
ENTERPRISE

0454/11

Paper 1

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INSERT

1 hour 30 minutes

READ THESE INSTRUCTIONS FIRST

This Insert contains the case study for use when answering the questions.

Anything the candidate writes on this Insert will **not** be marked.



This document consists of **4** printed pages.

CASE STUDY

MM NEWSLETTER

Background

Mzengi works in his father's clothes store. The store has a small number of regular customers but, because of its location, the store struggles to attract new ones. Mzengi's father knows that in order for the enterprise to survive he must constantly attract new people to the store.

At school Mzengi had studied Enterprise and he had been very successful at attracting potential customers. Mzengi's father thought that with his entrepreneurial skills Mzengi would be able to think of ways to attract customers to the store and he asked Mzengi to help him.

The research

Mzengi decided that the first thing he needed to do was carry out some primary and secondary research. He asked his friend Mia to help him. They found out the telephone numbers of local stores in the area from a trade directory, which they accessed through their cell (mobile) phones. The friends then interviewed local storeowners to find out how they attract potential customers. The storeowners said that as sole traders they could not afford to pay for advertisements in the local newspaper. They did not know of other methods they could use to advertise their stores.

The idea

Mzengi and Mia realised that there was an opportunity for a cheap advertising service in the local area and this would help his father to attract more customers.

The friends decided to use their skills to set up their own advertising service. They would start with a newsletter where local enterprises could advertise. Mia would write articles about local events, Mzengi would produce photographs and the local enterprises would be asked to buy advertising space. The MM Newsletter would be delivered locally at various times during the year.

Finance

Mzengi wanted to pay close attention to the financing of MM Newsletter. He was aware that many enterprises failed due to poor cash flow and poor financial record keeping. The friends produced a budget to help decide the price for each advertisement.

Mia already had a very good computer and printer that could be used to produce the newsletter so the major cost would be the variable costs of printing.

Budget for one issue of MM Newsletter

| REVENUE | (US\$) |
|-----------------------------------|---------------|
| Sales revenue from advertisements | 40.00 |
| COSTS | (US\$) |
| Paper | 3.00 |
| Ink for printer | 12.00 |

Fig. 1

A payment of US\$4 would pay for an advertisement in one issue. The first newsletter would include space for 10 advertisements. They estimated that this price would produce a profit if they sold all of the advertising spaces.

Starting out

Mzengi and Mia used most of their own savings to finance the first issue of MM Newsletter. Unfortunately Mia's printer broke down before they could complete the printing of the first newsletter. The friends had to use the rest of their savings to pay for the repairs.

The broken printer meant that some newsletters were not delivered on time and the friends received complaints. Mzengi and Mia realised that to retain customers they had to make sure that in future the newsletter was printed and delivered on time.

With all of their savings spent on repairs, Mzengi and Mia did not have any money to buy more paper and ink. They would need to borrow money for the next issue of MM Newsletter.

The future

Mzengi prepared to negotiate a loan with his father. Mia arranged an expensive bank loan without telling Mzengi. When he found out Mzengi was very worried and he remembered his Enterprise teacher warning him about the disadvantages of an enterprise operating as a partnership. Mzengi decided that he and Mia should write a deed of partnership (below) and a business plan.

| PARTNERSHIP DEED | | | |
|---|------------------|------------------------|------------------|
| Name of Partner One | (INSERT NAME) | Name of Partner Two | (INSERT NAME) |
| Address of Partner One | (INSERT ADDRESS) | Address of Partner Two | (INSERT ADDRESS) |
| The capital of the partnership will be \$ This will be contributed by the partners in the following amounts: | | | |
| Partner One | 40% | \$ | |
| Partner Two | 60% | \$ | |
| Profits will be shared according to the capital invested. | | | |
| Partner One (INSERT NAME) – 40% of profits | | | |
| Partner Two (INSERT NAME) – 60% of profits | | | |
| It is agreed that the partners will run the enterprise starting from (INSERT DATE). | | | |
| If either partner dies or is too ill to continue to work the Enterprise will close. Proceeds from the sale will be shared in the same way as profits. | | | |
| Signature Partner One (INSERT NAME) | | | |
| Signature Partner Two (INSERT NAME) | | | |

Fig. 2

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