UNIVERSITY OF SWAZILAND

FACULTY OF COMMERCE

DEPARTMENT OF BUSINESS ADMINISTRATION

SUPPLEMENTARY EXAMINATION

ACADEMIC YEAR 2007/2008

TITLE OF PAPER: Small Business Management

DEGREE AND YEAR: Bachelor of Commerce 4

COURSE NUMBER: BA 415 (FULL TIME / IDE STUDENTS).

TIME ALLOWED: Three (3) hours

INSTRUCTIONS

1. THIS PAPER CONSISTS OF SECTION (A) AND (B)

2. THE CASE STUDY SECTION (A) IS COMPULSORY

3. ANSWER ANY THREE QUESTIONS FROM SECTION B

NOTE: You are reminded that in assessing your work, account will be given of the accuracy of language and the general quality of expression, together with the layout and presentation of your final answer.

THIS PAPER MUST NOT BE OPENED UNTIL THE INVIGILATOR HAS GRANTED PERMISSION.

GOOD LUCK!!!

SECTION A (COMPULSORY)

In June 2009 Moses Simelane, a supermarket owner running a family business that had been operating for 20 years, completed his Bachelors Degree in commerce and decided to branch out on his own, leaving the family business to be run by his younger brother. Four of his friends decided to invest in the new venture. Armed with a business plan and financial projections, they convinced the bank to lend them 80% of the required capital. The identified location for the business was the town of Manzini, which was deemed to be the busiest in the country with a wide market catchment area due to its central position. Their financial exposure was approximately E5,000,000 on opening. The five partners held equal shareholding in the company. Manzini Megastores was launched in September 2009.

Moses was elected as the first Chief Executive Officer of the company as he had the relevant practical business experience and expertise. The other directors served on the board of directors. The company proceeded to employ a bookkeeper to take control of the finances, head of operations in charge of stock control and purchasing. Several shop assistants, cashiers, debtors and creditors clerks and other support staff were engaged.

Megastores stock procurement system functioned on a just in time basis and was controlled by the head of operations. Megastores purchased more than 80% of their stock from one large supplier based in South Africa.

Within the first three months, the cash balance was stretched far to the negative side but it was nothing serious as this was projected and planned for. However, two of the directors left and the financial burden fell on the three directors who stayed. Other issues suddenly came to the fore, which were not part of the plan. In one month, Moses calculated theft and pilferage of over E200,000. On investigation of the problem, it emerged that it was an inside job and the people involved were fired, including the bookkeeper who had to be replaced. Unfortunately as the company was already running at a deficit, it worsened the financial woes of the company, as there was no income from the stolen goods. It also had to hire more security personnel, further increasing expenditure.

Although the three directors formed a board, Moses frequently had to make operational decisions on his own. A division started to develop between him and the other directors who accused him of being autocratic. One of the issues included a discount sale which was held on the sixth month of operation.

A big problem also emerged in the payment speed of Government orders, who was a major customer of the company. The average debtor days varied between 70 and 90 days, instead of the 45 days maximum on which cash flow projections were based. The overdraft facility was frequently overdrawn, triggering an investigation by the bank which became reluctant to honor payment of the company cheques.

Disagreements in the board escalated. One of the key issues was the book keeper's inability to manage and report on finances. At the end of the first year, MegaStores was hovering on the verge of bankruptcy and the owners, supported by the bank, were considering selling the company. However, Megastore's biggest supplier, which was owed a substantial amount, filed for bankruptcy in order to recover its credit before the directors could take action.

Case study adapted from Gideon Nieman, Johan Hough, Cecile Nieuwenhuizen **"Entrepreneurship; A South African Perspective"** Van Schaik Publishers

(a) Identify and discuss any indicative occurrences that should have forewarned the directors of the imminent failure of the company. (10marks).

(b) Moses, the pioneer of the business, remains convinced of its potential success despite the cash flow problems experienced. Develop a business turnaround strategy that he should adopt to stay in business. (20marks).

(c) What steps should he take to stop the bankruptcy process? (10marks).

SECTION B

Choose any three

Question 2.
Swaziland Poultry Producers Ltd has identified a business opportunity in Mozambique and wishes to establish a depot in that country to facilitate the sale of chicken products in that country. Discuss the factors they need to consider when making the decision whether or not to start a business across the border. (20marks).

Question 3.
Big is Better Ltd is a clothing retailer who has been offered a franchise opportunity by Big is Best, a clothing production company offering larger sized clothes. Describe the advantage of franchising for Big is Better and for Big is Best. What problems do you think Big is Better might encounter? (20marks).

Question 4.

Mr. Dlamini, a B.com Graduate wishes to start a small consultancy business offering accounting services. Explain why he should write a business plan and briefly outline what should be included in this plan. (20marks).

Question 5.
It is often said that bigger is better, and most entrepreneurs seem to accept this belief: They want to see their companies grow rapidly. There are various ways of expanding a business including joint ventures, mergers and acquisitions. Discuss why one would opt for these strategies instead of merely increasing ones investment into the business? (20marks).