



**STRATHMORE INSTITUTE**  
**DIPLOMA IN ENTREPRENEURSHIP**  
**END OF SEMESTER EXAMINATION**

**DE 1105: CUSTOMER DISCOVERY AND BUSINESS PLANNING**

DATE: 13<sup>th</sup> September 2021

Time: 2 Hours

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**Instructions**

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.
3. Do not write on the question paper.

**QUESTION ONE (30 Marks)**

Skills and Craft Global (SCG) was established in 2001 by Joan and Andrew, with the aim of equipping disadvantaged youths with skills so that they can get employment. The co-founders wanted to build something great. To understand the real need, they spent the first six months in different youth centers, immersed in the design thinking process. They believe that their program was highly successful because they understood the target market and designed a product that addressed their problems.

During their first two years, Joan and Andrew operated the SCG alone, doing everything needed. “We were running classes, working 18-hour days for maybe two years. We were burning through cash and we did not seem to be generating enough revenue. We worked so hard to make payroll and keep the lights on. We tried to bring on two employees, but the work demands forced them to quit. They did not want to be in the office all the time”, explained Joan.

After two years, they hired one administrator and a fulltime program manager. They then focused on refining their products based on feedback from earlier customers. The two new members of our team were well connected in the industry and immediately sales started growing and we finally broke even. Andrew and Joan were also able to build a winning team through their external team members. By their third year, they hired four more people, including a manager. During this period Joan and Andrew were enjoying increasing revenues and trying to keep their expenses low.

About nine years into the business, SCG was awarded a grant to fund its growth. By this point, the company had fifty employees, six of whom were managers overseeing the functional areas of the business. The managers helped Joan and Andrew shift their focus to long term growth activities and not to day-to-day operations.

In the last few years, Andrew and Joan have established partners and a strong brand name in the market. This has helped the company to enjoy uninterrupted growth. Joan, she feels like she understands the routine of running this company. “We have been focusing on new products and services to stay fresh in the market”, explains Andrew.

This year, the sales numbers have prompted the founders and managers at SCG to engage in strategic planning. Increasing competition and declining revenue has the leadership as SCG concerned.

### **Required**

- a) Explain the design thinking process Joan and Andrew used to come up with products/services **(10 Marks)**
- b) Discuss how connections can help entrepreneurs in their businesses **(2 Marks)**
- c) Identify examples of three external team members common to entrepreneurs **(3 Marks)**
- d) Explain three benefits of creating a team **(3 Marks)**
- e) Using examples from the case study, describe the first four phases of the small business lifecycle. **(12 Marks)**

### **QUESTION TWO (15 MARKS)**

Nancy & Mathew have discovered a clothes seller in Nairobi that can supply them with trousers and shirts and blouses. The two think they can buy clothes from this vendor and resell them for a profit. To make money before the seller becomes known to others, the two decide to borrow money and start their business in a weeks’ time.

- a) Why should Nancy and Mathew care about the cost of customer acquisition **(2 Marks)**
- b) Discuss the three ways in which a business can use pricing as a potent force **(6 Marks)**
- c) Give three reasons why Nancy and Matthew should write a business plan **(3 Marks)**
- d) What four crucial questions should Nancy and Matthew seek to answer regarding their target market **(4 Marks)**

### **QUESTION THREE (15 MARKS)**

Benja is the founder of a venture supplying freezer friendly, nutritious, delicious, and affordable meals, Munchies Arrested (MA). The initial capital came from “love funds”. Benja was able to get some monetary support in the form of cash gifts from family and friends. The first time he noticed that he was running out of cash, he brought in two co-founders Tricia and Yusuf who also contributed some cash that went into marketing and brand development.

Benja has estimated that by ten months of operations, he would have about 2% market share and the business would break even. He had raised cash for 14 month of operations and had a backup plan to raise fund in month seven if he did not break even within the ten months. Six months into the business, the team is yet to hit its sales projections and the cash is running low. Seems that Benja and his team had overlooked some expenses. The co-founders are not interested in taking loans and they do not want to give up control yet by selling equity. The three cannot go back to their families for more money. They need to look for other sources of financing.

- a) Using examples from the case study, discuss three common mistakes Benja and his team have made regarding their startup financials **(6 Marks)**
- b) Discuss One way not mentioned in the case study in which MA can raise the much-needed funds. Be sure to cite two advantages and two disadvantages associated with the process **(5 Marks)**
- c) Define the start-up Ecosystem and Identify three ways in which Benja and his team can benefit from the start-up Ecosystem **(4 Marks)**

#### **QUESTION FOUR (15 MARKS)**

Nancy and Mathew operate a business called *Plazos*, that specializes in selling casual Pants and Blouses to working ladies. Their business has grown fast in the three years. The two want to import a container of cloths directly from Turkey to maximize their profits. Nancy has noticed that there are some customers who frequent the shop monthly, while some come every couple of months. She suggests that they conduct a market research to better understand their customers.

- a) Identify the steps of market research in the correct order **(5 Marks)**
- b) Explain how entrepreneurs can alter their marketing tactics based on their understanding of customer lifetime value of the customer **(4 Marks)**
- c) Explain three bias that can occur during the data collection step of market research **(6 Marks)**

#### **QUESTION FIVE (15 MARKS)**

In the past two years, founders of *Plazos*, a shop selling casual business wear noticed that they were losing market share to online businesses. To counter this threat, they decided to add a line of African fashioned outfits. This was a huge success as interest in clothes made from African fabrics and the buy Kenya-build Kenya sentiment was high. Working with local designers has however proved difficult. The local designers often sell their designs also directly to the market which affects *Plazos*'s sales. Also, they are few designers equipped to produce the kind of volumes *Plazos* requires. On the other hand, the economic downturn created by covid19 pandemic has resulted in customers becoming more price sensitive and some opting to get tailor made clothes or used clothes instead of shopping at *Plazos*.

To cope with the market pressure, June, an employee at *Plazos* decided to import a shipment of clothes made from African fabric but manufactured in China. An agent at the port, alerted authorities that *Plazos* as lying about its line of locally made clothes. The company is now facing bad publicity and loss of sales.

- a) Using examples from the case study, evaluate (i) the bargaining power of buyers and (ii) the bargaining power of suppliers **(6 Marks)**
- b) Classify Nancy's decision of importing clothes made from African fabric from China. **(2 Marks)**
- c) Using evidence from the case study, discuss why the ethical lapse occurred at *Plazos*. **(2 Marks)**
- d) Discuss two benefits of ethical business management practices **(4 Marks)**
- e) Discuss one way in which the entrepreneur can prevent future ethical issues from happening. **(1 Mark)**