MMS - IV sem 2/4/11 MMS-IV

Entrepreneurship Mgm

EPM 04

Entrepreneurship Management 02-04-2011

Roll No: ________ Total No of Printed Pages : 10

SECTION - I

Duration : 3 Hrs.

Total No of Questions: 3 (For Section - I) Maximum Marks – 30 (For Section - I)

Note: Section I & III to be solved on Separate Answer Books.

Q 1. Write short notes on (Any 2)
10marks

a. Different views on Entrepreneur
b. Personality / Qualities of an Entrepreneur
c. Evolution of entrepreneur

Q 2. Justify the following statements with suitable examples (any 2)
10marks

a. "Market driven innovations stimulate the significant growth of an entrepreneur".
b. "Government plays a vital role in entrepreneurial growth".
c. "Entrepreneur should respect the cultural, social and people aspect of globalisation".

Q 3. Read the following case and answer the questions mentioned below.
10marks

From ice cream van to Dragon's Den - Duncan Bannatyne

Introduction : Every year thousands of **entrepreneurs** decide to set up their own business, anticipating great financial rewards. However, over half of new business start-ups fail in their first year. So what makes the difference between those and profitable business ventures? What makes an entrepreneur extraordinary? This case study focuses on Duncan Bannatyne, one of the UK's best-known entrepreneurs. His career shows that there is no single factor that makes an entrepreneur. As he says, *'Anyone can do it'*.

Duncan Bannatyne grew up in Clydebank, Scotland in poor circumstances, the second of seven children. He spent the first few years after leaving school serving in the Royal Navy. In his twenties, he moved through a range of jobs, including taxi driving and selling ice cream in Jersey. However, he realised he wanted more out of life. At an early age he experienced his first taste of entrepreneurship.

In order to earn money for a much-wanted bike, he applied for a newspaper round. Being told there were no rounds available, he went door-to-door to ask if people in the neighbourhood wanted papers delivered. This research established that there was **demand** and enabled him to get the job. One key factor in building his businesses is

Duncan's ability to recognise and seize opportunities. In his early thirties he bought an ice cream van for £450. He built this into Duncan's Super Ices, with a fleet of vans and a business turnover of £300,000 per year. During the 1980s, he spotted that the government was helping unemployed people by paying their rents. He used surplus **profits** from the ice cream business to buy and convert houses into bedsits for rent.

This guaranteed **revenue** from the government. To finance setting up a chain of care homes, he sold his ice cream business and almost every other **asset** he owned. The homes eventually sold for £46 million. Duncan's business empire now includes the Bannatyne Health Club chain, Bannatyne Hotels, Bar Bannatyne and more recently a chain of spas.

His empire is now valued at over £310 million (according to The Sunday Times Rich List), making him one of the wealthiest people in the UK. In recent years, Duncan Bannatyne has become a household name due to his role in the BBC series 'Dragon's Den'.

Starting a business

What makes an idea grow into a business? Duncan's ventures into the ice cream business, bedsits, nursing homes, day nurseries, health clubs, hotels and spas highlight many of the key elements:

• Identify a gap in the **market** – do research. What do people need, what is missing from the market? Proving there was demand for a paper round enabled Duncan to get a job. Many of Duncan's business enterprise ideas have come from reading local and national press and watching news programmes.

Do something better than or different to **competitors**. Duncan improved ice cream sales by using a new scoop that speeded up serving and made a shape like a smile in the ice cream. This meant he could charge a little more for these special ices.

• Have a business plan. This is a key tool when starting a business. It shows what start-up and running **costs** will be, what **resources** are needed, the estimated value of sales and whether the business will give the right **return on investment**.

• Know where finance will come from and when. A business needs good **cash flow** to keep running.

• Ensure the people in the business have the necessary **skills**. For example, Duncan had the experience to start up Duncan's Super Ices from his time selling ice cream in Jersey.

• Be prepared to delegate work and responsibility but be clear about standards. Duncan's ethos is to provide quality products and services for customers.

• Commit to the business. When building costs for the first residential home almost bankrupted the company before the project was finished, Duncan, his partner, friends and family completed the work. This saved money as well as demonstrating commitment to the venture.

• Pay attention to detail and understand what affects the business. Duncan increased sales for his ice cream business by buying an exclusive position in a local park for £2,000. This gave him profits of £18,000 in one summer – a huge return on his investment.
• Be prepared to take risks. To set up the new care home business Duncan had to sell his ice cream business, as well as his house, his car and colour television.

Sources of finance

Choosing the most appropriate source of finance for the size and needs of the enterprise is important:
• **Sole traders:** Duncan's first ice cream van was an example of this type of business – owned and run by just one person who takes all responsibility and all the profit. The small investment for the van was covered by personal funds. This is typical of many start-up businesses.
• Partnership: This is usually owned by between 2 and 20 people. The joint owners share responsibility and the profits. Duncan went into partnership for the first care home. The investment was much bigger and needed borrowing from a bank.
• **Limited companies** may be private, for example, a family business, or public, where anyone can buy shares in the company. To build more care homes, Duncan used a mix of profits, borrowings and offering shares in the company. This was achieved by 'going public' and **floating** the company on the **stock exchange**.

The start-up costs of Duncan's business ventures varied in size. For example:

Business venture	approximate start-up costs
Ice cream van	£450
The first residential care home	£360,000
The first nursing home complex	£2,000,000
The first day care centre	£1,000,000
The first Bannatyne Hotel	£1,300,000
Bannatyne Health & Leisure Club	£4,000,000

There are several options available for financing new business start-ups and for expanding established businesses.

Internal sources of Finance	**Advantages**	**Disadvantages**
Personal savings	No repayment costs	Limited funds, restricting investment
Borrowings from family/friends or profit from existing businesses	Cheaper than loans Easy to access	Restricted in size

Duncan believes entrepreneurs must demonstrate commitment to the business. When assessing whether to invest in new enterprises such as those in Dragon's Den, Duncan wants to know how much of their own money new entrepreneurs are willing to put in. If they are not willing to risk their own money, Duncan almost always declares himself out.

External sources of finance
Banks are a major source of finance for all businesses, providing finance for starting up, running the business and for expansion:

- Loans can be short-term, medium-term or long-term, depending on need.
- Mortgages are long-term loans for the purpose of buying fixed assets such as buildings and equipment.
- **Overdrafts** are short-term loans with limited duration which can help the day-to-day running of the business.

All financing has specific terms and conditions, for example, times for repayment and interest charges. Interest is the fee the bank takes for providing the loan. The rate of interest varies between each type of loan and according to how much risk the bank feels there is.

	External sources of finance	**Advantages**	**Disadvantages**
Short term	Credit cards	Easily available	Can have high interest rates
	Bank overdrafts	Help with the short term cash flow. No security needed	Repayable on demand. Often high rate of interest
	Bank loans	Larger sums to invest or expand	May be vulnerable to changing interest rates
Long term	Mortgage/ remortgage on a property	Enables repayments over long term	May be vulnerable to changing interest rates
	Funds from investors or share holders	Potentially more funds available. Enables large scale investments	May be expensive to set up. Shared control Share values can raise and fall, affecting company value.
	Grants or loans from government or other organisations	Grants not repayable. Loans often cheaper than bank	Usually limited in size. Use may be restricted.
	Venture capital or business angels	May give tax benefit to investors.	Needs clear exit strategy for investor Shared control.

There is no single best source of finance and not all sources are available to all businesses. It is important to assess the advantages and disadvantages of each in the context of the business' size, needs and intended return on investment and choose the most appropriate option. Every investment is a risk and successful investors balance the degree of risk against potential rewards.

Duncan has used most sources of finance at different times:

- When setting up Duncan's Super Ices, he used personal savings of £450 to cover the main cost for the van itself.
- For setting up the bedsits, his main source was re-invested profits from the ice cream vans.
- He took on a bank loan and a re-mortgage on his own home to buy the land for the first nursing home.

The building costs of the nursing home were to be financed by a 70% mortgage. However, the bank would only release the money once the home was finished and full. In order to build the home:

- Duncan used profits from the ice cream business, as well as selling his car, TV and stereo
- He re-mortgaged the Scarborough residential home and took out several credit cards to cover ongoing costs
- As a last resort, he sold Duncan's Super Ices for £28,000 to finish the nursing home. The total set-up costs were £360,000. However, the bank valued the finished care home at £600,000. The 70% mortgage was therefore worth £420,000. This meant Duncan recovered all costs and had **equity** to fund the next project.

By buying larger plots of land for health club sites, Duncan has also been able to **diversify** his business by building Bannatyne Hotels next to health clubs. These save on costs by sharing staffing, reception and breakfast facilities whilst offering customers something different – use of the health club when staying at the hotel. Duncan has also been able to sell spare land to finance new projects. This illustrates the importance of using fully any assets the business has.

Investors :

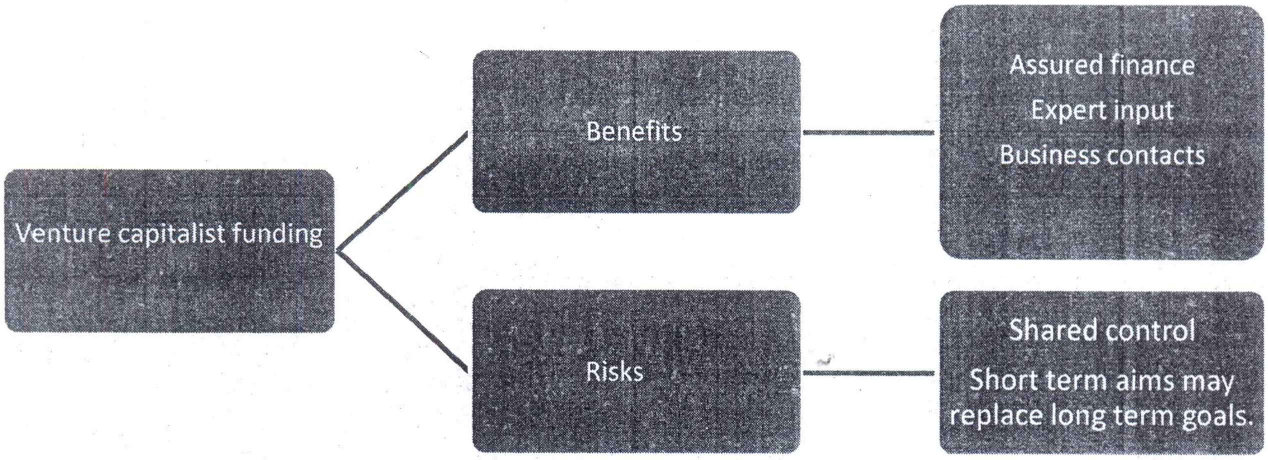
There are different types of investor funding available to businesses. These are from:

- shares - Duncan raised funds from **shareholders** by floating his Quality Care Home business as a **public limited company** on the stock exchange. Shares are especially relevant to large projects needing several million pounds of investment.
- **venture capital**. Venture capitalists invest in businesses by providing funds, business advice and access to contacts, in return for a share in the business. Individual venture capitalist investors such as Duncan Bannatyne are called business angels.

Before investing, Duncan Bannatyne looks for several key elements in an entrepreneur's business plan. These reflect his own approach to investment:

- Do they understand their product, customers and the market?
- Have they worked out what the costs and projected profit will be? Clear research into the market and projections for revenues and costs is important. Duncan would not consider investing in a business which lacked a detailed business plan.

• Do they believe in their product and are they willing to work hard at it? Duncan believes entrepreneurs need to show conviction by investing their own finance into the business.
• Will it give 20-25% return on investment? Unless the idea can yield around 25% return on initial investment, it will not be worth the risking.
• What is the **exit strategy** for investors? Venture capitalists such as the Dragons usually seek to exit the business after three or four years. This enables them to recover investment costs and ideally, generate profit from the sale of their shares. Receiving funds from venture capitalists can provide benefits for businesses but also some risks.



Conclusion

Over the past 30 years Duncan Bannatyne has used his drive, ambition and skills to develop a business empire worth £310 million. The move from ice cream to care homes to the Bannatyne Health and Leisure chain reflects this entrepreneurial drive. He saw the potential for profits in each sector. He was willing to take risks, for example, by exiting profitable businesses like the care homes in order to maximise the opportunity of the new health club venture.

During his time in the Dragon's Den series, Duncan has invested in several entrepreneurs. He has provided venture capital and advice to help enterprise ideas develop into more profitable businesses. He only invests when there is a potential 20-25% return on capital and evidence of the entrepreneur's clear commitment and belief in their own ideas. By using opportunity, taking risks and having a plan, Duncan Bannatyne believes that anyone can be an entrepreneur.

Questions

1. Identify at least four key factors that need to be considered when starting a business and explain why these are important.
2. Evaluate the advantages and disadvantages of using external sources of finance.

SECTION – II

Total No of Questions:3 (for Section - II)

Maximum Marks: 30 (for section - II)

Note:All Questions are compulsory

CASE STUDY

Is franchising a quick start route to Entrepreneurship? – An Entrepreneurial Dilemma

Mrs. Sharmila Nadkarni, a Civil Engineer by profession has been working in an international engineering consultancy for last 8 years. Due to the overall infrastructure development in the country and abroad, her salary has witnessed a sharp rise in past 5 years. She has been born and brought up in Mumbai and currently staying with her husband, Mr. Sanket Nadkarni and their 6 year old daughter. Mr. Nadkarni works with a renowned IT firm in SAP and earns a handsome salary.

Over the years, they both realized, though they were doing excellently well in their professional careers, getting promotions year after year along with a good salary rise, they were missing on something really important and that was time for their daughter. It was time they decided to take some serious decision on the way forward.

They decided to migrate and settle down in Goa within the next 3 years. Sharmila's uncle had been residing in Goa for over 25 years now and apparently her parents had also planned to migrate to Goa post their retirement. Being Konkani was also a plus point for them to consider Goa as an option. They bought a residential plot of about 3000 sq.ft near Ponda, which is a centrally located place in Goa from where Panjim and Margoa are almost equidistant. Ponda basically is a city which is surrounded by temples and market place and is majorly populated by middle class and upper middle class Hindu population.

Sharmila refused to be a complete housewife and always wanted to do something using her education, knowledge and skills and at the same time enable her to get extra time for her family. Sharmila did a primary research on various business concepts and ideas. She finally decided to embark on a business concept – Preschool: Playgroup and Nursery. Being a mother of a little kid, she had visited many playgroups in Mumbai and had also interacted with the owners. She had also discussed with one of her neighbor who runs a Preschool successfully in Borivali for past 5 years. Sharmila was then convinced with the business model and growth prospects of running a Preschool – Playgroup.

What is Pre-School

A pre-school playgroup, or commonly known as playgroup, is an organised group providing care and socialization for children under the age of five. Playgroups are less formal than the pre-school education of nursery schools which do not provide full time care. Moreover, pre-school education operates for only few hours a day during school term time, often in the mornings only.

Pre-school Industry in India

According to one of the estimates, the preschool market is set to cross $1billion by 2012, registering a high 36 percent annual growth. "With low entry barriers, low penetration of preschools in India and evolving franchise model to scale up operations, Indian preschool market is set to flourish in the coming years," says the estimate. According to reports by brokerage firm CLSA Asia-Pacific Markets, the preschool industry in the country is currently estimated to gross about Rs 4,004 crore ($985 million). The report also indicated that the largest chain of preschools in India comprises of just 550 schools, less than 4% of the total market potential of 15,000 preschools. This is primarily because most preschools in India fall in the unorganized sector. Given that it is lucrative, and there is still a quality gap, there is scope for several organized players to get into this business.

Setting up the preschool – Business Model

The business is said to be low on investment and high on returns, with a break-even period within the first two years of operations. "If one plans to use the franchising model only, the investments are lower, since you only need to spend on curriculum development, nationalized marketing and teacher training. Starting your own school, however, is more capital intensive, since the cost of property refurbishment, toys and other equipment is high. Excluding brand building costs, we can safely assume around Rs 15 to 20 lacs per school," says Lina Asher, Founder of BrainWorks. Playing equipment, teaching supplies, interiors and transportation for children are significant investments. Besides this, one also has to pay attention to qualified teachers and staff.

Like many existing preschools in the organized sector, Sharmila thought of adopting the franchising model to achieve rapid growth. "Franchises enable not only sharing of expenses, but also knowledge, experience, brand image, as well as technical expertise," says Deivanathan, CMD, Apple Kids Education. While on the lookout for franchisees, most preschools have a minimum land requirement of around 1000 square feet and a franchisee fee of anywhere around Rs 4 to 40 lacs, depending on the location. The royalty fees, which is on the total fee generated by the school in a year, can range anywhere between 15% and 30%.

After this bit of research, Sharmila did franchise enquiries with few of the reputed pre-schools.

EuroKids required the qualifying franchisee to possess a minimum area of 1500 sq feet (self owned or rented) in a quiet, tranquil and peaceful locality. The initial investment will be in the range of INR 5,00,000/- to INR 10,00,000/- depending on location towards ambience and equipment costs and would include the start up franchisee. EuroKids would also provide training program on the business strategies for owning and operating a successful Pre-School and continuous training for the curriculum development and the delivery method. Also one has to contribute towards national advertising and annual royalty fees.

Starting own Pre-school

Sharmila decided to use some part of her residence (1500 sq. ft) for a playgroup by making necessary arrangements like interiors, separate entrance, toilets, garden, teaching aids etc. These modifications were made while constructing the house itself. She has done basic estimate for initial set-up would be play equipments Rs. 1 to 1.25 Lac, electronic equipment Rs. 1L, books/toys library/CDs Rs. 1L, furniture-not more than Rs. 50,000 and stationary appx Rs.50,000/.

She thought it would be cheaper to start her own playgroup with greater profitability as investments would be similar or lesser and also that there would be no initial upfront fees and royalties.

To justify her thinking, she spoke to a group of parents to figure out on what were their basic requirements for selecting a preschool. She conducted an informal discussion with her neighbors (mothers of kids aged between 2-5 years). They all emphasized on the location or distance from house as their first selection criterion. Ambience, space, supportive teachers, warmth and care in the playgroup were the next important factors. With the ever increasing fees of big chain branded preschools and affordability was also a decision influencer. Though Apple kids, Euro Kids, Kid Zee, Mother's Pride, Kangaroo Kids are the major branded preschools in the country, parents are not willing to pay huge differential fees to these brands, purely for the namesake. Most of the parents perhaps preferred a local but well established playgroup that had got equal facilities, teaching aids and teaching staff at a comparatively lower fees.

She also figured out Goa as a growing market and Ponda as a perfect location. Goa already had 4 Eurokids centres and few other branded pre-school but all are located in the cities like Panjim, Mapusa and Margoa. Ponda did not have any branded pre-school except one or two local basic preschools. She thought if she started her own pre-school of equal standards as that of branded schools, perhaps she would be able to command more fees than local centres but lesser than branded playgroups, which will increase her profitability.

But obviously taking up a franchise is the safest way with its own advantages and starting ones own playgroup is a comparatively more profitable option. At this point, Sharmila is confused.

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All Questions are compulsory.

Q.1 List down all benefits of franchising to a franchisee
(5 Marks)

Q.2 What should sharmila do? Whether to take a franchise or start her own. Justify your decision with required financial calculations and complete SWOT of the business opportunity from Sharmila's point of view. Also suggest possible sources of finances for Ms. Nadkarni. (10 Marks)

Q.3 Make a business plan for Sharmila, assuming that she is starting her own pre-school .
(15 Marks)