

UNIVERSITY OF SWAZILAND

FACULTY OF COMMERCE

DEPARTMENT OF BUSINESS ADMINISTRATION

MAIN EXAMINATION 2006

TITLE OF PAPER: SMALL ENTERPRISE MANAGEMENT

DEGREE AND YEAR: BCOM IV

COURSE NUMBER: BA 415

TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS: 1. THIS PAPER CONSISTS OF SECTIONS (A) AND (B)

2. THE CASE STUDY SECTION (A) IS COMPULSORY

3. ANSWER ANY THREE QUESTIONS FROM SECTION B.

Note MARKS WILL BE AWARDED FOR GOOD COMMUNICATION IN ENGLISH AND FOR ORDERLY PRESENTATION OF WORK

THIS EXAMINATION PAPER SHOULD NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

SECTION A

Read the following case and answer the questions that follow.

The Shirt Store

Carol Konop learned the business of making and selling men's shirts by starting at the bottom. In the 1970s, she took a part-time job as a bookkeeper for a shirt manufacturer and retailer on New York's Lower East Side. When Konop worked her way up to vice president of operations, she met Yale Shanfield, a supplier with a reputation for reliability and quality. Then, in 1986, Konop decided to launch her own retail shirt company, and she knew she wanted Shanfield to be her supplier. Using \$100,000 of her own money and \$30,000 from two friends, she leased a prime location in the path of thousands of New York City commuters, just across from Grand Central Station. Today her company, The Shirt Store, stocks a uniquely large and select inventory of men's shirts in a wide variety of patterns, colours, and sizes. The store keeps an average of 1,200 dozen shirts in stock at any time and is always looking for new styles and designs. For instance, in Konop's first year of business, a customer asked for a shirt with horizontal stripes that he had seen a character in a hit movie wearing. The shirt remains a popular seller.

A key ingredient in Konop's strategy for success is her decision to have a labour contractor such as Shanfield manufacture her shirts rather than farm out production to cut-and-sew shops overseas. Shanfield's factory, the Barnesboro Shirt Company, lies just 300 miles west of New York City, which means that Konop's orders are filled quickly, giving her the ability to stock the latest styles and patterns. Konop pays about 48 percent of her gross revenues to Shanfield for manufacturing shirts; but because the two have such a close, cooperative relationship, she can offer top-quality shirts at prices 25 percent below those of her competitors. Her prices range from \$37.50 to \$85.00 for off-the-shelf shirts and from \$75.00 to \$260.00 for custom-made shirts, which are made at a nearby plant on Long Island.

The Shirt Store orders fabric, buttons, labels, and linings for collars and cuffs and has them delivered to Shanfield's warehouse. When Konop gives her design specifications to Shanfield, his factory launches into production. "Yale can just look at a sketch for a collar and say, 'This is what I have to do to sew it, and this is what it will cost,'" says Konop. Not only does Shanfield have to keep close control of costs, but he also must be able to make rapid deliveries. "Clients want faster turnaround for smaller lot sizes," he says. "To survive, I must practically run a custom-shirt business."

Konop purchases all of The Shirt Store's ready-to-wear shirts from Shanfield, and her orders account for 10 percent of Barnesboro's sales volume. Their customer/supplier relationship is built on trust, respect, and honesty. "He won't lie to me," says Konop. "If I say, 'Can you have the shirts here in time for my January sales?' and he can't do it, he'll say, 'Forget it; I can't make it.'" Konop and Shanfield stay in close contact with one

another. In addition to the two or three visits each makes to the other's business every year, Konop calls the shirt factory anywhere from one to five times a day. When Konop places a shirt order, the "ticket" goes to the ordering-processing room, where Shanfield's son David calculates the cost for every operation required on the shirt. Shanfield's son-in-law Jeffrey Boyer figures out how to use each bolt of fabric most efficiently to minimize waste. Shanfield manages the factory, where the typical shirt goes through 52 different sewing operations. A collar alone may require 13 or 14 different steps. After four inspections, each shirt is pressed and packed and then shipped to the customer.

Konop's success with The Shirt Store has led her to look for a second location. She is currently looking for space in New York City's financial district, and has dreams of expanding beyond that. "If the United States can import all those shirts from abroad," she says with a grin, "why can't we export mine?"

1. What dangers does Konop face by using Barnesboro as her sole supplier of off-the-shelf shirts? What benefits does Konop receive from such a close relationship with Barnesboro? 10 marks
2. Would you recommend such close relationships with suppliers for most small businesses? Explain. 10 marks
3. What suggestions would you make for further strengthening the supplier/customer relationship between The Shirt Store and Barnesboro? 10 marks
4. What methods would you suggest to Konop for controlling her inventory of shirts? 10 marks

SECTION B

Question 1

Some successful entrepreneurs have had difficulties in managing their companies beyond the start-up stage. Discuss. 20 marks

Question 2

Why is it important for an entrepreneur to generate financing internally as much as possible rather than depending entirely on external financing? How does the entrepreneur accomplish this? 20 marks

Question 3

The financial approach in the business plan is critical. How would you deal with the financial aspect in asking the bank for a loan? 20 marks

Question 4

Assuming you are called upon to explain to a group of small business operators the importance of a business plan, what would you say are the purposes of a business plan? (Support your answer) 20 marks

Question 5

State four major sources of funds accessible to small businesses in the country. Discuss their requirements, and the ability/inability of the targeted entrepreneurs to meet these requirements. 20 marks