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KATHMANDU UNIVERSITY
End Semester Examination
July, 2018

Level : B.E.

Year : IV

Course : MGTS 402

Semester: II

Exam Roll No. :

Time: 30 mins.

F. M. : 10

Registration No.:

Date **JUL 19 2018**

SECTION "A"

[20 Q × 0.5 = 10 marks]

1. Which one of the following is not associated as being a personality characteristic of an entrepreneur?
 - a. Determination
 - b. Feebleness
 - c. Self-confidence
 - d. Creativity

2. Last year, Shyam launched a business that has just failed. As a typical entrepreneur, what will Shyam most likely do?
 - a. Go to work for a major corporation
 - b. Spend the rest of his life wondering what happened to his business
 - c. Try to learn from his failed venture so that he will not make the same mistake in the future
 - d. Give up on becoming a successful entrepreneur

3. What is the basic difference between creativity and innovation?
 - a. Creativity is the same thing as innovation, except creativity refers to ideas outside the business realm.
 - b. Creativity is a more mentally straining exercise; innovation just comes naturally.
 - c. Creativity means coming up with a new product; innovation means coming up with a new process.
 - d. Creativity is having a new idea on how to look at a problem or opportunity, while innovation is the ability to apply the creative idea.

4. Which is NOT a perspective to consider in using a balanced scorecard for performance?
 - a. Goals for durability, service, and reliability
 - b. Financial standards do not contribute to the overall review of a strategy
 - c. Continue to innovate
 - d. Goals for productivity and cycle time

5. Each of the following are ways to identify an opportunity EXCEPT:
 - a. solving a problem.
 - b. observing trends
 - c. trying out alternative uses of existing products
 - d. finding gaps in the marketplace.

6. Which of the following is the final step of a comprehensive feasibility analysis?
 - a. financial feasibility analysis
 - b. marketing research
 - c. industry/market feasibility analysis
 - d. filing articles of incorporation

7. A business plan is important for all of the following reasons EXCEPT:
 - a. a business plan is a selling document that enables a company to present itself to potential suppliers and business partners.
 - b. a business plan provides an investor with something to react to.
 - c. a business plan forces a firm's founders to systematically think through each aspect of their new venture.
 - d. a business plan provides lenders and investors assurance that they will earn a decent return.

8. Which one of the following would not be considered a disadvantage of a corporation?
 - a. Extensive government regulations of activities
 - b. Limited continuity of life of enterprise
 - c. Corporate capital, profits, dividends, and salaries are double taxed
 - d. High incorporation fees

9. What is this meaning of the phrase "piercing the corporate veil"?
 - a. Courts sometimes hold entrepreneurs personally liable for claims against the corporations because they co-mingle personal and corporate assets.
 - b. Competitors occasionally come into your business and act as customers to elicit competitive information.
 - c. Entrepreneurs occasionally see the benefits of sole proprietorship over corporate structure.
 - d. Entrepreneurs sometimes gain access to secret documents of their competitors.

10. The video industry is becoming less attractive as movie studios perfect the technology enabling consumers to download movies via computer. This is best an example of which industry competitive force?
 - a. Bargaining power of buyers
 - b. Threat of new entrants
 - c. Rivalry among existing firms
 - d. Threat of substitutes

11. Cost leadership strategy requires a business model that is focused on each of the following EXCEPT:
 - a. differentiation.
 - b. efficiency.
 - c. cost minimization.
 - d. Volume.

12. All of the following fall under the product "P" of the four Ps EXCEPT:
 - a. packaging
 - b. samples and trials.
 - c. brand name.
 - d. warranty.

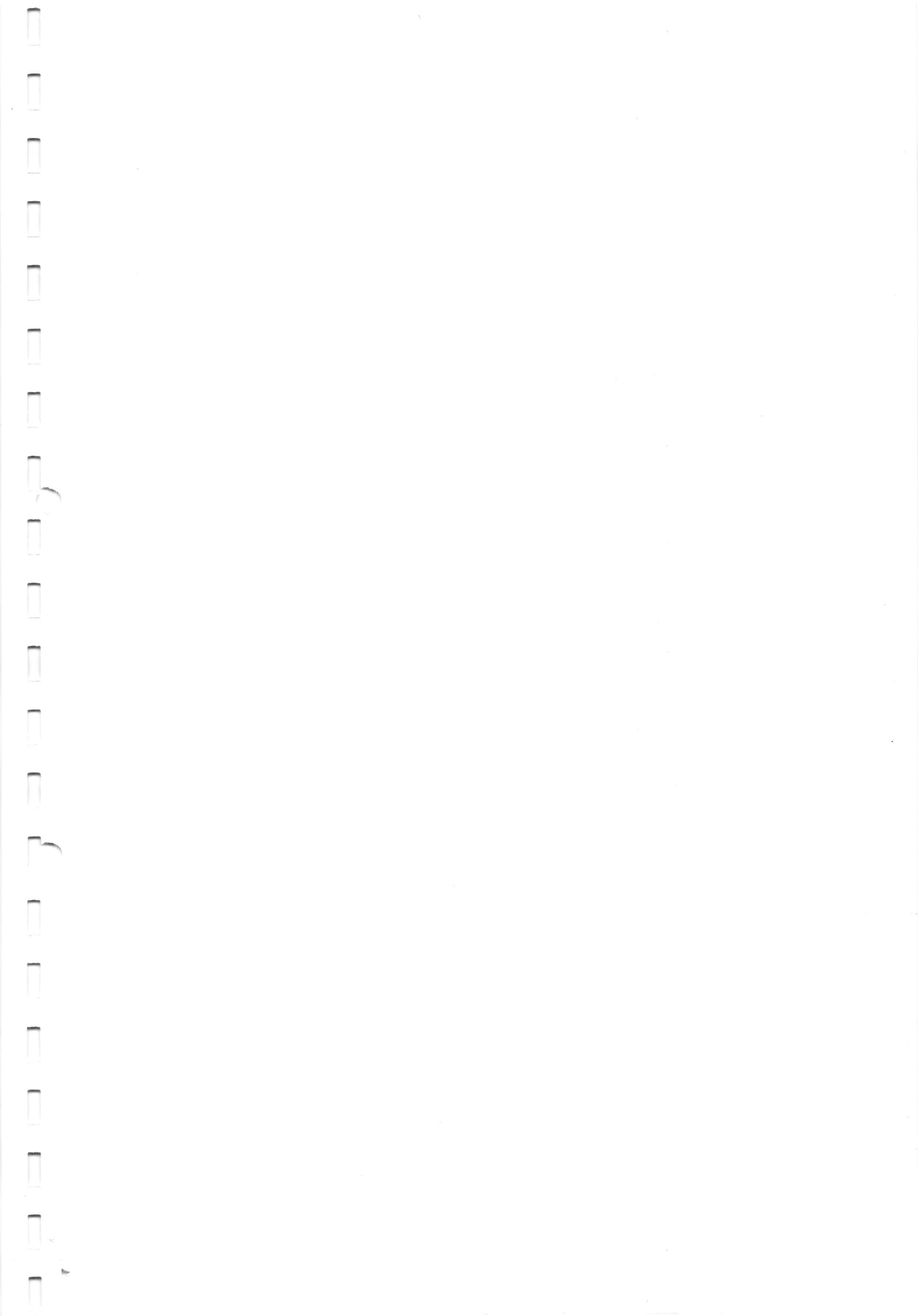
13. Which of the following has as its most important function, the projection of whether the firm will have sufficient cash to meet its needs?
 - a. pro forma statement of cash flows
 - b. pro forma balance sheet
 - c. historical financial statements
 - d. pro forma income statement

14. All of the following are protected by trademarks EXCEPT:
 - a. logos such as the Nike swoosh.
 - b. number and letter combinations like 3M and AT&T.
 - c. a video of a play created and performed by a college drama class.
 - d. unique product shapes, as long as they have no bearing on the product function, such as the famous curved bottle of Coca Cola.

15. Why is carrying too much inventory a strain on the business?
 - a. Because inventory is taxed again at the end of the year if not sold
 - b. Because inventory ties up cash and generates zero return
 - c. Because excess inventory can cause the business to believe that it is selling goods that it really is not
 - d. Because inventory may make the back office area messy

16. The science of adapting work and working conditions to compliment employees' strengths and to suit customers' needs is called:
 - a. Total Quality Management.
 - b. Ergonomics.
 - c. Positive reinforcement.
 - d. Kinesiology.

17. Which of the following is the least likely source of seed money that gets a new venture started?
- a. a bank line of credit
 - b. bootstrapping
 - c. friends and family
 - d. personal funds
18. What is the most important criterion, from a lender's perspective, of a firm that applies for a loan?
- a. the industry that the business operates within
 - b. the profitability of the business
 - c. the management team at the helm of the business
 - d. the ability of the business to produce cash through its business model
19. An entrepreneur considering two sites for a men and boys' shop determines that he needs sales of \$158 per square foot to be profitable. Site #1 has 13,500 potential customers who spend an average of \$160.20 per year on men and boys' wear. Two competitors occupy 14,200 square feet of space. Site #2 has 10,800 potential customers spending an average of \$152.10 per year on men and boys' wear. One competitor has 10,000 square feet. The index of retail saturation for site #1 is:
- a. \$150.21.
 - b. \$152.30.
 - c. \$166.19.
 - d. \$168.51.
20. What is the state's overall attitude toward your kind of business? Has it passed laws that impose restrictions on the way a company can operate? Does the state offer small business support programs of financial assistance to entrepreneurs? These questions help an entrepreneur to assess the overall:
- a. labor supply.
 - b. business climate.
 - c. proximity to markets.
 - d. population trends.



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July, 2018

Level : B.E.
Year : IV
Time : 2 hrs. 30 mins.

JUL 19 2018
Course : MGTS 402
Semester: II
F. M. : 40

SECTION "B"

[4Q × 10 = 40 marks]

Attempt *ALL* the questions. Answer in your own words supported by the theories you have studied in the course.

1 *Read the following article and answer the questions that follow*

As a young boy, Ahmed Dulla would spend hours admiring footwear and picking out the most expensive pairs of shoes from shops. However, every trip ended in tears because his parents refused to spend thousands on a 10-year-old's shoe. In high school, Dulla fell in love with basketball, but more than the game, he was fascinated by the sneakers he saw on court.

"I knew my dream of becoming a NBA star was too far-fetched so I thought I would design shoes for players instead," chuckles the 25-year-old who launched his line of self-titled shoes in Nepal last month. While not quite fit for a game of basketball, Dulla's personally designed, hand-made shoes are elegant, yet comfortable enough for daily use and are giving female shoe lovers in Kathmandu a reason to smile. With over 100 pairs off the shelves and 150 pre-orders in less than a month, Dulla is thrilled with the way business has picked up through word of mouth.

"When I told my family and friends that I wanted to study footwear, they were skeptical. They would make fun of me and ask me why I was spending so much money and time training to become a 'cobbler'?" he recalls. "So it feels amazing to see two long years of hard work finally paying off. My family is also more appreciative now."

Not the most diligent student in high school, Dulla had thought about dropping out a couple of times. "I hated studying so much that at one point, I wanted to become a taxi driver," he says. But all that changed when he enrolled at Footwear Design and Development Institute (FDDI) in India. Within a few weeks he knew he had made the right choice and found his courses so interesting that he attended classes religiously during his three years at FDDI and ended up winning an award for best attendance.

After graduation, the aspiring designer started interning at Aldo and Zara in Mumbai. Dulla says those were the toughest three months of his life where he felt he was being constantly exploited and not getting credit for his work. "No matter how hard I worked, at the end of the day others would take credit for my designs. That is when I realized that I couldn't work under someone else and had to start something on my own," he admits.

Although the company is based in Delhi, the designer chose Kathmandu for the official launch. "I always wanted to do something in my country and this is just a small effort," he explains, "I have felt a real demand for good-quality shoes here." Dulla teamed up with Trendsetters to distribute shoes in the country, but tech savvy shoppers can also order online through Facebook.

The confident shoemaker has now set his sights on outshining cheap Chinese knockoffs that dominate the market and is looking to partner with Nepal's top shoe brands. He also

has long-term plans of establishing the first footwear design institute in Nepal. Says Dulla: "Footwear technology is such an alien concept here and the profession is still looked down upon. I want to change this and also help young designers. I know it's an ambitious goal, but I have the passion and determination." [Source: <http://archive.nepalitimes.com>, Retrieved on 03 July 2018]

Questions

- a. Would you reckon Ahmed Dulla as an entrepreneur? Elaborate in terms of the traits he does/does not possess (based on the case information). [4]
- b. If you see him as an entrepreneur, what process (entrepreneurial process) do you see in his life to become an entrepreneur? If you do not see him as an entrepreneur, what he would have done differently? [3]
- c. Identify the strategic option/options that Dulla has adopted in his business. Explain the advantage and disadvantage of these options. [3]

2 *Read the following article and answer the questions that follow*

The Office of the Prime Minister and Council of Ministers (OPMCM) has directed the Ministry of Physical Infrastructure and Transport to formulate a policy to encourage the use of electric vehicles, including e-scooter, to combat air pollution. Nepal still lacks policy to encourage and promote the use of emission-free vehicles.

A 2017 report published by the Ministry of Urban Development says electric vehicles and non-motorized transport can play an important role in reducing emission. Vehicular emission is the major cause of deteriorating air quality in the urban areas where it is much aggravated by substandard or adulterated fuel, narrow and poorly maintained streets, poor traffic management, old vehicles and poor vehicular maintenance. The air pollution levels in Kathmandu Valley exceeds the National Ambient Air Quality Standard of $120 \mu\text{g}/\text{m}^3$ prescribed by the government.

Meanwhile, Nepal Electricity Authority is taking the initiative to promote e-vehicles for management of surplus power. The power utility has called a tender to install charging stations in different places of major cities to encourage people to shift to electric vehicles. According to the power utility, a charging station on the premises of NEA office will be installed shortly and the authority is also mulling over making electric vehicles mandatory for its top officials.

The government has also reduced customs tariff on the import of electric vehicles through the fiscal budget of 2016-17. Customs tariff of big electric vehicles (bus, minibus) normally used as public transportation had been slashed to one per cent (of the total cost) from 30 per cent earlier. Similarly, electric four-wheelers used for individual purpose like jeeps, cars and vans need to pay only 10 per cent customs tariff against 30 per cent in previous years. [Source: <https://thehimalayantimes.com>, Retrieved on 4th July 2018]

Questions

- a. Explain the future business environment of electric vehicles in Nepal as per case information. [2]
- b. Perform SWOT analysis of electric vehicles business in Nepal [3]
- c. Analyze the attractiveness of this business based on the five considerations (forces) proposed by Michael E. Porter. [5]

Read the following case and answer the questions that follow

Kopp founded Kopp's Cycle in Princeton, New Jersey, in 1891. The Kopp family operated the business until the Kuhn family purchased it. Eventually Charles took over the store from his father in the late 1970s. Celebrities from Albert Einstein to Brooke Shields purchased bicycles from Kopp's Cycle. Legendary road racing cyclist Greg LeMond was a customer from the time he was a junior racer. Kopp's Cycle looks like a typical bike shop.

Charles Kuhn purchased the building that houses Kuhn's Cycle in 2004 for about \$800,000, which he financed with a \$775,000 loan secured by an SBA guarantee. Kuhn was not happy with SBA financing, however, because it came with significant additional paperwork. In addition, the SBA loan had an adjustable rate, which worried him about the actual long-term cost of the loan and the uncertainty about payments as the interest rate changed. As a result, Kuhn refinanced the loan through another bank that offered him a conventional fixed rate loan for \$825,000. This new loan was not an SBA guaranteed loan, which pleased Kuhn. At the time of the refinancing, the building was valued at \$1.3 million. Although the loan was repaid over 25 years, it had a balloon payment of \$775,000 due in three years. At the time of the balloon payment, the borrower must refinance, either with the current lender or with a new lender.

As it did with many small businesses, the economic downturn in 2008 hit Kopp's Cycle hard. In addition, online sales of high-end bicycles were increasing significantly. Online retailers were able to offer prices that a small business like Kopp's Cycle could not compete with due to its lower sales volume and higher overhead. Revenues dropped from \$498,000 in 2008 to \$393,000 in 2009. Kuhn cut prices in 2010 to compete with online retailers, which did bring his sales levels back up. However, the price cuts resulted in profit margins dropping from 10 to 15 percent down to 1 percent. To manage cash flow during this time, Kuhn relied on credit cards as a funding source for the business. He combined credit card debt of more than \$100,000.

Kuhn decided to seek new financing for his business. His plan was to borrow \$1 million to pay off the \$800,000 balance on the building loan, pay off the credit card balances, and provide \$100,000 in working capital to help manage cash flow. Kuhn estimated that his building is now worth about \$1.5 million, which he believed should be more than enough equity to support the loan.

The first bank Kuhn contacted about a loan declined to make a loan. After reviewing Kopp's Cycle's financial statements, the loan officer said Kopp's Cycle's debt coverage ratio, the ratio of monthly net cash flow divided by debt payments, did not meet the bank's minimum of 1.1 to 1.5. With Kopp's Cycle's declining profit margins, it could not meet the required debt coverage ratio. Bankers want to see a significant cushion in a company's monthly cash flow to ensure that even if the company's financial position declines, it can maintain payments on the loan. The second bank Kuhn approached gave the same answer. A third banker did not even return Kuhn's phone calls.

Kuhn then turned to a loan broker, who he paid an upfront fee and who would take 10 percent of the loan amount once a loan was closed. However, the bank the loan broker found for Kuhn to talk with also passed on the loan, citing concerns over the true market value of Kuhn's building.

Although Kuhn did not believe that a new loan was essential for the survival of the business, he did hope he could secure new financing to bolster Kopp's Cycle's financial position. In addition, Kuhn must address the balloon payment that is part of his current

building loan sooner or later. There was no guarantee that his current bank would renew this loan, and he had not had much luck finding alternative financing.

Questions

- a. What are the benefits and risks to entrepreneurs who use debt capital (leverage) to finance their companies' growth? [3]
 - b. Why is using ratio analysis to keep track of their companies' financial performance over time so important for entrepreneurs? [2]
 - c. What lessons regarding debt financing can entrepreneurs learn from Charles Kuhn's experience? [2]
 - d. Assume the role of a small business banker. Suppose that Kuhn had approached you for a bank loan to refinance his debt. Which financial ratios would you be most interested in? Why? What advice would you offer him? [3]
- 4
- a. In order to operate any business successfully, one has to effectively manage all three components (Big three) of cash management. Explain in detail the ways to manage "Big three" of cash management. [4]
 - b. Choosing a form of ownership is important because it is a decision that has far-reaching effects for both the entrepreneur and the business. Explain the factors you need to consider choosing a form of ownership. [2]
 - c. Explain with suitable examples the new product pricing strategies for entrepreneurs. [2]
 - d. Explain the factors that need to be considered in manufacturing layout. [2]