Edcon. Others like top-performing SA REIT and low-LSM

focused Fairvest Property Holdings have insignificant Edcon exposure. In Fairvest's case that's a mere 0.8% and exposure is only to the still well-trading Jet Stores. "That," CEO Darren Wilder tells *finweek* "was not by chance, but by strategy."

The Edcon CEO has said, "We have committed to an Edgars as a department store where big stores work better than small stores," Pattison told analysts, suppliers and students and the Gordon Institute of Business. "We will have fewer bigger Edgars stores. In terms of Jet the small stores and medium stores work better than big stores. We will have more medium size Jet stores and less stores over all."

"History will show that Mr Price, Truworths, and Foschini got the response to the arrival of international retailers right by focusing more on local brands. We have switched to that." Pattison said.

### **Edgars brand roots**

Largely, Edgars became SA's biggest fashion retailer by offering customers a carefully crafted portfolio of Edgars own-brands – brands like Kelso, Merien Hall, Charter Club, Penny C and many others spanning multiple product categories. These own-brands were credible, unique and respected – and you could only buy them at Edgars. Each Edgars own-brand offered widee ranges of 'fashionable' items across three carefully strategized price/quality bands – namely good, better and best.

A user-friendly credit / customer club offering supported the own-brands strategy and this combination made Edgars the biggest, best and most credible fashion retailer brand in South Africa. The pay-off line "*lots of super fashion, lots of time to pay*" neatly summed up the essence of what gave Edgars its brand credibility.

### **Enter the Trojan horse**

Then in the mid-1990's, for reasons that seemed sound at the time, the idea arose of infusing the Edgars own-brand portfolio with some third-party international brands to enhance the overall appeal of the brand portfolio mix. South Africans were feeling like they were part of the world again, felt loved by the world and felt like they were doing well. Surely, they could afford to splash out on international brands. Their line of credit with Edgars would provide them with the means (and temptation) to make their purchases.

Interestingly, none of Edgars major competitors followed suit.

Most of these international (and a few local) brands were distributed to shoppers through some mid-size fashion retailers and through many smaller fashion boutiques. Now Edgars customers could shop for some of the items available at Edgars, in other stores. As things turned out, the decision to add international brands into the Edgars brand mix turned out to be a very bad one indeed.

***Facilitating customer promiscuity led to disloyalty.*** For the first time, Edgars customers were able to compare competing offers on specific branded items at various different retailers and then purchase from the one offering 'best deal'. Edgars had jeopardised customer patronage and loyalty by giving them cause to flirt with competitors to find the best deal on the branded items they wanted. Damage to customer loyalty is a dangerous (but foreseeable) consequence of giving customers cause to shop around rather than simply finding ways of getting them to buy from you. Inevitably, a proportion of them found that they *prefer* shopping at stores other than Edgars and regular usage of Edgars started to decline.

Increasing the proportion of international brands meant a reduction in the number of Edgars own-brand items on-shelf. This reduced the probability of an Edgars own-brand item being purchased lead to a partial, but significant loss of control of profit margins.

Edgars had no control over the positioning of the third-party brands in the minds of customers and had to live with the consequences of potential poor brand fits between the Edgars own-label brands and the third-party brands. This made the management of brand positioning much more challenging for Edgars, and they largely failed to rise to this challenge. The third-party brand Trojan horse was through the Edgars brand gate, Edgars brand equity was under threat so its market share started to decline.

The critical importance of understanding what it is that makes a brand credible. Brands have the power to differentiate products, make them loved and add value over and above their intrinsic worth. Brands increase the likelihood of getting a higher price, growing turnover and making more profit. Brands define the value proposition to the customer and the power to control the value proposition is sacrosanct and should be regarded as an inalienable brand right – one that you can never give away without losing control of what the brand stands for (its positioning).

Not knowing how well a third-party brand fits in with, or complements own-brands is foolish and dangerous. Each third-party brand must be carefully tested to ensure it adds something positive to the core proposition and does not contradict or confuse it. Third-party brands that do not add something positive to the core proposition should never be included in the brand portfolio.

Testing whether or not third-party brands complement the core brand proposition can only happen when there is a sound understanding of what the core proposition is in the first place – what is it that gives the brand credibility.

In Edgars' case, the heart of the core proposition was around *'lots of super fashion, lots of time to pay'*. Any third-party brand would have to reinforce at least one of these core elements. In the event, by stocking limited ranges of items from multiple international brands, each one with a different take on fashion style, Edgars became confusing to many customers. What sort of fashion did they stand for? Some of the third-party brands were about edgy fashion, others sporty, high fashion, sexy, chic, Bohemian, casual – you name it. Edgars stocked shallow assortments of many third-party brands across the whole spectrum of the many fashion styles and lost sight of the fact that the Edgars own-brands pretty much stood for "classic fashion". Consistent brand experience is critically important for brand health, but walking into an Edgars store became a bit like walking into a discordant hangar full of different fashion pop-up stores, each with its own fashion take and each one vying for customer attention. This was the theatre of retail gone mad.

In the midst of all of this, the Edgars own-brands were neglected and began to fade to where they are today – shadows of their former selves. Edgars own-brand strategy holds the key to future success

It remains to be seen what brand strategy Edgars will deploy to effect a turnaround. One thing is certain, there will be no recovery UNLESS Edgars deploys a carefully thought through brand strategy – one that pulls together all of the components of the mighty Edgars brand into a single, strong, coherent and relevant proposition for the customer. Edgars only chance of survival in the market will be to take back full control of its customer value proposition from third-party brands.



Despite its troubles and all the changes that have taken place in fashion retailing since the dawning of the New South Africa, Edgars is still the third most often-frequented store for economically active South Africans. Edgars remains a well-loved South African brand still does most things right. It has a long and strong heritage and a strong brand culture. It is time now for Edgars to remember its good times and to remind itself of the practices and values that made the brand so loved back then.

Whereas Edgars was always changing brands and store layouts for at least the past two decades, when you go to Woolworths, there is a brand consistency anywhere in the country. That matters. They know their customers and use the intelligence on the Woolworths cards to keep creating products with resonance and desirability while maintaining a golden thread of dependability.

Edgars lost its golden thread; it is going to take a very special Midas touch to bring it back. The tsunami of globalisation, the kleptocratic decade of former President Jacob Zuma – which put the economy into a tailspin – China and bloody poor management took down the once-iconic Edgars that was such a signature of South Africa's shopping landscape. But more than all that, Edgars' biggest mistake was to lose sight of its most valuable asset: the customer.

The Edgars brand still has an enviably strong foundation on which to rebuild itself to being South Africa's biggest and best fashion retailer once more. Edgars has launched a new 'open experience' concept store – here's what it looks like inside Retailer Edgars has opened a new concept store in Fourways Mall, Johannesburg, in an attempt to 'keep with the times', and amid a stagnant economy in South Africa.

The company opened up a new 'home' store, while it has offloaded Edgars Active chain stores. "Internationally, retailers are purposefully rewiring themselves in the ever evolving retail landscape to enable the 'experience economy'. Retail isn't dead, only boring retail is dead. To thrive in a time where customers can do anything anywhere and get personalised real-time experiences both online and in real life, big retailers need to make the shift," Edgars said. "Blurring the line between shop and mall walkway, the Edgars Fourways Mall shop front opens up completely, inviting people to move into the store and participate in the Edgars experience – nothing less than an 8,000 sqm space of fashion, beauty, and homeware. The new space includes a Mugg & Bean coffee shop in the central square – which "heightens the concept of creating entertainment through shopping and socialising," it said.

The new store, Edgars added, will compliment its newly launched click and collect service. "Shoppers can now shop online (or on their mobile devices), choose a store for delivery, and collect their order at no additional cost – This online service is now available at the new Edgars, Fourways Mall." Other special in-store features and services include the denim bar, home zone, footwear world, custom zone, personal shoppers, and beauty rooms.

"Activation spaces for cosmetic events, home demonstrations, and new launches bring in an experiential element to the store. There are play areas for kids and digital multi zone screens with in-store music," Edgars said. Non-transactional spaces that focus on customer service have been designed with a hospitality-led approach. "For example, instead of a typical counter service, the customer/financial service zones are far more welcoming and friendly with their service booths, soft seating, and informal pause areas."

The brand is currently working on a further evolution of the new Edgars store design for Edgars V&A in Cape Town, which is anticipated to open in 2020.

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**QUESTION 1****(4)**

Edcon has experienced a tough couple of years, their sales have been under pressure and the future of the company depends on extensive restructuring and equally good control mechanisms.

Explain the FOUR steps of the feedback control process to executives at Edcon by referring to the current financial difficulties and how they can be managed and avoided at Edcon.

**QUESTION 2****(5)**

As a large listed company collecting and reporting Edcon's financial information is very important to various different stakeholders.

2.1 Identify THREE types of accountants as well as their roles (3 marks).

2.2 Identify which of these accountants play a role at Edcon and elaborate on what that role is likely to be (2 marks).

**QUESTION 3****(12)**

Use Edcon's financial statements to perform the following calculations for the company and provide an interpretation for your findings. Remember to show the steps of your calculations and round answers up to two decimal points.

- 3.1 Calculate and interpret the quick ratio for Edcon, year ending 6 January 2019 (3)
- 3.2 Calculate and interpret the debt/equity ratio (excluding current liabilities) for Edcon, year ending 6 January 2019 (3)
- 3.3 Calculate and interpret the inventory turnover ratio for Edcon, year ending 6 January 2019 (3)
- 3.4 Calculate and interpret the net profit margin for Edcon, year ending 6 January 2019 (3)

**QUESTION 4****(5)**

Edcon company used their cash flow to make an “*payments for property plant and equipment*” investment decision for the purpose of growing and expanding their business (see year end 6 January 2019 statement of cash flows). The investment is expected to generate cash inflow of R 175 000 the first year, then increasing R 275 000 every year over 5 years after which the investment will have a residual value of zero. The suggested cost of capital is 10%.

Discounting Factors:

Period:	Discount Rate:	Discount Rate:
	10%	15%
1	0.9091	0.8696
2	0.8264	0.7561
3	0.7513	0.6575
4	0.6830	0.5718
5	0.6209	0.4972

**You are required to:**

Calculate the NPV for the investment in “*payments for property plant and equipment*”, (Calculate to the nearest R1) and advise Edcon if the investment is a wise choice.

**QUESTION 5****(5)**

Edcon is facing a challenging time and talk of retrenchments has surfaced but as a going concern the company needs to keep thinking about filling the necessary positions internally and making sure that existing staff are adequately trained to be successful in their various roles.

5.1 Advise managers at Edcon about THREE potential advantages of using Internal recruitment to fill the necessary vacancies that need to be filled (3 marks)

5.2 There are many changes at Edcon in order to ensure the company succeeds. Give TWO examples of on the job training that could be used to upskill employees to deal with the necessary changes (2 marks)

**QUESTION 6****(5)**

Between customer sales and accounts Edcon collects a great deal of data about both customers and sales. The dilemma is, how to use this information in a way that can help Edcon improve their current performance as a business.

6.1 Define a decision support system (DSS) and explain how it relates to a business intelligence system (2 marks).

6.2 Explain by way of an example how a DSS would work at Edcon and how it could help the company to use their data to improve to their business performance (3 marks).

**QUESTION 7 (6)**

Management at Edcon have a tough job because they have to negotiate cheaper leases, keep investors happy even though performance is under pressure and keep employees motivated. Communication plays a vitally important role, but it is easier said than done. Identify FOUR aspects of non-verbal communication that can assist in conveying important messages clearly (4 marks) and HOW management at Edcon could practically use these insights (2 marks).

**QUESTION 8 (4)**

Operations managers at Edcon's stores are faced with particular tradeoffs regarding how much inventory to hold. Consider that stores in the Edcon stable are under pressure to perform and increase sales. From the perspective of the operations manager identify TWO advantages and TWO disadvantages of holding inventory and apply these to Edcon.

**QUESTION 9 (3)**

It is very important for Edcon to use any available information in order to regain a financial advantage. In this context explain the purpose and value of marketing research to Edcon.

**QUESTION 10 (5)**

Edcon represents some very well-known South African brands and amidst all the reshuffling taking place they want to make sure that they capitalise on their brand. Briefly define the FOUR categories that brand names can fall into (4 marks) and identify which of these approaches Edcon has already made use of (1 mark).

**QUESTION 11 (6)**

In order for Edcon's marketing efforts to be successful they need to know who their end customers are. Describe the FIVE step consumer decision process to managers in Edcon's marketing department and apply the steps to Edcon customers (using one of the products from one of their stores).

**END OF PAPER**

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the 52 weeks to 6 January 2019

Group			Company		
52 weeks to 6 January 2019	52 weeks to 7 January 2018	Notes	52 weeks to 6 January 2019	52 weeks to 7 January 2018	
\$	\$		\$	\$	
	(restated)			(restated)	
78,118,743	64,106,544	Revenue	5	76,516,386	63,647,753
75,575,868	62,882,028	Sales of merchandise	5	75,575,868	62,515,090
(41,117,022)	(35,952,145)	Cost of sales		(41,117,022)	(36,727,768)
34,458,846	26,929,883	Gross profit		34,458,846	25,787,322
1,602,357	91,853	Income from microfinance institution		-	-
23,386	(116,885)	Other gains and losses	6	23,386	(116,804)
(2,330,018)	(2,513,224)	Credit management and debt collection costs		(1,364,158)	(2,513,224)
(12,505,486)	(11,472,573)	Store expenses		(12,505,486)	(11,472,573)
(15,534,128)	(13,650,677)	Other operating income and expenses		(15,772,563)	(12,145,397)
6,614,469	7,699,950	Finance income	7.6	6,843,287	7,720,870
(816,151)	(1,088,513)	Finance costs	7.7	(816,151)	(1,088,513)
11,513,275	5,879,814	Profit before tax	7	10,867,161	6,171,681
(3,015,175)	(1,901,015)	Income tax expense	10	(2,870,357)	(1,942,997)
8,498,100	3,978,799	Profit for the period		7,996,804	4,228,684
-	-	Other comprehensive income		-	-
		Items that may not be reclassified to Profit and Loss			
6,543,853	-	Revaluation of property, plant and equipment		6,446,987	-
(1,685,059)	-	Deferred tax liability arising on revaluation		(1,660,116)	-
4,858,794	-	Other comprehensive income for the period (net of tax)		4,786,871	-
13,356,894	3,978,799	Total comprehensive income for the period		12,783,675	4,228,684
		Earnings per ordinary share	11		
3.29	1.54	Basic (cents per share)		3.10	1.64
3.28	1.54	Diluted (cents per share)		3.09	1.63

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION for the 52 weeks to 6 January 2019

Group				Company			
6 January 2019	7 January 2018	9 January 2017	Notes	6 January 2019	7 January 2018	9 January 2017	
\$	\$	\$		\$	\$	\$	
audited	audited	audited		audited	audited	audited	
(restated)*	(restated)*	(restated)*		(restated)*	(restated)*	(restated)*	
Assets							
Non-current assets							
-	-	-					
14,525,571	7,199,567	7,171,871	28	3,936,067	4,397,890	5,451,215	
1,326,805	1,959,254	2,581,374	13	14,334,694	6,662,235	6,630,063	
-	-	-	15	1,319,294	1,959,254	2,581,374	
25,465	-	-	29	1,000,000	100,000	-	
15,877,841	9,158,821	9,753,245	14	-	-	-	
Total non-current assets				20,590,055	13,119,379	14,662,652	
Current assets							
15,985,570	14,144,671	11,517,123					
25,518,658	24,335,518	24,808,994	16	15,985,569	11,332,117	8,131,578	
4,275,580	656,945	-	17	25,518,528	24,108,853	24,336,722	
38,030	-	-	17.1	-	-	-	
6,621,957	2,296,428	1,743,245	20	-	-	-	
52,439,795	41,433,562	38,069,362	12.4	5,645,151	2,087,610	1,741,657	
Total current assets				47,149,248	37,528,580	34,209,957	
68,317,636	50,592,383	47,822,607		67,739,303	50,647,959	48,872,609	
Total assets							
Equity and liabilities							
Capital and reserves							
405,690	405,690	391,339	18	405,690	405,690	391,339	
7,767,766	2,649,885	2,631,783	18	7,423,384	2,618,446	2,613,714	
34,606,120	27,339,053	23,197,599		34,470,399	27,616,352	23,225,013	
42,779,576	30,394,628	26,220,721		42,299,473	30,640,488	26,230,066	
Total capital and reserves							
Non-current liabilities							
4,489,417	3,143,972	2,481,496	14	4,464,474	3,185,954	2,481,496	
3,653,570	2,289,011	321,923	21	3,653,570	2,289,011	321,923	
8,142,987	5,432,983	2,803,419		8,118,044	5,474,965	2,803,419	
Total non-current liabilities							
Current liabilities							
11,340,567	11,219,360	6,368,758	19	11,272,951	11,076,211	7,565,642	
352,622	-	-	19.1	352,623	-	-	
663,534	891,034	1,299,090	20	663,534	891,034	1,299,090	
384,692	278,358	197,448	19.2	384,690	278,357	197,448	
4,653,658	2,376,020	10,933,171	21	4,647,988	2,286,904	10,776,944	
17,395,073	14,764,772	18,798,467		17,321,786	14,532,506	19,839,124	
Total current liabilities							
25,538,060	20,197,755	21,601,886		25,439,830	20,007,471	22,642,543	
Total liabilities							
68,317,636	50,592,383	47,822,607		67,739,303	50,647,959	48,872,609	
Total equity and liabilities							
14.55	10.35	8.93		14.39	10.44	8.93	
Net equity per share ( cents)							
Gearing:							
0.19	0.15	0.35		0.20	0.35	0.35	
0.04	0.08	(0.46)		0.06	(0.46)	(0.46)	
-Gross							
-Net							

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the 52 weeks to 6 January 2019

	Notes	Issued capital and premium	Equity-settled employee benefits reserve	Revaluation reserve	Credit reserve	Retained earnings	Total
		\$	\$	\$	\$	\$	\$
<b>Group</b>							
Balance at 9 January 2017		391,338	1,004,233	1,627,549	-	24,019,948	27,043,068
Prior Period Error*		-	-	-	-	(822,348)	(822,348)
Balance at 09 January 2017 (restated)		391,338	1,004,233	1,627,549	-	23,197,600	26,220,720
Total comprehensive income for the period		-	-	-	-	3,978,799	3,978,799
Issue of ordinary shares under employee share option plan		14,352	-	-	-	-	14,352
Share based payment expense	9.4	-	4,731	-	-	-	4,731
Balance at 08 January 2018 as reported		405,690	1,008,964	1,627,549	-	27,176,399	30,218,602
Change in accounting policy-IFRS 9	2.4.2	-	-	-	-	176,026	176,026
Transfer to credit reserve	2.4.2	-	-	-	13,372	(13,372)	-
Balance at 08 January 2018 (restated)*		405,690	1,008,964	1,627,549	13,372	27,339,053	30,394,628
Total comprehensive income for the period		-	-	4,858,794	-	8,498,100	13,356,894
Profit for the year		-	-	-	-	8,498,100	8,498,100
Comprehensive income for the period		-	-	4,858,794	-	-	4,858,794
Dividends declared		-	-	-	-	(971,946)	(971,946)
Transfer to credit reserve		-	-	-	259,087	(259,087)	-
Balance at 6 January 2019		405,690	1,008,964	6,486,343	272,459	34,606,120	42,779,576
<b>Company</b>							
Balance at 9 January 2017		391,338	1,004,233	1,609,481	-	24,047,361	27,052,413
Prior Period Error*		-	-	-	-	(822,348)	(822,348)
Balance at 09 January 2017 (restated)*		391,338	1,004,233	1,609,481	-	23,225,013	26,230,065
Total comprehensive income for the period		-	-	-	-	4,228,685	4,228,685
Issue of ordinary shares under employee share option plan		14,352	-	-	-	-	14,352
Share based payment expense	9.4	-	4,731	-	-	-	4,731
Balance at 08 January 2018 as reported		405,690	1,008,964	1,609,481	-	27,453,698	30,477,833
Change in accounting policy-IFRS 9	2.4.2	-	-	-	-	162,654	162,654
Balance at 08 January 2018 (restated)*		405,690	1,008,964	1,609,481	-	27,616,352	30,640,487
Total comprehensive income for the period		-	-	4,786,871	-	7,996,804	12,783,675
Profit for the year		-	-	-	-	7,996,804	7,996,804
Other comprehensive income for the period		-	-	4,786,871	-	-	4,786,871
Dividends declared		-	-	-	-	(971,946)	(971,946)
Divisionalisation of Carousel		-	-	18,068	-	(170,813)	(152,744)
Balance at 6 January 2019		405,690	1,008,964	6,414,420	-	34,470,399	42,299,473





# CONSOLIDATED STATEMENT OF CASHFLOWS for the 52 weeks to 6 January 2019

Group

Company

52 weeks to 6 January 2019	52 weeks to 7 January 2018		52 weeks to 6 January 2019	52 weeks to 7 January 2018
\$	\$		\$	\$
		Notes	(restated)	
		Cash flows from operating activities		
11,513,275	5,879,814	Profit/(loss) before tax	10,867,161	6,171,681
		Adjusted for:		
(6,614,469)	(7,699,950)	Finance income	(6,843,287)	(7,720,870)
816,151	1,088,513	Finance costs	816,151	1,088,513
3,118,193	2,466,608	Non cash items	2,998,691	2,153,992
(7,186,148)	1,732,760	Movements in working capital	(3,511,306)	432,215
1,647,002	3,467,745	Cash generated from operations	4,327,411	2,125,531
6,272,603	7,699,950	Finance income received	6,501,421	7,720,870
(923,722)	(1,148,353)	Finance costs paid	(923,722)	(1,148,353)
(3,645,785)	(1,703,004)	Taxation paid	(3,437,471)	(1,703,004)
3,350,098	8,316,338	Cash inflow from operating activities	6,467,639	6,995,044
		Cash flows from investing activities		
(2,216,051)	(1,245,978)	Payments for property, plant and equipment	(2,168,220)	(1,152,352)
168,607	58,537	Proceeds from disposal of property, plant and equipment	168,607	58,537
-	-	Cash inflow from group companies	2,842,490	5,100,022
-	-	Cash outflow from group companies	(5,877,268)	(4,046,698)
-	-	Investment in subsidiary	(900,000)	(100,000)
(2,047,444)	(1,187,441)	Net cash used in investing activities	(5,934,391)	(140,491)
		Cash flows from financing activities		
-	14,352	Proceeds from issue of equity shares	-	14,352
6,000,000	4,500,000	Proceeds from borrowings	6,000,000	4,500,000
(2,357,802)	(11,090,065)	Repayment of borrowings	(2,363,473)	(11,022,952)
(619,323)	-	Payments of dividend	(619,323)	-
3,022,875	(6,575,713)	Net cash used in financing activities	3,017,204	(6,508,600)
4,325,529	553,184	Net increase in cash and cash equivalents	3,550,452	345,953
2,296,428	1,743,244	Cash and cash equivalents at the beginning of the period	2,087,610	1,741,657
-	-	Cash balances from Carousel	7,090	-
6,621,957	2,296,428	Cash and cash equivalents at the end of the period	5,645,151	2,087,610