



EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT

**SECOND YEAR-SECOND SEMESTER EXAMINATION IN BACHELOR OF
BUSINESS ADMINISTRATION/ BACHELOR OF COMMERCE-2012 / 2013**
(AUGUST 2015) (PROPER / REPEAT / RE-REPEAT)

DED 2013 SMALL BUSINESS MANAGEMENT

Answer all questions

Time: 03 Hours

01. World's leading Food Service Retailer: McDonald's (MAC)

McDonald's, the long-time leader in the fast-food wars, faced a crossroads in the early 1990s. Domestically, sales and revenues were flattening as competitors encroached on its domain. In addition to its traditional rivals—Burger King, Wendy's, and Taco Bell—the firm encountered new challenges. Sonic and Rally's competed using a back-to-basics approach of quickly serving up burgers, just burgers, for time-pressed consumers. On the higher end, Olive Garden and Chili's had become potent competitors in the quick service field, taking dollars away from McDonald's, which was firmly entrenched in the fast-food arena and hadn't done anything with its dinner menus to accommodate families looking for a more upscale dining experience.

While these competitive wars were being fought, McDonald's was gathering flak from environmentalists who decried all the litter and solid waste its restaurants generated each day. To counter some of the criticism, McDonald's partnered with the Environmental Defense Fund (EDF) to explore new ways to make its operations more friendly to the environment. McDonald's roots go back to the early 1940s when two brothers opened a burger restaurant that relied on standardized preparation to maintain quality—the Speedee Service System. So impressed was Ray Kroc with the brothers' approach that he became their national franchise agent, relying on the company's proven operating system to maintain quality and consistency.

Over the next few decades, McDonald's used controlled experimentation to maintain the McDonald's experience, all the while expanding the menu to appeal to a broader range of

consumers. For example, in June 1976, McDonald's introduced a breakfast menu as a way to more fully utilize the physical plant. In 1980, the company rolled out Chicken McNuggets.

Despite these innovations, McDonald's tremendous growth could only continue for so long. Its average annual return on equity was 25.2% between 1965 and 1991. But the company found its sales per unit slowing between 1990 and 1991. In addition, McDonald's share of the quick service market fell from 18.7% in 1985 to 16.6% in 1991. Plus growth in the quick service market was projected to only keep pace with inflation in the 1990s.

McDonald's faced heightening competition on several fronts. First, its traditional rivals—Burger King, Wendy's, and Taco Bell—were eating into its margins through promotions and value pricing strategies. Taking a leaf from McDonald's own playbook, Sonic and Rally's were using a very limited menu approach to attract time-strapped consumers. Finally, Chili's and Olive Garden were appealing to diners looking for something a little more enticing than the familiar Golden Arches for their families.

In the late 1980s, McDonald's began recognizing the importance of maintaining an ecologically correct posture with the public, which was becoming more concerned about the environment. For example, in 1989, 53% of respondents in one survey revealed that they had not bought a product because they didn't know what effect the packaging would have on the environment. Closer to home, a 1990 study showed that each McDonald's generated 238 pounds of on-premise solid waste per day.

It's no surprise, then, that McDonald's sought a way to reduce its solid waste while providing a more environmentally acceptable face to the public. Beginning in 1989, it partnered with the Environmental Defense Fund, a leading organization devoted to protecting the environment, to seek ways to ease the company's environmental burden on the landscape.

Together, EDF and McDonald's considered its impact on a wide range of stakeholders—customers, suppliers, franchisees, and the environment. The company gave its franchisees much autonomy in finding ways to eliminate environmental blight. The company's hope was that from

these divergent approaches, it stood a greater chance of finding solutions with broad applicability than if it had tried to pursue a one-size-fits-all approach from the outset.

Some of the environmentally inspired solutions that came out of the collaboration with EDF were the:

- Introduction of brown paper bags with a considerable percentage of recycled content.
- Solicitation of suppliers to produce corrugated boxes with more recycled content, which had the twin effect of reducing solid waste and building a market for recycled products.
- Abandonment of polystyrene clamshell containers to hold sandwiches in favor of new paper-based wraps that combined tissue, polyethylene, and paper to keep food warm and prevent leakage.

The secret of McDonald's success is its willingness to innovate, even while striving to achieve consistency in the operation of its many outlets. For example, its breakfast menu, salads, Chicken McNuggets, and the McLean Deluxe sandwich were all examples of how the company tried to appeal to a wider range of consumers. The company has also made convenience its watchword, not only through how fast it serves customers, but also in the location of its outlets. Freestanding restaurants are positioned so that you are never more than a few minutes away by foot in the city or by car in the suburbs. Plus McDonald's is tucking restaurants into schools, stores, and more.

The key threats to McDonald's domestically are the lack of growth opportunities. The market is well saturated, and it would be difficult to achieve double-digit growth. Other concerns are a newfound emphasis on healthier eating. Most of McDonald's most popular fare probably in some small way contributes to the increasing incidence of cancer, heart disease, and diabetes among the population.

But I feel the key threat to McDonald's continued success is its very ubiquity. Because McDonald's are everywhere, the dining experience is never special. And as Baby Boomers age and become more affluent, it is likely that they will leave behind their fast-food ways, if only to step up to moderately priced restaurants like Olive Garden, Bennigans, and Pizzeria Uno. These chains have the added advantage of serving higher-margin alcoholic drinks. McDonald's, meanwhile, has to continually battle Burger King and Wendy's, which leads to an erosion of

margins for everyone. Even alliances with toy manufacturers, while popular with consumers, do little for the bottom line because the cost to run these promotions can be quite expensive.

The key thing that McDonald's operations strategy has to support is experimentation. Now somewhat long in the tooth, McDonald's needs a breakthrough that will provide new avenues of growth. It has a long history of such experimentation, which has resulted in some new profit centers like Chicken McNuggets and the breakfast menu. Some later turn out to be duds like the McLean Deluxe, but inevitably experimentation in limited outlets offers McDonald's a way to retain its key strengths—quality and consistency—while continuing to evolve for new palates and pocket books. In some ways, partnering with the Environmental Defense Fund was a masterstroke. It brought both respectability and valued expertise to its environmental efforts. It also provided a primetime venue for EDF to make a difference. Any successes, even if only incremental improvements, would have major ramifications because of the sheer size of McDonald's operations.

McDonald's had done well with a fairly limited product range. But falling per unit sales is a danger sign for the firm. With competitors gaining ground on McDonald's, it may indicate a need to refresh its product line. Perhaps the best way to do that is by rotating in a couple highly promoted new menu items. This would have the effect of enlivening the product menu, without the need to go head to head with competitors on price. This slackening of per unit sales might also indicate that McDonald's critical success factors have changed. Perhaps in the new environment, fast, convenient service is no longer enough to distinguish the firm. At this time, a new critical success factor may be emerging: the need to create a rich, satisfying experience for dinner consumers.

To maintain consistency in new products as it expands the product line, McDonald's must rely on test marketing new menu items in pilot locations. This approach will let the firm identify which items are likely to prove popular with consumers while ensuring that the company can deliver new products with consistent quality nationwide. McDonald's already has a history of doing this so it will not require major changes to its operations strategy—at least initially. If the product line-up gets too large, then the task of maintaining quality becomes exponentially harder. The trick is to consider how to eliminate some of the existing menu items when you introduce new ones, while making sure the staff is fully trained in how to execute these products successfully.

McDonald's faces some difficult challenges. Key to its future success will be maintaining its core strengths—an unwavering focus on quality and consistency—while carefully experimenting with new options. These innovative initiatives could include launching higher-end restaurants under new brands that wouldn't be saddled with McDonald's fast-food image. The company could also look into expanding more aggressively abroad where the prospects for significant growth are greater. The company's environment efforts, while important, should not overshadow its marketing initiatives, which are what the company is all about.

Questions:

1. Which Characteristics of McDonald's (MAC) production system have been most important in building its record of success and growth in the industry?
(07 Marks)
2. How can Mc Donald's (MAC) layout the basis for future growth?
(07 Marks)
3. Assume you are the manager of Mc Donald's (MAC) and give your views to the issues in MAC.
(07 Marks)
4. Discuss the marketing strategies of Mc Donald's (MAC) in relation to the for marketing mix that can be adopted by a fast food restaurant of small size located in an urban area of Sri Lanka
(07 Marks)

(Total 28 Marks)

02 "Small business development is important because it creates much needed jobs and generates economic activity, giving the economy a welcome boost".

- (a) Define the term "small business" in the Sri Lankan context. What are the aspects to emphasize in judging the scope of small business in Sri Lanka?
(06 Marks)
- (b) Outline the causes of business failure in small business firms. Which problems cause most business failures?
(06 Marks)

- (c) Briefly discuss the importance of small business in promoting the development of Sri Lankan economy. (06 Marks)

(Total 18 Marks)

03 "A business plan is an essential roadmap for business success. This living document generally projects 3-5 years ahead and outlines the route a venture intends to take to grow revenues "

- (a) Explain the need for a business plan from the perspective of the entrepreneur and the investor. (06 Marks)

- (b) What are the basic elements of a good business plan? Explain. (06 Marks)

- (c) Why is the executive summary the most important section of the business plan? (06 Marks)

(Total 18 Marks)

04. "Every new business faces the challenges of finding the funding to sustain itself until it establishes a revenue and cash stream."

- (a) Briefly describe the major source of financing available for small businessman in Sri Lanka? (06 Marks)

- (b) Outline and briefly describe the major types of loans offered by state and private banks for starting a new business or to expand an existing business in Sri Lanka. (06 Marks)

- (c) What are the difficulties faced by a small businessman and bankers in obtaining loans from state and private banks in Sri Lanka? And what remedial actions would you suggest? (06 Marks)

(Total 18 Marks)

05. "Operating a successful business is a mix of earning high returns and mitigating economic risks."

(a) What are risks faced by a small businessman when operating a small business firm? Explain. (06 Marks)

(b) What are basic ways to cope with risk in a small business venture in Sri Lanka? (06 Marks)

(c) Shoplifting is one of the risks faced by a small businessman to operate a small business firm in Sri Lanka and elsewhere in the world. What are the various anti shop lifting tactics to be taken by the small business firms to minimize shoplifting? (06 Marks)

(Total 18 Marks)