

UNIVERSITY OF ESWATINI
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TITLE OF PAPER: Entrepreneurship and Small Business Management

COURSE NUMBER: BUS 632

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.

SECTION A

Kevin's Kitchen and Sports Bar

The beginning

Five years ago, Kevin had held a middle-management position with a major bank; however, after seven years in a financial institution, he was frustrated. He had to accept that corporate life was not for him and neither was Johannesburg. Kevin resigned and moved to Port Alfred, his favourite seaside resort town. It was small enough to free him from the claustrophobia of the big city yet big enough to have business potential. He had always dreamed of being his "own boss" and decided it was now or never, so he sold his house, settled the mortgage and headed for the coast with R850,000 (US\$50,160) and his dreams in his pocket. While most industries were struggling, the tourism and related hospitality sectors were widely regarded as areas of potential growth. Kevin had always been something of a lover of fine food (and more to the point a fully trained chef) – and an avid sports fan – so deciding on what sort of business to start was something that came easily. However, wary of making a decision based purely on his interests, Kevin undertook a basic analysis of the opportunity.

During his many holidays in Port Alfred on South Africa's "Sunshine Coast" in the Eastern Cape Kevin had tried out just about every eatery in town. Most were typical sports bars serving standard pub grub – hamburgers, fish and chips, etc. They always seemed really busy and in his view, ego aside, none really impressed him. In particular, there was not a single restaurant that offered more refined menus and in particular Asian cuisine – Kevin's speciality. His basic analysis seemed to tick all the boxes – well, most of them anyway. As far as skills were concerned Kevin was both a competent chef and his career in finance and management meant he was well-equipped to run the financial side of a restaurant. He had also had some experience in management and was confident that training up a good support team would be easy. With finance being his core competence, he had to accept that he was weak when it came to strategy, marketing, networking and so on, but he reckoned he could learn these along the way.

In terms of the potential market, Port Alfred was a bustling resort and restaurants all seemed busy. During a recent holiday, when the idea had first come to him, Kevin had conducted a preliminary analysis of potential market segments. He realised that there were numerous categories; holidaymakers like himself – obviously an ideal segment (being on holiday is not about chores like cooking) but obviously a very seasonal segment. As far as residents were concerned, Port Alfred had a population of around 30,000, so this also represented a fair, though not substantial, segment. Many of these were retirees. Driving round town Kevin counted at least five large retirement villages. The residential population was complemented with a student population. Dutch Hospitality University, Stenden, had a satellite campus in Port Alfred. While he was not sure of the enrolment, they certainly made their presence felt around town. The Eastern Cape is the heart of the malaria-free game reserve industry so numerous international tour busses passed through town on a regular basis, year-round. With the increased interest from Asia, many of these tours represented a potential market for his speciality, he reckoned. Finally, Port Alfred is situated halfway between Port Elizabeth and East London and was a popular

stopover for salespeople. Kevin also established that most preferred bed-and-breakfast accommodation to hotels so would need somewhere to eat dinner.

While the town had numerous restaurants, Kevin felt that his inclusion of Asian cuisine, as well as other gourmet meals beyond the standard burger-and-chips type menu, could give him a competitive edge – both with locals and tourists. With all of this in mind, Kevin was convinced that he should take up the opportunity. While restaurant equipment is pretty costly, finance was available and rentals seemed reasonable and as far as supplies were concerned Port Alfred is in the heart of a substantial agricultural industry so Kevin's only concern was availability of speciality Thai ingredients, but he was certain he could make a deal with one of the farmers to run a small crop of Bok Choy, lemongrass, etc., for him. Kevin found good premises in the centre of town with good passing traffic and other eateries nearby.

He took some time thinking of a name. He wanted to let the market know that live sport would be available for viewing and also that his menu was more up market. Kevin's Kitchen and Sports Bar seemed to do the trick. His sole marketing exercise (beyond good signage) was to convince the local newspaper, Talk of the Town, to carry a short piece on "The new chef in town". Over the next five years, Kevin's Kitchen and Sports Bar had fared reasonably well. His set-up debt to the bank had been settled, and his cash flow covered costs adequately, leaving him with a reasonable profit and thus personal income. Kevin felt the need to revisit his earlier analysis and review how things were going. Holiday-times were great and he garnered around 72% of his business over these periods. Out of season, though, was a challenge, with occupancy around 25% – hardly enough to balance the books. As far as the locals were concerned, while he established a reasonably loyal local client base (most of were from the more affluent segment of the population), it just was not big enough. While some of the Stenden students popped in for a beer – particularly when European football was on – they seldom ordered food. Kevin was not sure why but guessed that disposable cash (all students received a limited monthly allowance) was the challenge and the couple of cheap, fast-food franchises probably picked up this opportunity. He also realised that few had vehicles so walked everywhere, and this might have some effect on their unwillingness to wait for a restaurant meal in the evenings.

Kevin's greatest disappointment was that, while the international tourist busses passed through town on a regular basis, they simply never disgorged their passengers at Kevin's Kitchen and Sports Bar – and Kevin did not know why. Had Kevin done a more in-depth analysis of the retirees, he would have learned that most of the retirement villages had their own kitchens, offering basic but highly affordable meals to residents. Most restaurants, Kevin soon realised, offered "pensioners" specials' evenings with a limited menu of budget meals. These appeared to be well received as they provided a welcome break from the tedium of the in-house kitchen and the excitement of an "evening out". Travelling business-people provided him with reasonable custom, but Kevin was certain it could be much bigger, given the huge B&B industry in town. Kevin did some research and realised that he probably got clients from around 5% of the B&B clientele so was clearly missing out. Kevin's hope that his Asian cuisine offering would give him a really strong edge proved unrealistic – Asian dishes represented only some 20% of orders. He regularly drove past his competitors out of season and reckoned he was probably on

par, at best, with their occupancy. In a moment of honest self-reflection they were probably doing better, he had to accept.

As far as capex and management were concerned, Kevin had covered his set-up costs, managed cash flow effectively and had developed a strong team around him. However, while Kevin's Kitchen was surviving it was not making him the sort of cash he would need to find a buyer when he was ready to retire. In reality his net profit per annum was less than Kevin had earned as a salary, which came with a degree of security, benefits, etc. His previous years' income statement told the story well enough. On the positive side, Kevin's financial acumen, combined with the much lower cost of living in a small town, meant that his savings were healthy. At least one thing was easy – identifying the challenge. Out-of-season cash flow was the killer. Once the holidaymakers left, so did some 70% of business. "Smoothing" cash flow was doable. One benefit of the restaurant industry was that customers paid cash while suppliers were paid on terms – some as long as 120 days – and Kevin leveraged this as much as possible. While this helped to a degree Kevin realised that he simply had to do something to boost out-of-season sales.

Adapted from:

Andy Hofmeyr(2020) Kevins Sports Bar Emerald Emerging Markets CaseStudies VOL. 10 NO. 3 2020, pp. 1-11, © Emerald Publishing Limited, ISSN 2045-0621

Questions

- (a) Identify and critically analyse Kevins suitability to operate the business in terms of his managerial skills and entrepreneurial characteristics (20 marks)
- (b) Conduct an assessment of the market conditions for the business and suggest ways by which Kevin can boost the out-of-season sales as he desires to do so. (20 marks)

SECTION B

Question 1

The high levels of unemployment is increasingly compelling young graduates into self-employment. Examine the capacity of young people as a demographic group to initiate and operate businesses, highlighting specific attributes, conditions that may either capacitate or hinder young people in this endeavour. Do you think it is realistic to expect young people to successfully venture into business? (20 marks)

Question 2

Creativity and innovations are said to be the anchor attributes for entrepreneurial success. These mindsets are believed to be learnable, hence can be inculcated in anyone wishing to pursue entrepreneurship. Explain the meaning of these attributes and interrogate the required mindsets of creative and innovative persons. (20 marks)

Question 3

Franchising is an alternative business model favoured by business people wishing to establish new ventures or expand existing businesses. Conduct a comparative analysis of starting a business independently and doing so through franchising in Eswatini. (20 marks)

Question 4

There appears to be a general consensus that Entrepreneurship and SME development is a potential driver of economic growth and could significantly contribute to the alleviation of socio-economic ills of economic inequalities and poverty. Justify this statement and you're your opinion on its validity using examples. (20 marks)