EnterpriseGrowth Strategies

TEXTBOOK QUESTIONS SOLVED

A. VERY SHORT ANSWER TYPE QUESTIONS

Question 1. What are the two ways in which an organisation can expand?

Answer. Internal Expansion and External Expansion are the two ways in which an organisation can expand.

Question 2. Who is a franchisor?

Answer. The owner or person offering the franchise is known as the franchisor.

Question 3. Who is a franchisee?

Answer. The franchisee is the person who purchases the franchise and is given the opportunity to enter a new business with a better chance to success than if he or she were to start a new business from nothing.

Question 4.What is franchising?

Answer. Franchising is an arrangement through which the manufacturer or sole distributor of a trademarked product or service gives exclusive rights of local distribution to independent retailers in return for royalties and conformance to standardized operating procedures.

Question 5. Which is the most popular form of franchising?

Answer. Business format franchise opportunity is the most popular form of franchising.

Question 6. What is acquisition?

Answer. Acquisition or take over is enveloping in itself a range of acquisition transactions by a firm.

B. SHORT ANSWER TYPE QUESTIONS-I

Question 1. Explain in brief the three ways in which an organisation can expand externally.

Answer. The three ways in which an organisation can expand externally are:

1. **Franchising:** Franchising is an arrangement through which the manufacturer or sole distributor of a trademarked product or service gives exclusive rights of local distribution to independent retailers in return for royalties and conformance to standardized operating procedures,
2. **Merger:** It is the combining of two firms into a single large firm.
3. **Acquisition:** Acquisition or takeover is enveloping in itself a range of acquisition transactions by a firm.

Question 2. Enumerate the importance of franchising.

Answer. Importance of Franchising:

1. **Proven idea:** Business is based on a proven idea. Success of the product can be checked in the market and is also known.
2. **Profit from brand recognition:**Franchises develop an image in the marketplace. This saves both time and money of advertising, promotion, recognition, etc. Image of the product is a favourable one and is in the minds of consumers.
3. **Recognized brand name and trademarks:** Entrepreneur gets a recognized brandname and trademarks. Benefit from any advertising or promotion by the parent company automatically benefits the franchise.
4. **Support from parent company:** The franchisor gives support in the form of training, help setting up the business, a manual telling how to run the business and ongoing advice.
5. **Exclusive rights of the territory:** The franchisor can't sell any other franchises in the same territory which leads to the creation of monopoly power in the territory.
6. **Easier Financing:** Financing the business becomes easier due to the associated brand name. Banks are more likely to lend money to buy a franchise with a good reputation.

Question 3. Differentiate between consolidation and merger.

Answer.

Merger	Consolidation
(*i*) In a merger, one company takes over another, including all assets and liabilities. The company that takes over remains active, while the one that is acquired essentially ceases to exist.	(*i*) In a consolidation, two or more companies merge to form one new, larger company. All of each company's assets and liabilities then become the property of the new company.
(*ii*) Firms involved are differently sized.	(*ii*) Firms involved are nearly equally sized.

Question 4. Name the two forms that merger can take place.

Answer. Two forms of merger are:

1. **Amalgamation:** Amalgamation is a union of two or more companies, made with an intention to form a new entity or company.
2. **Absorption:** It means an existing company taking over one or more company. In this case one or more company will close down their business and this business will be continued by the name of the existing company.

Question 5. Explain the types of acquisition.

Answer. There are four types of acquisitions:

1. **Friendly acquisition:** Here, both the companies approve of the acquisition under friendly

terms. There is no use of force or pressure and every thing gets over cordially.

2. **Reverse acquisition:** Here, a private company takes over a public company.
3. **Rack flip acquisition:** Here, the purchasing company becomes a subsidiary of the purchased company.
4. **Hostile acquisition:** Here, the entire process is based on force. The smaller company is forced to say yes to the acquisition or the bigger company just buys off all its share.

Question 6. What is value addition? Explain by giving examples.

Answer. Value addition refers to creation of a competitive advantage by, combining, packaging features and benefits or through any other method that results in greater customer acceptance. Its examples are:

1. Offering one year of free support on a new computer would be a value-added feature.
2. Turning cotton into fabric. Here, fabric has more usefulness than cotton.
3. Turning milk into cheese. Cheese has got more specific uses than milk.
4. Packaging ready-to-use grated cheese into serving size packets.
5. Turning wood into paper. Utility of paper is more than wood.

C. LONG ANSWER TYPE QUESTIONS

Question 1. Explain the types of franchising.

Answer. Following are the types of franchising:

1. **Product Franchise Business Opportunity:** Here, the manufacturers use the product franchise to govern how a retailer distributes their products. The manufacturer grants a store owner the authority to distribute goods by the manufacturer and allows the owner to use the name and trademark owned by the manufacturer. The store owner purchases the inventory in return for these rights. Example: Some tire stores.
2. **Manufacturing Franchise Opportunity:** It provides an organisation with the right to manufacture a product and sell it to the public, using the franchisor's name and trade mark. This type of franchising is very common. For example, in the food and beverage industry, bottlers of soft drinks, etc.
3. **Business Franchise Opportunity Ventures:** Here, a business owner purchases and distributes the products for one specific company. The company provides customers or accounts to the business owner. In return, the business owner pays a fee as compensation. Example, vending machine routes and distributorships.
4. **Business Format Franchise Opportunity:** Here, a company provides a business owner with a proven method for operating a business using the name and trade mark of the company. The company provides a significant assistance to the business owner in starting and managing the company. The business owner pays a fee or royalty in return.

Question 2. What are the disadvantages of franchising to the franchisee?

Answer. Disadvantages of franchising :

1. **Higher cost:** Costs may be higher than expectations. The costs include initial costs of buying the franchise, you pay continuing management service fees and you may have to agree to buy products from the franchisor, this may be more than the expectations.
2. **Huge restrictions:** The franchise agreement usually includes strong restrictions on how to run the business. Franchise might not be able to make changes to suit the local market.
3. **Risk:** There is a risk that the franchisor might go out of business and in this case a huge risk is involved.
4. Bad reputation: Other franchisees could give the brand a bad reputation, so the selection

process needs to be perfect.
5. No sale option: Franchise finds it difficult to sell to someone if willing to sell due to any reason. It can only be sold to someone approved by the franchisor.

Question 3. What is synergy? In what forms can it take place?

Answer. Synergy is the benefit that results when two or more firms together achieve something either one couldn't have achieved on its own. It's the concept of the whole being greater than the sum of its parts.

For example, if firms A and B merge and the value of the combined entity— V(AB)—is expected to be greater than (VA+VB), the sum of the independent values of A and B, the combined entity is said to be benefitting through synergy. Synergy can take place in two forms:

1. **Operating synergy:** This refers to the cost savings that come through economies of scale or increased sales and profits. It involves raising scale of production by changing all factors of productions of the firm. It leads to the overall growth of the firm.
2. **Financial synergy:** It is the type of synergy which is due to financial factors such as lower taxes, higher debt capacity or better use of idle cash. When a loss making firm merges with a profitable firm and the combined firm can set off such losses against its profits, a financial synergy, known as tax shield, occurs.

Question 4. What are the different types of value added?

Answer. The different types of value added are as follows:

1. **Quality Added Value:** It is adding convenience, ease of use, etc. that customers value. For example, turning a commodity into a branded product or design enhancements.
2. **Environmental Added Value:** It is value added which employs methods or systems that do not harm the environment. For example, using less fuel, using recycled material for packaging.
3. **Cause-related Added Value:** Here, the business contributes part of the revenue from a commodity to a cause. For example, a business may donate a percentage of revenue from each transaction to a orphanage.
4. **Cultural Added Value:** It uses methods or systems of production involving cultural aspects. For example, using a combination of English and the regional language in written communications.

D. VERY LONG ANSWER TYPE QUESTIONS

Question 1. Explain the advantages of franchising, both for the franchisor and franchisee.

Answer. Merits of Franchising:

1. **Proven idea:** Business is based on a proven idea. Success of the product can be checked in the market.
2. **Profit from brand recognition:**Franchises develop an image in the marketplace. This saves both time and money of advertising, promotion, recognition, etc. Image of the product is a favourable one and is in the minds of consumers.
3. **Recognized brand name and trademarks:** Entrepreneur gets a recognized brand name and trademarks. Benefit from any advertising or promotion by the parent company automatically benefits the franchise.
4. **Support from parent company:** The franchisor gives support in the form of training, help setting up the business, a manual telling how to run the business and ongoing advice.
5. **Exclusive rights of the territory:** The franchisor can't sell any other franchises in the same territory which leads to the creation of monopoly power in the territory.
6. **Easier Financing:** Financing the business becomes easier due to the associated brand

name. Banks are more likely to lend money to buy a franchise with a good reputation.

Question 2. Explain in detail the types of mergers.
Answer.

1. **Conglomerate:** Here, two totally unrelated business activities mearge. Pure conglomerate mergers is between the firms with nothing in common.
   Mixed conglomerate mergers involve firms which are going for product extensions or market extensions. Example: Walt Disney Company and the American Broadcasting Company. Here the new company formed had to face tough competition in both the products.
2. **Horizontal merger:** This merger is between companies in the same industry. It is a type of business consolidation that occurs between firms which are competitors and offering the same goods or service. It is in the condition where competition tends to be higher and the potential gains in market share are much greater for merging firms in such an industry.
   Example: A merger between Coca-Cola and the Pepsi beverage division, would create a new, larger organisation with more market share.
3. **Market extension mergers:** It takes place between two companies that deal in the same products but in different markets. This merger is to make sure that the merging results in a bigger market and a bigger client base. Example: The acquisition of Eagle Bancshares Inc. by the RBC gave RBC a chance to deal in the financial market of Atlanta, which is among the leading upcoming financial markets in the USA. RBC has thus diversified due to this move.
4. **Product extension mergers:** A product extension merger takes place between two business organizations that deal in products that are related to each other and operate in the same market. The product extension merger allows the merging companies to group together their products ' and get access to a bigger set of consumers. This ensures that they earn higher profits.
   Example: The acquisition of Mobilink Telecom Inc. by Broadcom Broadcom deals in the' manufacturing of
   Bluetooth personal area network hardware systems and chips for IEEE 802.11b wireless LAN. Mobilink Telecom Inc. deals in the manufacturing of product designs meant for handsets that are equipped with the Global System for Mobile Communications technology. It is expected that the products of Mobilink Telecom Inc. would be complementing the wireless products of Broadcom.
5. **Vertical merger:** A merger between two companies producing different goods or services for one specific finished product. A vertical merger occurs when two or more firms, operating at different levels within an industry's supply chain, merge operations. Most often the logic behind the merger is to increase synergies created by merging firms that would be more efficient operating as one. Example: A vertical merger joins two companies that may not compete with each other, but exist in the same supply chain. An automobile company joining with a parts supplier would be an example of a vertical merger. Such a deal would allow the automobile division to obtain better pricing on parts and have better control over the manufacturing process. The parts division, in turn, would be guaranteed a steady stream of business.

Question 3. What do you think are the reasons for failure of merger and acquisition?
Answer. Following are the reasons for failure of merger and acquisition:

1. **Unrealistic price paid for target:** Merger and acquisition involves valuation of the target company and paying a price. Many a time the price paid to the target company is much

more than what should have been paid. Shareholders of the target company are benefited, the shareholders of the acquirer end up on the losing side.

2. **Difficulties in cultural integration:** Merger involves combining of two or more different companies with different corporate cultures, styles of leadership, differing employee expectations etc. If the merger is not dealing sensitively with the companies people and their different corporate cultures, the merger may be a disaster. For example, the merger of Daimler Benz with Chrysler. While Daimler-Benz's culture stressed on a more formal and structured management style, Chrysler favoured a more relaxed and freewheeling style.
3. **Overstated synergies:** Mergers and acquisitions assumed to be for creating synergies through increased revenue, reduced costs and improvement in the investment intensity. Overestimation can lead to failure.
4. **Integration difficulties:** The combined firm or entity has to adapt to a new set of challenges given by the new circumstances. Plans are thus prepared to integrate the operations of the combining entities. This is done on the present information. If the information available is inadequate, integration becomes difficult.
   (a) Poor business fit: Mergers and acquisitions also fail when the products of the merging firms do not fit into the acquirer's overall business plan.
5. **Inadequate due diligence:** Due diligence helps in detecting financial and business risks that the acquirer inherits from the target company. Inaccurate estimation of the related risk can result in failure of the merger.

Question 4. What is meant by moving up the value chain? Explain with the help of an example.
Answer.

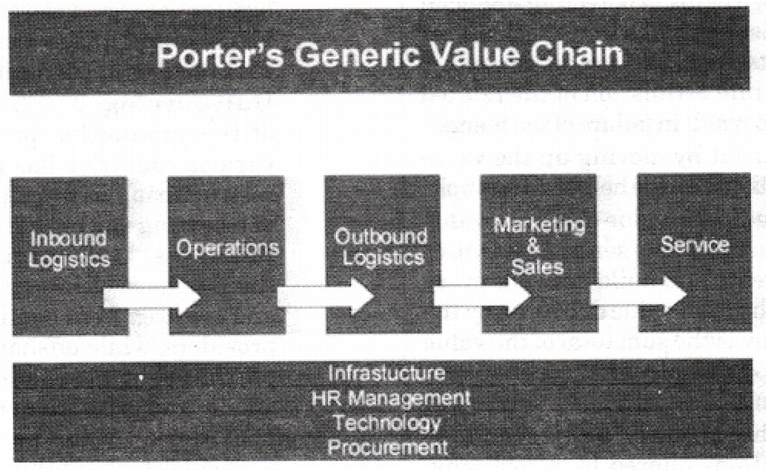
1. Moving-up the value chain is a value chain in the whole series of activities that create and build value at every step. The total value delivered by the company is the sum total of the value built up gradually all throughout the company.
2. It is the primary and secondary facilitations offered by a company.
   Low facilitation to highest facilitation by a company then leads to movement from low level to highest level.
   For example, in a steel industry, if they make specialized steel for automobiles, rather than selling basic steel, which is taken by another company who makes specialized steels to automobiles.
   Since the company makes it directly now, they get more money for their product, and thus higher revenues. This will eventually lead to higher profits.
   The value chain concept separates useful from the wasteful activities which hinder the company from becoming a leader in the market. Focusing on the value-creating activities gives the company many advantages.
   It involves primary activities like Inbound logistics, Operations, Outbound logistics, Marketing, sales, Services, etc. and Support activities like Procurement, Technological development, Human resource management etc.
   Value chain management requires coordination and collaboration, Technology investment, Organizational process, Leadership, Employee/ Human resources and Organizational culture and attitudes.
   For example: The ability to charge higher prices; lower cost of manufacture; better brand image, faster response to threats or opportunities.
   Outsourcing: The fragmentation of the production process across various countries has given rise to restructuring in firms including the outsourcing and off shoring of certain functions. Outsourcing involves the purchase of intermediate goods and services from outside specialist providers, while off shoring refers to purchases by firms of

intermediate goods and services from foreign providers, or to the transfer of particular tasks within the firm to a foreign location. Off shoring includes both international outsourcing where activities are contracted out to third parties abroad and international in-sourcing to foreign affiliates.

Question 5. Explain in detail Porter's Generic Value Chain with the help of a diagram.

Answer. Michael Porter gave the value chain analysis concept in his 1985 book 'The Competitive Advantage'. He suggested that activities within an organisation add value to the service and products that the organisation produces and all these activities should be run at optimum level if the organisation is to gain any real competitive advantage.
If these activities are run efficiently, the value obtained exceed the costs of running them and customers return to the organisation and transact freely and willingly.
He suggested that the organisation is split into 'primary activities' and 'support activities'.

1. **Primary activities include:**
(a)Inbound logistics: Here, goods are obtained from the suppliers and are used for producing the end product.
(b)Operations: Here, raw materials and goods are manufactured into the final product.
(c)Outbound logistics: Distribution of finished goods is known as outbound logistics.
(d)Marketing and sales: Here, marketing mix is used to form an effective strategy to the target group through the promotional mix.
(e) Services: After the product/service has been sold, sales training, guarantees and warranties etc. play its part.
2. **Support activities:** These help the primary activities achieve competitive advantage. They include:
(a) Procurement: It is to obtain the best possible quality available in the market for their budget.
(b) Technological development: Technology can be used to obtain a competitive advantage. Technology can be used to reduce cost and thus adding value, research and development to develop new products on the internet so that customers can have all time access to the firm.
(c) Human resource management: Here, the organisation will have to recruit, train and develop the right people for the organisation to be successful. Staff will have to be motivated and paid the 'market rate', if they are to stay with the organisation and add value.
(d) Firm infrastructure: Organisation needs to ensure that their finances, legal structure and management structure work efficiently and help drive the organisation forward.



Question 6. Explain the requirements for value chain management.

Answer. Following are the six requirements for value chain management:

1. Coordination and collaboration:
   It is essential to increase efficiency within an organization. Care should be taken that efforts are not duplicated. Firm is greater than the sum of its parts for achieving a common goal of the firm.
2. Technology investment: With outdated technology, like old computers or machinery, an organization's competitiveness is weakened due to a loss in productivity. This devoids the firm from gaining advantage.
3. Organisational process: Improvement in processes through better technology and greater procedural knowledge is essential for the present and future success of a company. Continuity is to be maintained for the improvement and is to be made an integral part of the system.
4. Leadership: Strong leaders adds to the successions value chain management. Good leaders earn the respect of their employees through neutral, effective and sound management practices. Conflict management, motivation and direction are the essential requirements of strong leaders.
5. **Employee/human resources:** Without a knowledgeable and active human resources department, employees may feel they don't have a voice within the company and this may lead to lack in belongingness from the employees. Also, an employee hesitant to go directly to the ultimate superiors with issues act as a hurdle in many situations.
6. **Organisational culture and attitudes:** Organisations that foster strong cultural identity with positive attitudes tend to attract and retain top employees. Regular sponsored activities are suggested to help build cultural unity and keep attitudes positive while boosting productivity of the firm.

E. HIGHER ORDER THINKING SKILLS

In the following cases identify the type of merger:

Question 1. A merger between firms that are involved in totally unrelated business activities.
Answer. It is Conglomerate merger.

Question 2. A merger occurring between companies in the same industry.
Answer. It is Horizontal merger.

Question 3. It takes place between two companies that deal in the same products but in separate markets.
Answer. It is Market extension merger.

Question 4. It takes place between two business organisations that deal in products that are related to each other and operate in the same market.
Ans. It is Product extension merger.

Question 5. It is between two companies producing different goods or services for one specific finished product.
Answer. It is Vertical merger.

F. APPLICATION BASED QUESTIONS

Question 1. ABC Company, manufacturing shoes, has taken over XYZ Company which also manufactures shoes at a small scale. What do you think will be the reason for this kind of takeover?
Answer. Following can he reasons for the take over:

1. ABC Company may have decided to expand in terms of its production and wanted to raise its sales and turnover.

2. ABC Company may have decided to expand its area of sales and so may be desirous to take over the marketing area of XYZ Company.
3. ABC Company may have wanted to use the research and development of the XYZ company for raising its output and sales.

Question 2. Vimal Company Ltd., were earlier producing pencils, now they have decided to further venture into the field of notebooks and paper. What do you think is the company attempting to do? Identify and explain the concept.

Answer. The concept is of diversification. It is a process of adding new products or markets to the existing, by an enterprise. Here, the enterprise thus is able to produce more types of products e.g. not only washing soap, but toilet soaps, shampoos, detergents, washing powders etc. are produced by such enterprises. For example, Samsung not only produces TV but washing machines, copying machines, printers, etc.
Usefulness of diversification for an enterprise:

1. **Risk is reduced:** If one type of product is not sold then other products can be sold. This reduces the chances of incurring overall loss to the enterprise.producers are producing the product.
2. **Continuous revenue:** By diversification an enterprise continuously receives payments. This makes the inflow a continuous process. The financial obligations of the company can thus be easily met.
3. **Financial obligations can be met easily:** Due to a variety of products being sold the cash flow becomes regular. This helps in fulfilling the financial obligations like installments premium, payment for power, payment for raw material, etc.
4. **Helps in branding:** When one product is able to gain faith of consumers, then this faith can be utilized for increasing the sale of other products. Thus, a brand name comes into existence.

MORE QUESTIONS SOLVED

I.VERY SHORT ANSWER TYPE QUESTIONS

Question 1. In what sense are small enterprises more vulnerable than large ones?

Answer. Small enterprises are more vulnerable than large ones to small changes in environment, change in taste and preference of consumers, taxation policies, other government policies, cost of raw materials, etc.

Question 2. What is called the stage of consolidation for an enterprise?

Answer. Stage of consolidation for an enterprise is the stage, which is normally 3 to 5 years after the take-off stage. During this stage the turnover of the enterprise is maintained.

Question 3. Why is it necessary for an enterprise to have a plan for growth?

Answer. It is necessary for an enterprise to have a plan for growth as without growth the enterprise will be removed from the market and will become extinct.

Question 4. What constitutes direct competition?

Answer. Direct competition is found where many Each producer wants to capture maximum consumers using various techniques like persuasive advertising, schemes etc. each firm wants to enjoy competitive edge over its competitors.

Question 5. How an internal expansion may be financed?

Answer. Internal expansion may be financed by the issue of more share capital, generating funds from old profits or by issuing long¬term securities.

Question 6. What is required by an entrepreneur to ensure the continued efficiency and profitable functioning and growth of enterprise?
Answer. To ensure the continued efficiency and profitable functioning and growth of enterprise, extra managerial ability is required.

Question 7. What are the two main forms of external expansion?
Answer. The two main forms of external expansion are: Franchising and Mergers and Acquisitions.

Question 8. 'It is the process of entrepreneurship which involves the translation of a useful idea into an application which has commercial value.' Identify the process.[CBSE Delhi 2015]
Answer. Innovation.

Question 9. Define merger.
Answer. A merger is a combination of two companies to form a new company.

II.SHORT ANSWER TYPE QUESTIONS

Question 1. Give the franchising facts of Goli Vada Pav.
Answer.

1. The company is looking to strengthen its pan India franchisee network.
2. It is targetting Tier I, Tier II, Tier III cities and small towns for expansion.
3. Franchise requirement include potential franchise partners who can invest Rs 10-20 lakh, area requirement is about 350 sq ft and the preferred location is a high street traffic areas like market, colleges, business areas and residential catchments.

Question 2. What dual role entrepreneur has to play?
Answer. An entrepreneur has a dual role to play— as a leader and as a manager. Leader provides direction and energy while the Manager processes the input and gives the production or output.
To ensure the continued efficiency and profitable functioning and growth of enterprise, extra managerial ability is required.

Question 3. Give a brief history of Franchising.
Answer.

1. Franchising began in 1850's when Isaac Singer; the inventor of sewing machine wanted to distribute his machines outside of his geographical area, and also provides training to customers. Singer began selling licenses to entrepreneurs in different parts of the country.
2. In 1955 Ray Kroc took over a small chain of food franchises and built . it into today's most successful fast food franchise known as McDonald's.It has the most franchise units worldwide of any franchise system.

Question 4. What happens when an enterprise is not sensitive to change in technology?
Answer. If an enterprise is not sensitive to change in technology then its technology will become outdated and it has to quit the market. It is mainly because the cost of production will become higher compared to other enterprises; this will lead to decrease in demand of this product.

Question 5. What do you understand by creativity and innovation?
Answer. **Creativity:** It means bringing something new into existence. It is a type of ability,

which is present in all but in varying quantity. More are the creative persons of this ability, more are the chances of doing something new, or which was not present earlier, e.g. new painting of an artist. It also means bringing about certain improvements in already existing products.
Innovation: It refers to performing a task in a new way. There may be many ways of doing a thing but the innovator always tries to do it in a new way or new method e.g. the products are packed by company but the company which makes its package consumer friendly compared to other is innovation.

Question 6. What do you understand by franchising?
Answer. Franchising is a process by which the rights of producing or selling any product or service are provided to another enterprise. It is also associated to fulfilment of some terms, conditions or requirement by the enterprise. These conditions are laid down by the parent company.

Question 7. How high leverage is a reason for failure of merger? Explain.
Answer. The acquirer firm may decide to acquire the target through cash. To pay the price of acquisition, the acquirer may borrow heavily from the market. This creates a very high leveraged structure and increases the interest burden of the company. This increased interest cost may consume a big portion of the earnings and may lead to failure of the purpose of acquisition.

Question 8. Explain how a boardroom split is a reason for failure of merger.
Answer. When a merger is planned, evaluation of the composition of the boardroom and compatibility of the directors is crucial. Managers who are suddenly deprived of authority can react in a bitter way. Personality clashes between executives in the two companies are bound to arise. This may slow down or prevent integration of the firms.

Question 9. Explain how the regulatory issues leads to the failure of merger.
Answer. Merger requires legal approvals and has to follow a legal procedure. If any of the stakeholders are not in favour of the merger, they might create legal obstacles and slow down the entire process. This results in regulatory delays and increases the risk of deterioration for the business. So care has to be taken to ensure that regulatory hurdles and problems do not crop up, else it may lead to failure.

Question 10. Human resources issues may lead to failure of merger. Describe.
Answer. A merger is involved with job losses, restructuring and the imposition of a new corporate culture and identity. This may create uncertainty, anxiety and resentment among the company's employees. Companies often pay less attention to the short term legal and financial considerations involved in a merger and neglect crucial HR issues related to corporate identity and communication. This in turn affects the worker's morale and productivity.

Question 11. What makes concept of Goli Vada Pav so special?
Answer. Following things make the concept of Goli Vada Pav so special:

1. It is a spicy vegetable patty in bun sold through retail outlet.
2. It offers quality and hygienic fast food which is quite affordable.
3. It sells hygienically prepared food items made in fully automated 'HACCP' certified hands free plant with an authentic touch.
4. It is known as an established, reputed, and popular Indian fast-food brand offering clean food for those who have less money and time.

Question 12. Growth and development of an enterprise is inevitable. Explain.
Answer.

1. Growth is always essential for the existence of a business.
2. A business firm is bound to die if it does not try to expand its activities.
3. Growth is the next challenge for a established firm.
4. Extension is a result of thoughtful consideration of various factors, including the financial, logistical, even his/her emotional readiness.
5. There may be a niche that firm wants to capture or a location not serviced even by your competitors.

Question 13. What is the relevance of Franchising?
Answer.

1. Franchising is helping thousands of individuals be their own boss operate their own business.
2. Franchisingis allowing entrepreneurs to be in business for themselves
3. There is high chance of success when an individual takes a franchisee.

Question 14. Give examples of consolidation.
Answer. In a consolidation, a new firm is created after the merger, and both the acquiring firm and the target firm stockholders receive stock in this firm. For example Citi Group, was created after the consolidation of Citicorp and Travelers Insurance Group.

Question 15. "An entrepreneur has a dual role to play- one, that of a leader and the other of a manager". Do you agree?
Answer. Yes, I agree as a leader he provides direction and energy and as a manager he processes the input and gives the output.

Question 16. If merger of Hindustan Computers Ltd, Hindustan Instruments Ltd, Indian Software Company Ltd. and Indian Reprographics Ltd into an entirely new company called HCL Ltd. Identify the forms of merger and explain the same.
Answer.

1. Merger through Consolidation/ Amalgamation
2. **Meaning:** A consolidation is a combination of two or more companies into a 'new company'. In this form of merger, all companies are legally dissolved and a new entity is created. Here, the acquired company transfers its assets, liabilities and shares to the acquiring company for cash or exchange of shares.

Question 17. If Tata Fertilisers Ltd (TFL) take-up by Tata Chemicals Ltd. (TCL). TFL transferred its assets, liabilities and shares to TCL. Identify the type of merger and explain the same.
Answer.

1. Merger through Absorption
2. **Meaning:** An absorption is a combination of two or more companies into an 'existing company'. All companies except one lose their identity in such a merger.

Question 18. Kotak Mahindra Bank Ltd., India's fourth largest private bank, and ING Vysya, the Indian branch of the Netherlands ING Bank. Kotal Mahindra signed a Memorandum of Understanding with ING Bank, establishing both firms' stake in the Indian firm.

Answer.

1. Merger through Absorption
2. **Meaning:** An absorption is a combination of two or more companies into an 'existing company'. All companies except one lose their identity in such a merger.

Question 19. Atlanta-based global mobile engagement provider mGage acquired Bangalore-based Unicel Technologies. Due to this friendly acquisition, mGage is poised to become one of India's largest provider of enterprise mobile messaging solutions.
Answer.

1. Merger through Consolidation/ Amalgamation
2. **Meaning:** A consolidation is a combination of two or more companies into a 'new company'. In this form of merger, all companies are legally , dissolved and a new entity is created. Here, the acquired company transfers its assets, liabilities and shares to the acquiring company for cash or exchange of shares.

Question 20. "A leading manufacturer of athletic shoes merges with a soft drink firm". Identify the type of conglomerate merger the explain.
Or
Acquisition of General Foods, a diversified food products company, by Philip Morris, a Tobacco manufacturer. Identify the type of conglomerate merger and explain.
Answer. Pre conglomerate:

1. Because it involve firms with nothing in common or conducted between unrelated companies.
2. They are not the competitors.
3. Buyers and sellers so not show much relationship or no evident relationship.

Question 21. "If a baker in Delhi bakery in Indore", or a producer of household detergents buys a producer of liquid bleach. Identity the type of conglomerate mergers.
Answer. It is called as product extension mergers, where a firm that produces one product that requires the application of similar type of manufacturing or marketing techniques strategies.

Question 22. Ron Sommer, former president, Sony Corporation of India: say "Where a company comes from is less important than where it is going, as boundaries are erased corporation birth certificate won't count much."
Answer. Successful entrepreneur will make sure there is a constant flow of new ideas and a commitment to try out at least some of these new ideas. An organization has to maintain its momentum through interplay of flexibility and change. This calls for growth and development which in essence is achieved through constant strife.

Question 23. Give some examples of Financial synergy.
Answer. Hindustan Unilever Company acquired Lakme, it helped HUL to enter the cosmetics market though an established brand.

1. Glaxo an Smithkline Beecham merged, to gain market share and eliminate competition between each other.
2. Tata Tea acquired Tetley to leverage Tetley's international marketing strengths.

Question 24. Give an alternate name of financial synergy.

Answer. An alternate name of financial synergy is tax shield.

Question 25. How can you represent the idea of a synergy mathematically?
Answer. In mathematical terms, a synergy is where 2 + 2 =5.

Question 26. "Merger depends of variety of factors" Enumerate.
Answer. The term merger depends on the:

1. economic function
2. purpose of the business transaction
3. and relationship between the merging companies.

III. LONG ANSWER TYPE QUESTIONS

Question 1. Explain direct and indirect competition with an example for each.
Answer. Direct Competition: It refers to the competitions in which various enterprises producing close substitutes try to increase their sale of their product. Each tries to enhance its sale and tries to capture maximum possible consumers of the market e.g. Luxor, Flair, Camlin etc. are the companies which produce substitutes and each tries to capture maximum consumers of pen and other stationery items.
Indirect Competition: It is a type of competition in which the enterprises compete not only for price but other references about the product. It is also referred as non price competition, e.g. Coca-Cola and Pepsi compete with each other in advertisements for persuading the customers. Any new advertisement of one company is normally followed by a fresh advertisement by another company.

Question 2. How do changes in consumer trends affect growth?
Answer. The consumer trends affect growth : because of following reasons:

1. **Change in consumption pattern:** Due to change in season or changes in income the consumption pattern of the consumer changes. With change in seasons some specific products are demanded more e.g. demand for umbrella increases during rainy season.
2. **Change in income:** With the rise in income, new types of products, costlier products are demanded by the consumers. Such demand forces entrepreneurs to produce new products. This leads to growth.
3. **Some enterprises are closed down:** With the changing consumption pattern some enterprises become obsolete and are forced to quit the industry. This affects the production of the enterprise and the growth.

Question 3. What are the different activities that an entrepreneur can undertake to expand his enterprise?
Answer. An entrepreneur can undertake following activities to expand his enterprise:

1. **Raising the level of production:** By raising the level of production, the volume of the product produced increases. This leads to expansion in increasing the number of employees. With the increase in the strength of the employees, the expansion takes place provided it is associated with the rise in production.
2. **Adding more machines:** By adding new machines to the existing ones, the turnover also increases. This is referred to as expansion.
3. **Opening an ancillary unit:** If the product of one company can be used as raw material for the other product, then a new enterprise can come into existence which is dependent on the main. If the parent company and the ancillary unit are of same enterprise, it is also leading to expansion.

Question 4. 'An enterprise that does not grow will eventually die'. Explain this statement with suitable examples.

Answer. Yes, it is true. An enterprise that does not grow will eventually die. This can be supported by following reasons: Market is dynamic: Market is never stable. Continuously some changes are taking place. Every enterprise has to keep a close wratch on such changes and has to make favourable changes in product process etc. This is to maintain the number of consumers of the product e.g. with the growing income the consumers requirement of electronic items is increasing. Electronic companies are thus growing in terms of turnover and diversification.

Innovation is essential: When growth takes place it is normally associated with innovation. New methods, techniques, processes, etc. help in reducing the cost, increasing efficiency and are also able to attract more customers e.g. fast foods manufacturers always keep some attractive articles to attract children.

Question 5. Describe the origin and concept of Goli Vada Pav.

Answer.

1. Goli Vada Pav, a quick serve food concept with Indian touch, originated in Mumbai in 2004.
2. The brand's founders, Venkatesh Iyer and Shiv Menon, realised the huge scope of business in tapping the adult and lower income customers by selling widely popular local street food 'Vada Pav' to them, in an organised way.
3. Thus, the idea of Goli Vada Pav Pvt Ltd was born that was pocket friendly as well as prepared and served in hygienic conditions.
4. Goli Vada Pav No. 1 reaffirms the fact that a strong home grown concept cannot only thrive but also compete with International Brands like McDonalds.

Question 6. Discuss the success journey of Goli Vada Pav till now.

Answer.

1. Goli Vada Pav has extensive presence across 40 Indian cities in six states.
2. Its outlets are spread across the length and breadth of the country.
3. Its stores can be found in cities like Aurangabad, Ahmednagar, Bengaluru, Belgaum, Chandrapur, Chennai, Coimbatore, Dhulia, Hubli, Hyderabad, Jalgaon, Kolhapur, Mumbai, Pune, etc.
4. It operates about 150 stores, of which over 140 are via franchise route.

Question 7. Distinguish between Internal and External Expansion.

Answer.

Internal Expansion	External Expansion
(*i*) It is the gradual increase in the activities of the concern.	(*i*) It is a business combination where two or more firms combine and expand their business activities.
(*ii*) Firm may expand its present production capacity by adding more machines or by replacing old machines with the new machines.	(*ii*) Here two or more units engage in similar business or related process or stages.
(*iii*) It results in the increase in business activities and broadening the present capital structure.	(*iii*) After combination, the constituted firm pursues some common objectives or goals.

Question 8. What are the main ingredients of a franchise agreement?

Answer. The main ingredients of a franchise agreement:

1. **Contract Explanation:** This part , of the agreement outlines the type of relationship a

franchisee is going to have with the franchisor.

2. **Operations Manual:** It is the section of the agreement that details the guidelines that the franchisee must legally follow. Amendments may be made from time to time and the franchisee has to adjust operations accordingly. The franchisee has to maintain the confidentiality.
3. **Proprietary Statements:** This part tells how the franchise name is to be used. What marketing and advertising procedures is required to follow. It also documents how much the franchisee will be required to contribute toward national advertising efforts.
4. **Ongoing Site Maintenance:** It includes the types and time frames regarding various maintenance items and upgrades that must be made to the franchisee's location.

Question 9. "Big brands make head towards franchising". Why?
Answer. The big corporate houses have opted for a franchise route because :

1. It considers franchising as an easy mode of expansion.
2. Chances of success are higher due to high commitment level of the franchisor and the franchisees.
3. It is a powerful and ideal way to expand business.
4. It is best suited for a company which does not have any capital, manpower or time to build the network of company-owned outlets.

Question 10. How franchising helps start-ups?
Answer. Franchising helps the start-ups in following ways:

1. **Working:** Franchising changed the working of the start-ups because already the product carriers a name in the market already. The start-ups pay royalty to the franchisor. Start-ups save struggling time and money involved in the process.
2. **Training:** Start-ups take up trainingto understand the product. Franchisors make franchises fully known with the product/services. Start-ups are the sales person. And franchisors charge a fee for this purpose.
3. **Fast growth:** The start-ups can grow fast without having to increase cost through increasing labour, operating costs, etc. because normally buyers straight away contact them.
4. **One plus one eleven:** Franchises work for the benefit of franchisors i.e. they turn up one plus one eleven. Both are open to help each other. Franchisors' efforts to boast their franchises are always real and sincere. No clash of interest arises.

Question 11. What are the disadvantages of franchising to the franchisee?
Answer. Following are the disadvantages of franchising to the franchisee:

1. **Right and the only way of doing things:** Degree of freedom for the franchise gets limited. There is over guidance and over-influenced degree of control over them. This leaves no scope for the innovation.
2. **Continuing cost implication:** Revenue gets shared with the franchisor. This is in addition to the royalty and the fees. Additional amounts can be charged towards sharing the cost for advertising, training, etc. It may become an expensive business due to tendency of exploitation by the parent firm.
3. **Risk of franchisor getting bought:** The franchisee faces irreversible changes in form of problems and difficulties when the franchisor either fails or goes for merger.
4. **Inability to provide services:** When promises made in the agreement are not kept, the franchisee are left without any support in important areas.

Question 12. Give examples of failure of franchisee due to inability to provide services.
Answer. Curtis Bean bought a dozen franchises in Checkers of America Inc., a firm that provides auto inspection services. After losing Rs 200,000, Bean and other franchisees filed a lawsuit claiming that the franchisor had misrepresented advertising costs and had made false claims including that no experience was necessary to own a franchise.

Question 13. How growth is essential for the existence of an enterprise?
Answer. Growth is always essential for the existence of a business concern.

1. For further growth of an enterprise every concern must try some ways.
2. According to the requirement try to expand its activities.
3. An entrepreneur must act as a challenge seeker.
4. Quick and thoughtful decision of various factors like increase in financial, logistical, and market share of a business.
5. The rule of thumb is that one should only expand when there are untapped opportunities that can benefit the business.
6. There may be a comfortable way that an entrepreneur want capture or a location not serviced even by your competitors.
7. Extra managerial ability, its continued efficiency and profitable functioning ensures existence and growth of enterprise.

Question 14. Why big brands make head towards for franchising? Explain with an example.
Answer.

1. The big corporate houses that have opted for a franchise route consider franchising as an easy mode of expansion as per the requirement and commitment level of the franchisor and the franchisees.
2. It is a powerful and ideal way to expand business, for a company which does not have any capital, manpower or time to build the network of company-owned outlets. Example – Dabur is one of the big established brand that has taken up franchising for expansion.

Question 15. State some of the disadvantages to franchising to franchisor.
Answer. Some of the disadvantages to franchising to franchisor are as follows:

1. **Difficulty in identifying quality franchisees:**
   (a) Sometimes the franchisor may find it difficult to identify quality franchisees.
   (b) Even after extending all support towards training and providing capital, poor management may lead to the failure of the franchisee and in turn, which may affect adversely franchisor and the system as a whole.
2. **Legal Regulation:**
   (a) Franchising is a regulated activity and requires follow with federal and state franchise laws.
   (b) To successfully establish a franchise, franchisors are required to work with an experienced franchise lawyer to establish a solid blueprint for franchising.
3. **Investment:** Every one knows that franchising serves as a source for the capitalized expansion of your business (i.e., franchisees invest in your expansion), the establishment of a franchise system requires the investment of capital to cover legal fees and the cost of establishing a franchising infrastructure.

Question 16. What do you mean by acquisition? Give some examples.
Answer. Acquisition is a more general term, enveloping in itself a range of acquisition transactions. It could be leading to takeover of a company. Acquisition refers a corporate

action in which a company buys almost, the target company's ownership stakes in order to assume control of the target firm. It is often made as part of a company's growth strategy whereby it is more beneficial to take over an existing firm's operations . It is often paid in cash, it could be the acquisition of company's stock, tangible assets, intangible assets, ' rights, acquisition of control, and other kinds of obligations. It is also known as a takeover, means the buying company takeover or acquire by another.
For Examples: Bharti Airtel acquired Zain Africa, February 2010

1. Bharti Airtel is the largest mobile network in India. It is also expanding its reaches throughout the globe, Bharti Airtel added 180 million new customers in its list by acquiring an African Mobile Network provider called Zain Africa.
2. Tata Steel acquired 100% stake in Corus Group on January 30, 2007. It was an all cash deal which cumulatively amounted to Rs 12.2 billion.

Question 17, How cost advantages are one of the important advantage of an enterprise?
Or
"The mere size of a franchised company offers many advantages to the franchisees". Explain.
Answer.

1. The franchisor can purchase supplies in large quantities, thus achieving economies of scale that would not have been possible otherwise.
2. Many franchise businesses produce parts, accessories, packaging and raw materials in large quantities, then in turn sell these to the franchisees.
3. The franchisee are usually required to purchase these items as part of the franchise agreement and they usually benefit from lower prices.
4. One of the biggest cost advantages of franchising a business larger sums of money to advertising. Which covers major media wide geographical area.
   Therefore each franchisee contributes a percentage of sales (1 to 2 %) to an advertising pool.

Question 18. "Quick expansion is the most obvious advantage of franchising for an entrepreneur." Explain with the help of an example.
Answer. The most obvious advantage of franchising for an entrepreneur is that it allows the venture to expand quickly using little capital.

1. It involves low capital investment by the franchisor as the capital used to expand the network comes from franchisees.
2. By using the franchisees' capital, the franchisor is able to establish a large number of outlets in a short period of time.
3. A franchisor can expand a business nationally and even internationally by authorizing and selling franchises in selected locations.
4. Quick expansion can be achieved without incurring the overheads and costs associated with opening company-owned outlets.
5. Operating a franchised business requires fewer employees, this allows the franchisor to maintain low payroll and minimizes personnel issues and problems.
   This brings benefit to both the franchisor and franchisee as it helps build consumer recognition quickly and establish the franchise. Example: Just think of the capital needed by DeLuca to build 8,300 Subway sandwich shops!
   The value of the franchise depends on the track record of the franchisor and on the services offered to the entrepreneur or franchisee. Subway's low franchise fee has enhanced expansion opportunities, as more people can afford it.

Question 19. Explain the reasons for mergers and acquisitions.
Or
Why do companies merge with or acquire other companies?
Answer. Reasons for mergers and acquisitions: Every company wants to achieve higher growth rate and diversification. Mergers can give the acquiring company an opportunity to grow market share without having to really earn it by doing the work themselves – instead, they buy a competitor's business for a price. While one often hears CEOs saying that M & As are inspired by a desire to diversify or achieve higher growth rate, the reasons could be varied. Some of the commonly identified reasons are:

1. **Synergy**:
   (a) It refers to the difference between the value of the combined firm and the value of the sum of the participants,
   (b) Synergy accrues in the form of revenue enhancement and cost savings.
   (c) For example, if firms A and B merge and the value of the combined entity—V(AB)—is expected to be greater than (VA+VB), the sum of the independent values of A and B, the combined entity is said to be benefitting through synergy.
2. **Acquiring new technology:** To remain competitive, companies need to constantly upgrade their technology and business applications. To upgrade technology, a company need not always acquire technology. By buying another company with unique technology, the buying company can maintain or develop a competitive edge.
   For example is a merger (a) Logistics company such as a land transport entity with an air-line cargo company. (b) Blackberry and Treo which can incorporate cell phone capability and e-mail connectivity in one device; palm pilots and tablet laptops can provide benefits to both the entities.
3. **Improved profitability:** Companies explore the possibilities of a merger when they anticipate that it will improve their profitability.
   For example, European Media Group Betelsmann, Pearson, and others have driven their growth by expanding into the US though M&As.
4. **Acquiring a competency:** Companies also opt for M&As to acquire a competency or capability that they do not have and which the other firm does.
   For example,
   (a) the ICICI ITC alliance made the retailer network and depositor base available to the merging entity.
   (b) IBM merged with Daksh for acquiring competencies that the latter possessed.
5. **Entry into new markets:** Mergers are often looked upon as a tool for hassle-free entry into new markets. Under normal conditions, a company can enter a new market, but may have to face stiff competition from the existing companies and may have to battle out for a share in the existing market. However, if the merger route is adopted, one can enter the market with greater case and avoid too much competition. For example, the merger of Orange,Hutch, and Vodafone took place to achieve this objective.
6. **Access to funds:** If a company finds it difficult to access funds from the capital market. In such situation, a company may decide to merge with another company that is viewed as fund-rich.
   For example, TDPL (Tamil Nadu Dadha Pharmaceuticals) merged with Sun Pharma since TDPL did not have funds to launch new products.
7. **Tax benefits:** Mergers are also adopted to reduce tax liabilities. By merging with a loss-making entity, a company with a high tax liability can set off the accumulated losses of the target against its profits gaining tax benefits.
   For example, Ashok Leyland Information Technology (ALIT) was acquired by Hinduja Finance, a group company, so that it could set off the accumulated losses in ALITs books against its profits.

Question 20. How growth of an enterprise is possible through Mergers and Acquisitions (M & A)?
Or
"Mergers and Acquisitions (M&As) is a potential strategy for ensuring the accelerated growth of a business." Explain.
Or
What are the reasons that firms may choose to grow through M & A instead of expanding internally ?
Answer. The term 'business growth' is used to refer to various things such as:

1. increase in the total sales volume per annum,
2. an increase in the production capacity,
3. increase in employment,
4. an increase in production volume,
5. an increase in the use of raw material and power.But in actual way, business growth means an increase in the size or scale of operations of a firm usually accompanied by increase in its resources and output.

Mergers and Acquisitions (M&As) is a potential strategy for ensuring the accelerated growth of a business." The various reasons are as follows:

1. It is often cheaper to acquire an existing unit than to set up a new one or less expensive.
2. New ways to generate ideas.
3. It provides economies of large-scale operations.
4. Easy and Better utilization of funds can be made to increase profits.
5. Gaining economic and marketing power.
6. More possibility of diversification.
7. More efficient use of resources can be made.
8. Sick firms can be rehabilitated by merging them with strong and efficient concerns.
9. It is possible to gain quick entry into new lines of business.
10. It can provide access to scarce raw materials and distribution network.
11. Supporting managerial expertise'.
12. Analysis client's requirements
13. Valuing companies
14. Identifying potential partner's.

Question 21. 'Healthy Juice India Ltd.' and 'Asli Juice Ltd.' are engaged in the production of fruit juice. Both the companies sell the juice in 1,000 ml tetra packs and are in direct competition. To avoid competition, the management of both the companies decided to merge and formed a new company 'Asli Healthy Juice India Ltd.'. The new company decided to sell the fruit juice through the company owned outlets throughout the country.[All India 2015]

1. **Name and explain the 'Enterprise Growth Strategy'.**
2. **Also identify the channel of distribution decided by 'Asli Healthy Juice India . Ltd.'**

Answer.

1. The Enterprise Growth Strategy involved is Horizontal merger. Horizontal merger: This merger is between companies in the same industry. It is a type of business consolidation that occurs between firms which are competitors and offering the same goods or service. It is in the condition where competition tends to be higher and the potential

gains in market share are much greater for merging firms in such an industry.
Example: A merger between Coca-Cola and the Pepsi beverage division, wquld create a new, larger organization with more market share.
2. There is Direct/zero level of distribution channel.

IV. VERY LONG ANSWER TYPE QUESTIONS

Question 1. Discuss growth sustaining activities giving appropriate examples.

Answer. Following are the growth sustaining activities:

1. **Franchising:** In franchising the rights of selling a product or service are transferred to another enterprise. This saves time as the parent company has its own marketing strategy, fixed requirement of infrastructure, written rule and regulations. The franchisee need not require expenditure on promotion, advertisement, layout, etc as it is the responsibility of the franchiser, e.g. McDonalds had expanded itself by offering franchisee.
2. **Manufacturing more than one product:** Under it, the enterprise grows by producing a new product. This new product can be a complementary good or any related product or a non-related product, e.g. Videocon started with the production of electronic goods. But now it is producing various other consumer goods like mixer-grinder, etc. thus this type of diversification helps in the growth of the enterprise.
3. **Up gradation:** An enterprise can upgrade itself by adopting new technique, process etc. This not only increases efficiency of the enterprise but also reduces the cost of production. Also it helps in reducing the per unit price of the commodity which provides a competitive edge to the enterprise. Thus this type of up gradation or modernization helps in the growth of the enterprise.
4. **Increasing Turnover:** An enterprise can increase its turnover for growth. For raising its turnover it may have to modernize or expand or both. With the increase in volume of production the growth takes place though such rise in production is also associated with increase in number of employees, demand for raw materials etc.

Question 2. Describe some examples of franchising by Indian firms.

Answer.

1. **Raymond Ltd:** Raymond Ltd, started in 1325 as a woollen and readymade garment industry. It has more than 503 stores. It opted for franchise model for expanding in smaller towns as these areas are not affected by recession. In smaller towns the franchised Stores can be driven by local entrepreneurs who are aware of the preferences of the local customers.
2. **NUT:** NIIT, a firm in IT education industry, has a franchising network of more than 12,500 centres spread over in more than 40 countries worldwide, ap'art from India. This success has bfeen possible due to their business partners, who have been a crucial element. The Business Partner Network helped NIIT expand its presence across India and reach the unreached, and also entrepreneurship in the country.
3. **JSW Steel Ltd:** It is the third- largest Steel manufacturer in India, operates through 174 JSW Shoppe outlets that work on the franchise model. It is planning to take the count of its JSW Shoppe outlets to 340 by 2011.
4. **Mahindra & Mahindra Ltd:** It a part of the India Industrial Mahindra Group. It has taken the franchise route to expand its 100 per cent subsidiary. It is planning to take the count of its outlets to 450 in the next four years.

Question 3. Mention some of the prominent synergies that could arise from the deal between TATA Steel and Corus.

Answer. There were a lot of apparent synergies between Tata Steel which was a low cost steel producer in fast developing region of the world and Corus which was a high value product manufacturer in the region of the world demanding value products.
Some of the prominent synergies that could arise from the deal were as follows:

1. Tata was one of the low cost steel producers in the world and had self¬sufficiency in raw material. Corus was fighting to keep its production costs under control and was on the lookout for sources of iron ore:
2. Tata had a strong retail and distribution network in India and SE Asia. This would give the European manufacturer an in-road into the emerging Asian markets. Hence, there would be a powerful combination of high quality development and low cost high growth markets.
3. There would be technology transfer and cross-fertilization of R&D capabilities between the two companies that specialized in different areas of the value chain.
4. There was a strong culture fit between the two organizations, both of which highly emphasized on continuous improvement and ethics. Tata steel's Continuous Improvement Programme 'Aspire' with the core values: trusteeship, integrity, respect for individual, credibility and excellence. Corus's Continuous Improvement Programme 'The Corus Way' with the core values:'code of ethics, integrity, creating value in steel, customer focus, selective growth and respect for our people.

Question 4. "The expansion of a concern may be in the activities or acquisition of ownership and control of other concerns". What are the ways used by an entrepreneur for the expansion of an enterprise?
Answer. The two ways of expansion are :

1. Internal Expansion
2. External Expansion

Internal Expansion: It refers the gradual increase in the activities of the concern.
It can be in the form of:

1. Increase its present production capacity by adding more machines or by replacing old machines with the new machines with higher productive capacity.
2. It can also be undertaken by taking up the production of more units.
3. By entering new fields on the production.
4. Adding new market and marketing sides.
5. It may be financed by the issue of more share capital.
6. Generating funds from old profits/ retained earnings.
7. By issuing long-term securities.

The net result of internal expansion is the increase in business activities and broadening the present capital structure.

External Expansion: It refers to business combination where two or more concerns combine and expand their business activities.
It can be in the form of:

1. Combining two or more units engaged in similar business or related process or stages.
2. Sometimes stages of the same business join with a view to carry on their activities.
3. Giving shape, their polices on common basis.
4. In coordination for mutual benefit.

5. To earn maximum profits.

The combination may be among competing units or units engaged in different processes. After combination, the constituted firm pursues some common objectives or goals.

Question 5. 'Jagriti Ltd' are the manufacturers of Cars for the last 15 years and was earning good profits. Recently, due to the irregular supply of parts by the suppliers the company could not make timely delivery of cars to its customers. The customers cancelled their bookings and there were very few new bookings. As a result the sale of the cars declined and also the profits. The management of the company analysed the problems and decided to take over those two firms because of whom the problems arose. One of them was supplying engines and the other types. The company also launched new discount schemes for its customers. It also decided to employ 200 unemployed young boys and girls to take up the cleaning operations using imported machines inside the factories as well as the surrounding areas.[CBSE Delhi 2015]

1. **Identify and state the concept of 'Enterprise Marketing and Growth Strategies' discussed in the above para.**
2. **Identify any one value which 'Jagriti Ltd' wanted to communicate to the society.**

Answer.

1. The concept for enterprise marketing is sales promotion. Sales promotion is one level or type of marketing aimed either at the consumer or at the distribution channel (in the form of sales-incentives). It is used to introduce new product, clear out inventories, attract traffic, and to lift sales temporarily.
   The concept for growth strategy is acquisition. Acquisition are often made as part of a company's growth strategy whereby it is more beneficial to take over an existing firm's operations and niche compared to expanding on its own. Acquisitions are often paid in cash, the acquiring company's stock or a combination of both.
2. Following are few of the values which ' Jagriti Ltd.' wanted to communicate to the society:
   • Job opportunity for youth
   • Equal opportunities for both men and women
   • Care for environmental cleanliness.

Question 6. Unicon Ltd. and Nahata Communications provide Cable T.V. network in adjacent areas of Delhi. After some time the market was slowly taken over by big cable companies. Both Unicon Ltd. And Nahata communications understood the competition and decided to come together so as to increase their markets share. This strategy helped them in cost saving through economies of scale as they could cover more areas now. It led to the overall growth of both the companies.[CBSE Sample Paper 2016]

1. **Identify the enterprise growth strategy adopted by the two.**
2. **State the benefits that the companies have after this arrangement.**

Answer.

1. A market extension merger takes place between two companies that deal in the same products but in separate markets. The main purpose of the market extension merger is to make sure that the merging companies can get access to a bigger market and that ensures a bigger client base.

2. Following are the benefits that the companies have after this arrangement:
   (a) Synergy: Synergy is the most essential component of mergers. In mergers, synergy between the participating firms determines the increase in value of the combined entity. In other words, it refers to the difference between the value of the combined firm and the value of the sum of the participants. Synergy accrues in the form of revenue enhancement and cost savings.
   (b) Acquiring new technology: To remain competitive, companies need to constantly upgrade their technology and business applications. To upgrade technology, a company need not always acquire technology.By buying another company with unique technology, the buying company can maintain or develop competitive edge.
   (c) Improved profitability: Companies explore the possibilities of a merger when they anticipate that it will improve their profitability.
   (d) Acquiring a competency: Companies also opt for Merger and Acquisition to acquire a competency or capability that they do not have and which the other firm does.
   (e) Entry into new markets: Mergers are often looked upon as a tool for hassle-free entry into new markets. Under normal conditions, a company can enter a new market, but may have to face stiff competition from the existing companies and may have to battle out for a share in the existing market.
   (f) Access to funds: Often a company finds it difficult to access funds from the capital market. This weakness deprives the company of funds to pursue its growth objectives effectively. In such cases, a company may decide to merge with another company that is viewed as fund-rich.
   (g) Tax benefits: Mergers are also adopted to reduce tax liabilities. By merging with a loss-making entity, a company with a high tax liability can set off the accumulated losses of the target against its profits gaining tax benefits.

V. VALUE BASED QUESTIONS

Question 1. Write short note on discipline in dealing with competitors.

Answer. Each entrepreneur is expected to be a member of healthy competition. Unhealthy competition leads to downfall of the enterprise in the long run. Discipline in dealing with competitors, always leads to better quality products and more consumer satisfaction. Depending on illegal activities, malpractices etc. for getting major share of the attitude is undesirable. Every producer has the right, to sell. This right could not be taken away.

Question 2. Write short note on Legal Responsibility.

Answer. Every entrepreneur is expected to fulfil all its statutory and legal responsibilities. This is the duty of each entrepreneur. He must pay license fees, taxes, social security contributions, minimum were; interest on loans, dividends, etc. well in time. Moreover any recent changes in the laws must be taken care of. Enterprise comes under many laws like, Factories . Act, Minimum Wages Act. Payment of Wages Act etc. Fulfilment of legal aspects is the legal as well as moral duty. Violation of laws leads to punishment or fine. This leads to loss of goodwill, affects faith of shareholders and also results in loss of money, time and energy.

Question 3. "Synergy can be a positive or negative T outcome of combined efforts". Explain with the help of an example.

Answer. According to the American Heritage Dictionary, the term 'synergy' is derived ; from the Greek word sunergos, meaning "working together."
When two or more people or organizations combine their efforts, they can accomplish more together than if you added their accomplishments achieved separately…" Positive synergy is sometimes called the 2A + 2B = 5AB effect. Individually each subsystem can produce two units of output. And if we combine their efforts and work together effectively, the two subsystems can produce five units of output.

Mergers and acquisitions are corporate- level strategies designed to achieve positive synergy. The 2004 acquisition of AT&T Wireless by Cingular was an effort to create customer benefits and growth prospects that neither company could have achieved on its own— Values:

1. offering better coverage,
2. improved quality and reliability,
3. a wide array of innovative services for consumers,
4. broadening the firm's product or market mix will result in a higher level of performance. When two or more people or organizations combine their efforts, and if they can produce less than. If added their accomplishments achieved separately. Negative synergy can be called the 2A + 2B = 3 AB effect. When an individuals operating alone can each produce two units of output. However, with negative synergy, the combination of their efforts results in less output than what they would have achieved if they had each worked alone.

Negative synergy can result from:

1. inefficient committees, business units that lack strategic planning,
2. poor functioning of joint efforts,
3. inefficient workers,
4. if one of the individual dominate and control the group decision or less effective group decisions.

Question 4. Read the following case study of an Shri Jhunjhunwala and write down the values that can help him to bring a positive change and sustain growth in the enterprising world?
Shri Jhunjhunwala is an Entrepreneur Shri Jhunjhunwala of Varanasi is a businessman engaged in the production of "Jhula Vanaspati". He started his business career from a humble beginning. He had a small retail shop of oil and ghee. His earning was limited and not sufficient to meet the needs of his family. He started looking for an opportunity to earn more. One of his relatives owned an oil factory which was running at a loss. The relative was willing to sell it. Jhunjhunwala thought he can run the factory and earn profit out of it. He bought his relative's factory. The factory took a new birth and today it is earning huge profit. "Jhula Vanaspati" is now a reputed brand of ghee in that part of the country. He says business is an opportunity, it involves risk and it is a challenge.
Answer.

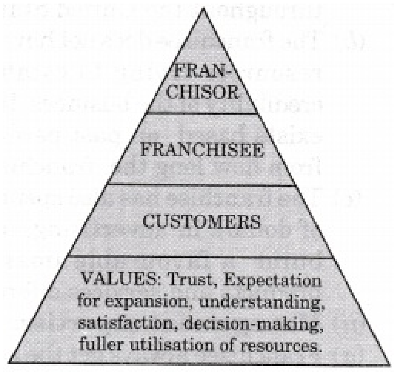
1. **Adaptability:** It is the ability to adjust to new situations-and find creative solutions to problems.
2. **Opportunity:** It means a chance to do something new. When his problem is solved by him in a challenging way, he find opportunities.
3. **Competitiveness:** It also implies that competition is perceived as a challenge which motivates the entrepreneur to strive harder. The advertisements that we see in newspapers, journals and on TV will indicate the continuous competition among entrepreneurs and how they constantly strive to maintain their competitive edge. For a successful entrepreneur competition is a tonic for further growth.
4. **Confidence:** Self-belief is a very important trait of all successful entrepreneurs. They strongly believe that they can do what they set out to do.
5. **Dedication:** All successful entrepreneurs are consumed by a goal or purpose. As project champions they are dedicated to fulfillment of their vision.
6. **Vision and Drive:** The ability to see the end results of one's goals while working to achieve them and the desire to work hard to accomplish one's goals are other important traits of successful entrepreneurs.

7. **Honesty:** A successful entrepreneur is invariably honest. Contrary to popular beliefs all great entrepreneurs have always had the commitment to tell the truth and deal with people fairly. It is one trait that guarantees sustainable growth.

VI. HIGHER ORDER THINKING SKILLS

Question 1. These concept began back in the 1850's when Isaac Singer invented the sewing machine. In order to distribute his machines outside of his geographical area, and also provide training to customers, Singer began selling licenses to entrepreneurs in different parts of the country. Identify the concept and explain it by giving value points to it.
Ans.

1. Franchising,
2. Franchising is a process by which the rights of producing or selling any product or service are provided to another enterprise. It is also associated to fulfilment of some terms, conditions or requirement by the enterprise. These conditions are laid down by the parent company.



The franchisee sells the franchisor's product or services, trades under the franchisor's trade mark or trade name and benefits from the franchisor's help and support.
In return, the franchisee usually pays an initial fee to the franchisor and then a percentage of the sales revenue.
The franchisee owns the outlet they run. But the franchisor keeps control over how products are marketed and sold and how their business idea is used.

Question 2. Explain the advantages of franchising to franchisee.
Answer. One of the most important advantages of buying a franchise is that the entrepreneur does not have to incur all the risks associated with creating a new business. Typically, the areas that entrepreneurs have problems with in starting a new venture are product acceptance, management expertise, meeting capital requirements, knowledge of the market, and operating and structural controls. In franchising, the risks associated with each are minimized through the franchise relationship, as discussed below:
Advantages to the franchisee:

1. **Product acceptance:** The franchisee usually enters into a business that has an accepted name, product or service.
   Example: In case of Subway,
   (a) Any person buying a franchise will be using the Subway name, which is well known and established throughout the United States.
   (b) The franchisee does not have to spend resources trying to establish the credibility of the business. It already exists based on past performances from how long the franchise exist.
   (c) The franchise has also spent millions of dollars in advertising, and thus build a

favourable image of the products and services offered.

2. **Management expertise:**
(a) Franchisee always get the advantage of managerial assistance provided by the franchisor.
(b) Special training programme and education provided by them on all aspects of operating the franchise like classes in accounting, personnel management marketing and production. Example: McDonald's, for example, requires all its franchisees to spend time at its school, where everyone takes classes in these areas. In addition, some franchisors require their new franchisees to actually work with an existing franchise owner or at a company-owned store or facility to get on-the job training.
Once the franchise has been started,
• Most franchisors will offer managerial assistance on the basis of need.
• Toll-free numbers are also available so that the franchisee can ask questions anytime.
• Visit the local franchisees to offer advice and keep the owners informed of new development.
• The training and education offered is actually an important criterion that the entrepreneur should consider in evaluating any franchise opportunity.
• If the assistance in start-up is not good, the entrepreneur should probably look elsewhere for opportunities unless he or she already has extensive experience in the field.
3. **Capital requirements:**
(a) The franchise offers an opportunity to start a new venture with up-front support that could save the entrepreneur's significant time and huge investment of capital. They also provide initial investment to start operation.
(b) Some franchisors conduct location analysis and market research of the area which include an assessment of traffic, demographics, business condition and competition.
The initial capital required to purchase a franchise generally reflects a fee for the franchise, construction costs and the purchase of equipment.
The layout of the facility, control of stock and inventory and the potential buying power of the entire franchise operation can save the entrepreneur significant funds.
4. **Knowledge of the market:**
(a) Any established franchise business offers the entrepreneur years of experience in the business and knowledge of the market.
This knowledge is usually reflected in a plan offered to the franchisee that details the profile of the target customer and the strategies that should be implemented once the operation has begun.
This is particularly important because of regional and local differences in markets.
(b) Competition, media effectiveness, and tastes can vary widely from one market to another. Given their experience, franchisors can provide advice and assistance in accommodating any of these differences.
Most franchisors constantly evaluate market conditions and determine the most effective strategies to communicate to the franchisees. Newsletters and other publications that reflect new ideas and developments in the overall market are continually sent to franchisees.
5. **Operating and structural controls:** Two main problems that generally an entrepreneur face during the start-up:
(a) Maintaining quality control of products and services.
(b) Establishing effective managerial controls. The franchisor, particularly in the food business, identifies purveyors = and suppliers that meet the quality standards established.
Some of the supplies are actually provided by the franchisor. Standardization in the supplies, products and services provided helps ensure that the entrepreneur will maintain

quality standards. Administrative controls unusually involve financial decisions related to costs, inventory and cash flow and personnel issues such as criteria for hiring/firing, scheduling and training to ensure consistent service to the customer. These controls are usually outlined in manual supplied to the franchisee upon completion of the franchise deal. Although all the above are advantages to the franchisee, they also represent important strategic considerations for an entrepreneur who is considering growing the business by selling franchises. Since there are so many franchise options available for an entrepreneur, the franchisor will need to offer all of the above services in order to succeed in the sale of franchises. One of the reasons for the success of such franchises as McDonald's, Burger King, KFC, Boston Market, Subway, Midas, Jiffy Lube, Holiday Inn, Mail Boxes and Merry Maids is that, all these firms have established an excellent franchise system that effectively provides the necessary services to the franchisee.

Question 3. What are the advantages of franchising to the franchisor?

Answer. The advantages a franchisor gains through franchising are related to expansion risk, capital requirements and cost advantages that result from extensive buying power.
It is clear from the Subway example that Fred De Luca would not have been able to achieve the size and scope of his business without franchising it. In order to use franchising as an expansion method, the franchisor must have established value and credibility that someone else is willing to buy.

Quick expansion:
(a) Franchising for allows an entrepreneur an easy way to start the business the venture and to expand quickly using little capital.
(b) It helps to reflect on the problems and issues that an entrepreneur faces in trying to manage and grow a new venture.

Cost advantages: Many franchise businesses produce parts, accessories, packaging and raw materials in large quantities, then in turn sell these to the franchisees.
The franchisee are usually required to purchase these items as part of the franchise agreement and they usually benefit from lower prices.
One of the biggest cost advantages of franchising a business is the ability to commit larger sums of money to advertising.Each franchisee contributes a percentage of sales (1 to 2 %) to an advertising pool.

Question 4. Explain various types of mergers with the help of an example.

Answer. The term merger depends on the:
• Economic function
• Purpose of the business transaction
• Relationship between the merging companies.

1. **Conglomerate:**
   (a) A merger between firms that are involved in totally unrelated business activities.
   (b) There are two types of conglomerate mergers: pure and mixed.
   • Pure conglomerate mergers involve firms with nothing in common.
   • Mixed conglomerate mergers involve firms that are looking for product extensions or market extensions. Example: A leading manufacturer of athletic shoes merges with a soft drink firm. The resulting company is faced with the same competition in each of its two markets after the merger as the individual firms were before the merger. One example of a conglomerate merger was the merger between the Walt Disney Company and the American Broadcasting Company.
2. **Horizontal merger:** A merger occurring between companies in the same industry. Horizontal merger is a business consolidation that occurs between firms which operate in the same space, often as competitors offering the same goods or service. Horizontal

mergers are common in industries with fewer firms, as competition tends to be higher and the synergies and potential gains in market share are much greater for merging firms in such an industry.
Example: A merger between Coca-Cola and the Pepsi beverage division. The goal of a horizontal merger is to create a new, larger organization with more market share.
If the merging companies' business operations are very similar, there may be opportunities to join certain operations, such as manufacturing and reduce costs.

3. **Market extension mergers:** A market extension merger takes place between two companies that deal in the same products but in separate markets. The main purpose of the market extension merger is to make sure that the merging companies can get access to a bigger market and that ensures a bigger client base.
Example: A very good example of market extension merger is the acquisition of Eagle Bancshares Inc. by the RBC Centura. Eagle Bancshares is headquartered at Atlanta, Georgia and has 283 workers. It has almost 90,000 accounts and looks after assets worth US $1.1 billion.
Eagle Bancshares also holds the Tucker Federal Bank, which is one of the ten biggest banks in the metropolitan Atlanta region as far as deposit market share is concerned. One of the maj or benefits of this acquisition is that this acquisition enables the RBC to go ahead with its growth operations in the North American market. With the help of this acquisition RBC has got a chance to deal in the financial market of Atlanta, which is among the leading upcoming financial markets in the USA. This move would allow RBC to diversify its base of operations.
4. **Product extension mergers:**A product extension merger takes place between two business organizations that deal in products that are related to each other and operate in the same market. The product extension merger allows the merging companies to group together their products and get access to a bigger set of consumers. This ensures that they earn higher profits.
Example: The acquisition of Mobilink Telecom Inc. by Broadcom is a proper example of product extension merger. Broadcom deals in the manufacturing of Bluetooth personal area network hardware systems and chips for IEEE 802.11b wireless LAN.
Mobilink Telecom Inc. deals in the manufacturing of product designs meant for handsets that are equipped with the Global System for Mobile Communications technology. It is also in the process of being certified to produce wireless networking chips that have high speed and General Packet Radio Service technology. It is expected that the products of Mobilink Telecom Inc. would be complementing the wireless products of Broadcom.
5. **Vertical merger:** A merger between two companies producing different goods or services for one specific finished product. A vertical merger occurs when two or more firms, operating at different levels within an industry's supply chain, merge operations. Most often the logic behind the merger is to increase synergies created by merging firms that would be more efficient operating as one. Example: A vertical merger joins two companies that may not compete with each other, but exist in the same supply chain. An automobile company joining with a parts supplier would be an example of a vertical merger. Such a deal would allow the automobile division to obtain better pricing on parts and have better control over the manufacturing process. The parts division, in turn, would be guaranteed a steady stream of business.
Synergy, the idea that the value and performance of two companies combined will be greater than the sum of the separate individual parts is one of the reasons companies merge.

Question 5. Explain the disadvantages of franchising to the franchisee.
Answer. Some of the key disadvantages of this mode of expansion are:

Right and the only way of doing things: Franchisees are required to operate their businesses according to the procedures and set forth by the franchisor in the franchisee agreement. Entering into a franchise contract limits the degree of freedom for the franchise. The franchisee is not completely independent. It shows that, one gets an over-guided and over-influenced degree of control exerted by the franchisor. This restrictions results in losing the freedom to innovate to some extent.

1. **Continuing cost implication:**
   Excess of the original franchise fee and royalties, a percentage of revenue gets shared perpetually with the franchisor. The franchisor may also charge additional amounts towards sharing the cost for services provided such as advertising and training.
2. **Risk of franchisor getting bought:**
   When the franchisor either fails or gets bought out by another company, the franchisee faces serious problems and difficulties.
3. **Inability to provide services:**
   (a) Anytime if there is a problem and inability of the franchisor to provide services advertising and location.
   (b) When promises made in the franchise agreement are not kept, the franchisee may be left without any support in important areas.
   For example, Curtis Bean bought a dozen franchises in Checkers of America Inc., a firm that provides auto inspection services. After losing Rs 200,000, Bean and other franchisees filed a lawsuit claiming that the franchisor had misrepresented advertising costs and had made false claims including that no experience was necessary to own a franchise.