

**SOLVED
PAPER**

**C.B.S.E.
2020
Class XII
Delhi/Outside Delhi**

Entrepreneurship

Time : 3 Hours

Max. Marks : 70

General Instructions :

Read the following instructions very carefully and strictly follow them :

- (i) This question paper comprises *five* sections – A, B, C, D and E. There are 34 questions in the question paper. *All* questions are compulsory.
- (ii) *Section A* – Question No. *1* to *17* are very short answer type questions, carrying *1* mark each.
- (iii) *Section B* – Question, No. *18* to *24* are short answer type-I questions, carrying *2* marks each.
- (iv) *Section C* – Question, No. *25* to *29* are short answer type-II questions, carrying *3* marks each.
- (v) *Section D* – Question, No. *30* to *32* are long answer type-I questions, carrying *4* marks each.
- (vi) *Section E* – Question, No. *33* and *34* are long answer type-II questions, carrying *6* marks each.
- (vii) Answer should be brief and to the point.
- (viii) There is no overall choice. However, an internal choice has been provided in two questions of *1* mark, two questions of *2* marks, two question of *3* marks, one question of *4* marks and one question of *6* marks. You have to attempt only one of the choices in such questions.
- (ix) In addition to this, separate instructions are given with each section and question, wherever necessary.

SECTION-A

Fill in the blanks :

1. Samar is a budding rural entrepreneur who is working on improving the health index of the women in rural areas. Samar needs to understand various health issues confronted by women in order to create a socially committed organization. For this, he wants to gather information about the target market or customers in an organized manner. This organized effort of Samar is known as _____ . 1
2. 'Welsa Moto Corp's' electric vehicles with zero tail pipe emission are emerging as a good alternative to two major problems : (i) climatic change due to auto exhaust and (ii) increasing pollution leading to ill health. This Act of 'Welsa Moto Corp's' has taken care of _____ and _____ elements of macro environment. 1
3. Amit, an Entrepreneur, is always in touch with the changes taking place in the environment. He identifies opportunities and finds strategies to capitalise on these opportunities at the earliest. Sensing the requirement of providing reasonably priced food at their own place within no time with multiple options, he started the first online food network in India. Because of _____ advantage, he was able to capture more than 85% of the market share in no time. 1
4. _____ feature of partnership states that any partner can act on behalf of the firm. 1

OR

- _____ process of entrepreneurship involves the translation of a useful idea into an application which has commercial value. 1
5. _____ and _____ are the components of a Brand shown in the figure. 1



6. _____ is an affluent individual, who provides capital for a business start-up having a high-risk, high-return matrix usually in exchange for convertible debt or ownership equity. 1

State whether the following statements are true or false :

7. A financial plan is a projection of key financial data about the potential investment commitment needed for the new venture. 1
8. SWOT Analysis means to consider (a) Strengths, (b) Weaknesses, (c) Opportunities and (d) Tenure of Business. 1
9. Primary Market facilitates transfer of resources from the savers to the entrepreneurs seeking funds for setting new enterprises. 1
10. Gupta is the owner of KYC stores dealing in grocery items. He has an equity stake of ₹ 4,00,000 in the business. He has borrowed ₹ 6,00,000 from State Bank of India. His net profit for the year is ₹ 1,40,000. The Return on Equity for Gupta will be 23.33%. 1
11. In a Reverse acquisition a public company takes over a private company. 1

OR

Sales promotions initiatives are often referred to as 'above the line' activities.

12. The secondary market enhances the marketability of securities and provides liquidity to investment. 1

Multiple Choice Questions :

13. Gross working capital means :
- (a) sum total of all assets
- (b) sum total of all fixed assets
- (c) sum total of all current assets
- (d) current assets minus current liabilities 1
14. Marketing Plan is a document :
- (a) regarding the marketing objectives, strategies and activities to be followed by the new Enterprise.
- (b) which describes the flow of goods/services from production point to the customers.
- (c) which determines how many units must be sold or how much sales volume must be achieved in order to have break-even point.
- (d) which reflects the projected cash available with the Enterprise 1
15. Growing flowers and selling to floral decorators is an example of the following source of idea field :
- (a) Service sector ideas (b) Trading related ideas
- (c) Natural resources (d) Market driven ideas 1
16. Rushan devised an apparatus to measure the quality of air at home which can be fitted in any Air-conditioner and the air-conditioner can become an air purifier as well. His product is still in the pre-commercialization stage. Rushan wants to exclude others from making, using, selling and importing this apparatus. The intellectual property right which Rushan will have to obtain is :
- (a) Copyright (b) Patent (c) Industrial design (d) Trade mark 1
17. How many whole time members are nominated by the Union Government of India to Securities and Exchange Board of India ?
- (a) 2 (b) 3 (c) 4 (d) 6 1

SECTION-B

18. Sanjana graduated from National Institute of Fashion Studies and wants to start her own boutique. She wants to understand the feasibility and viability of the proposed venture. This will also facilitate her in assessing and making provisions for the bottlenecks in the progress and implementation of the idea. She also wants to know about the success of the project along with the risk factors involved.

Identify and give the meaning of the document which is required by Sanjana on the basis of the above para. 2

19. Mahesh, an entrepreneur is planning to enter into a new business of manufacturing laptop bags with an inbuilt lock facility. Being highly complex and tedious, its manufacturing operations need to be well planned. He decides that the complete bag will be manufactured at his own factory *i.e.*, no part of its manufacturing process will be outsourced.

Identify the important component of business plan that is discussed above. Also, state what needs to be described in the above stated manufacturing situation. 2

20. State any four ways in which creative ideas can be generated. 2

OR

State any four sources which lead to the emergence of basic ideas. 2

21. State any four advantages of 'penetration pricing' method to the firm 2

OR

State any four purposes of 'Logo'. 2

22. Government banned the use of polythene bags and single use plastic material in order to curb the increasing pollution level by dumping of plastics. Harjot took this as an opportunity and is planning to manufacture biodegradable bags of different sizes by processing the sugarcane bagasse. Create a logo and a tagline for the bags manufactured by Harjot.

23. Give the meaning of 'Cash Conversion Cycle'. How is Cash Conversion Cycle of a trading concern different from a manufacturing concern? 2

24. 'Pipro' Ltd.' is a software company based in Bengluru, India. It is already listed at National Stock Exchange. In order to expand its business in north-east, under the "Look East Policy" of the government, it needs financial resources.

State any two methods through which she can fulfil her financial requirements through Primary Market other than Public issue. 2

SECTION-C

25. With the help of any three points, explain why is it important for a business to understand the environment in which it operates. 3

OR

Explain proforma investment decisions and proforma financing decisions as components of a financial plan. 3

26. Rohit is working on designing of a unique face mask which would not only filter the air inhaled but also send alert messages on the registered mobile number if the user is in a zone of high pollution. This idea is germinated because of the interest and curiosity of Rohit as he is always interested in finding out the specific current problem and their solutions. Before launching his idea he also analysed the pros and cons of the product. Now he has to complete two more steps of an important process.

Identify the process. Explain the steps to be completed by Rohit in the process identified. 3

27. The footwear industry in India is dominated by 'B-relax Footwear'. 'B-relax Footwear' procures 70% of its raw material from 'Polymers Ltd.' The major production of 'Polymers Ltd.' is plastic chips, PU foam and elastic which is used by 'B-relax Footwear' in its manufacturing processes. After due diligence, they decide to merge with each other. If they merge, 'B-relax Footwear' doesn't need to look for a vendor and sourcing raw materials would be seamless. On the other hand, as a result of the merger, 'Polymers Ltd.' doesn't need to worry about the sales and marketing. All they need to do is to improve their processes to produce better raw materials for 'B-relax Footwear'. After the merger the combined entity will be known as 'B-relax Inc'.

(a) Identify and explain the type of merger between 'B-relax Footwear' and 'Polymers Ltd.'

(b) Why is due diligence required before merger?

(c) Which is the most dominant reason for this merger? Explain. 3

28. Calculate the Economic Order Quantity from the following information :

- (a) Annual consumption – 120 units.
- (b) Cost of placing and receiving an order - ₹ 20
- (c) Price per unit - ₹ 100.
- (d) Storage cost as percentage of average inventory – 12%. 3

OR

State any six features of Venture Capital Finance. 3

29. From the given situations, identify and explain the method of floatation of new issues :

- (a) ICICI is in need of additional capital for its new venture. It decides to raise funds by selling the issues mainly to General Insurance Corporation of India and Life Insurance Corporation of India.
- (b) Jay is holding 100 shares of a company. He has been given a privilege offer to subscribe to a new issue of the same company in proportion of his current shareholding with the company. Jay was unwilling to subscribe, so he renounced the offer in favour of Veeru who bought the shares.
- (c) Gopal is working as the Regional Chairman in a well reputed Non-Banking Finance Company which is listed in Stock Exchange. As performance bonus, the company gave 25 equity shares to Gopal. 3

SECTION-D

30. There are various ways in which an entrepreneur can spot trends. Describe the four ways of identifying the trends with the help of examples. 4

31. Explain with the help of any four points the advantages of franchising to the franchisee.

OR

Explain Internal expansion and External expansion as part of growth and development of an Enterprise. 4

32. 'Flavouright Foods Ltd.' started a business of making nachos (corn chips) in three variants, Classic Cheese, Toasted Corn and Tangy Tomato. To start with, all the three variants will be sold in a standard packing of 100 gms each, the selling price would differ due to the ingredients used. Fixed costs are ₹ 38,000.

Sales price and variable costs per unit are as follows :

Particulars		Classic Cheese	Toasted Corn	Tangy Tomato
Sales Price	₹	80	45	60
Variable Cost	₹	40	15	20
Packets sold		100	40	60

From the above information calculate :

- (a) Weighted contribution margin per unit.
- (b) Break-even point — total and per product. 4

SECTION-E

33. While preparing an operational plan, an entrepreneur has to pay attention towards various elements. Explain these elements. 6

OR

Explain the steps for idea and opportunity assessment after the product identification has been done by the entrepreneur. 6

34. Explain any six reasons for the failure of mergers and acquisitions. 6



SOLUTIONS

SECTION-A

- | | |
|--|---|
| 1. Social welfare | 1 |
| 2. Ecological, technological | 1 |
| 3. First mover | 1 |
| 4. Mutual agency | 1 |
| OR | |
| Innovation | |
| 5. Brand name, Brand mark | 1 |
| 6. Angel investor | 1 |
| 7. True | 1 |
| 8. False | 1 |
| 9. True | 1 |
| 10. False | 1 |
| 11. False | 1 |
| OR | |
| False | |
| 12. True | 1 |
| 13. (c) sum total of all current assets | 1 |
| 14. (a) regarding the marketing objectives, strategies and activities to be followed by the new Enterprise | 1 |
| 15. (a) Service sector ideas | 1 |
| 16. (b) Patent | 1 |
| 17. (b) 3 | 1 |

SECTION-B

18. The document is a Business Plan. Business plan is a comprehensively written down document prepared by the entrepreneur describing formally all the relevant external and internal elements involved in starting a new venture. 2
19. The component of business plan being discussed here is Production Plan – Complete Manufacturing. If the manufacturing is to be carried out in whole by the entrepreneur, he/she will need to describe :
- (c) the physical plant layout,
 - (d) the machinery and equipment required to perform the manufacturing operations,
 - (e) raw materials and suppliers names, addresses, terms and conditions,
 - (f) cost of manufacturing,
 - (g) any future capital equipment required etc. 2
20. Some ways in which creative ideas can be generated are :
- (a) Develop a new product or service.
 - (b) Improve an existing product or service.
 - (c) Find a new process or resource for manufacturing a product.
 - (d) Find new markets for existing products or services.
 - (e) Find a new use of an existing product or service. **(Any four)** 2

OR

The following are the various sources which lead to the emergence of basic ideas :

- (a) **Problems** : When a problem exists, an idea leads to a solution, which emerges as a business opportunity.

- (b) **Change** : A change in social, legal, technological aspects, etc. leads to new opportunities in starting a business.
- (c) **Inventions** : New products or services lead to new business opportunities.
- (d) **Competition** : Competition often results in emergence of new and better ideas that result in new business opportunities.
- (e) **Innovation** : Creating new things of value as well as new and creative processes that add value to the existing products or services. *For example*, computers to tablets. **(Any four)** 2

21. The advantages of penetration pricing to the firm are :

- (a) It can result in fast diffusion and adoption. This can achieve high market rates quickly. This can take the competitors by surprise, not giving them time to react.
- (b) It can create goodwill among the early adopters segment. This can create more trade by word of mouth.
- (c) It creates cost control and cost reduction pressures from the start, leading to greater efficiency.
- (d) It discourages the entry of competitors. Low prices act as a barrier to entry.
- (e) It can create high stock turnover throughout the distribution channel.
- (f) This can create critically important enthusiasm and support in the channel. **(Any four)** 2

OR

The purposes of logo are :

- (a) Logos are a critical aspect of business marketing. As the company's major graphical representation, a logo anchors company's brand.
- (b) Corporate logos are intended to be the identity of an enterprise because of displaying graphically enterprise's uniqueness.
- (c) Through a set colour combination, fonts, images, impression and/or pattern, logos provide essential information about a company that allows customers to relate with the enterprise's core brand.
- (d) Enterprises normally resort to logos as a short path for advertising and other marketing materials.
- (e) Logos act as the key visual component of an enterprise's overall brand identity. 2 (Any four)

22.



I am Sweet for the Environment too....

- 23. Cash conversion cycle** : Is the length of time between a firm's purchase of inventory and the receipt of cash from accounts receivable. It represents the number of days a firm's cash remains tied up within the operations of the business. *For example*, if a firm purchases inventory on 1st Jan, 2019 and on 31st June, 2019 the sales are made and cash is received for the same, this duration of period in which inventory is converted into cash is its cash conversion cycle.

In a trading concern operating cycle begins with outflow of cash towards the sale of finished goods for cash or credit. If it is credit sales, then conversion of account receivable into cash. In a manufacturing concern there is a time gap between the first step of purchasing of raw materials to last step of selling goods and realising cash.

- (a) Purchase of raw material.
- (b) Payment of labour, power, fuel and other expenses.
- (c) Converting the raw materials into work-in-progress and converting them into finished goods.
- (d) Sale of finished goods for cash or credit. If on credit then conversion of account receivable into cash. 2

24. The other options available are :

- (a) **Rights Issue** : It is the method of raising finance from existing shareholders by offering securities to them on pro-rata basis, *i.e.*, giving them a right to a certain number of shares in proportion to the shares they are

holding. In case the existing shareholders are not willing to subscribe, they can resource the same in favour of another person.

- (b) **Private Placement** : It means direct sale by a company of its securities to a limited number of sophisticated investors.
- (c) **Offer to Employees** : In stock option plan or offer to employees, company offer its shares to its employees at a rate lower than market price. This method enables employees to become shareholders and share the profits of the company. 2

SECTION-C

25. The benefits of understanding the relevant environment of business are :

- (a) **Identification of opportunities to get first mover advantage** : By keeping in touch with the changes in the external environment, an enterprise can identify opportunities and find strategies to capitalise on the opportunities at the earliest.
- (b) **Formulation of strategies and policies** : It helps in identifying threats and opportunities in the market. These can serve as the basis of formulation of strategies to counter threats and capitalise on opportunities in the market.
- (c) **Tapping useful resources** : If the company has a thorough knowledge of the external environment, it can tap raw materials, technology and even financial resources from the market at economical prices, at the right time.
- (d) **Better performance** : Proper understanding of the various elements of the external environment is necessary to take timely action to deal with threats and avail opportunities for the purpose of improvement in the performance of the firm.
- (e) **Sensitisation of entrepreneurs to cope with rapid changes** : A keen watch on the trends in the environment would help sensitise the entrepreneur towards changing technology, competition, government policies and changing needs of the customers.
- (f) **Image building** : If a company is sensitive to the external environment, it will come out with new products and services to meet the requirements of the customers. This would build the image or reputation of the firm in the eyes of general public. **(Any three)** 3

OR

Proforma financing decisions summarizes all the projected sources of funds available to the venture to raise finance from owners fund and borrowed funds so that cost of capital and financial risk stands minimized and return on investment and profitability stands maximised.

Proforma investing decisions summarizes how the enterprise funds are invested in different assets so that the enterprise is able to earn the highest possible returns on investment. An estimate of fixed assets and working capital is mentioned in this component. 3

26. The process is Creative Process and the stage is Idea Germination. The next stages of the process are :

- (a) **Preparation** :
- (i) This is the stage where an entrepreneur starts looking for the answer to implement the idea.
 - (ii) Market research should be done before the launch of a new product.
- Example** : Samsung has done a lot of market research in India before launching its smart phones in the country.
- (c) **Incubation** :
- (i) This is the stage where an entrepreneur starts process of studying the pros and cons of manufacturing the product.
 - (ii) This is the transition period.
- (c) **Illumination** :
- (i) Practical shape is given to the idea.
 - (ii) Collection of raw material.
 - (iii) Arranging funds.
 - (iv) Policy making for the implementation of idea.

(d) Verification :

- (i) It is also known as testing stage.
- (ii) It is verified that idea is valuable or not.
- (iii) This is the stage where entrepreneur starts facing obstacles.
- (iv) This is the stage where knowledge is developed into application.

(e) Innovation :

- (i) Translation of idea into a successful venture.
- (ii) To work out analytically all the details of the enterprise.
- (iii) To develop marketing strategies.
- (iv) To organize the finances and strategize operations.

3

27. (a) The given case is of vertical merger. It is a merger between two companies producing different goods or services for one specific finished product. It occurs when two or more firms, operating at different levels within an industry's supply chain, merge operations.
- (b) Due diligence is a crucial component of the merger and acquisition process as it 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.
- (c) The dominant reasons for vertical merger are improvement of quality of raw material and smooth productivity due to regular supply of raw material and assured market. (Any six) 3

28. Economic Order Quantity (EOQ) = $\sqrt{\frac{2PD}{C}}$

where, P = Ordering cost = ₹20

D = Annual demand = 120 units

C = Inventory holding cost = 12% of ₹ 100 = $\frac{12}{100} \times 100 = ₹ 12$

$$\Rightarrow \text{EOQ} = \sqrt{\frac{2 \times 20 \times 120}{12}} = \sqrt{\frac{4800}{12}} = \sqrt{400} = 20 \text{ units}$$

3

OR

Venture capital finance has the following features :

- (a) It is basically equity finance in relatively new companies.
 - (b) It is long-term investment in growth-oriented small or medium firms.
 - (c) Venture capitalist not only provides capital but also business skills to investee firms.
 - (d) It involves high risk-return spectrum.
 - (e) It is a subset of private equity.
 - (f) The venture capital institutions have a continuous involvement in the business after making the investment.
 - (g) Such institutions disinvest the holdings either to the promoters or in the market. (Any six) 3
29. (a) The method is Private Placement. It means direct sale by a company of its securities to a limited number of sophisticated investors.
- (b) The method is Rights Issue. It is the method of raising finance from existing shareholders by offering securities to them on pro-rata basis, *i.e.*, giving them a right to a certain number of shares in proportion to the shares they are holding. In case the existing shareholders are not willing to subscribe, they can resource the same in favour of another person.
- (c) The method is Offer to Employees. In stock option plan or offer to employees, company offer its shares to its employees at a rate lower than market price. This method enables employees to become shareholders and share the profits of the company. 3

SECTION-D

30. Ways in which an entrepreneur spots trends :

- (a) **Read trends** : They regularly read the leading publications and websites affecting their business. This could include industry publications, trade association sites, major newspapers, key business magazines, thought leaders and influential bloggers.
- (b) **Talk trends** : Talking to people is an equally important trend-spotting tactic. They get involved in specific industry's trade association and attending events both online and offline. They also take advantage of social networking tools like social network websites and forums, join groups on the networks and see what people are buzzing about and about the latest trends. They use social media or online surveys to get input on what customers are thinking, buying, craving and doing.
- (c) **Watch trends** : There's no substitute for getting out in the marketplace. They make it a point to regularly go where their target customers hang out. The entrepreneur spends some time simply watching and observing. Trade shows are a great place to get trend ideas, too even if they are not looking to buy product, they attend many shows simply to see what's hot.
- (d) **Think trends** : As an entrepreneur begins gathering all these information regularly, they will start to develop a "trend-spotter mind." As they absorb and mull about what they've read, heard and observed, they'll start to make connections and observations that will lead to business-boosting insights. 4

31. Advantages of franchising to franchisee :

- (a) **Product acceptance** : The franchisee usually enters into a business that has an accepted name, product or service. The franchisee does not have to spend resources trying to establish the credibility of the business. That credibility already exists based on the years the franchise has existed.
- (b) **Management expertise** : Another important advantage to the franchisee is the managerial assistance provided by the franchisor. Each new franchisee is often required to take a training program on all aspects of operating the franchise. This training could include classes in accounting, personnel management marketing and production.
- (c) **Capital requirements** : Starting a new venture can be costly in terms of both time and money. The franchise offers an opportunity to start a new venture with up-front support that could save the entrepreneur's significant time and possibly capital.
- (d) **Knowledge of the market** : Any established franchise business offers the entrepreneur years of experience 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.
- (e) **Operating and structural controls** : Two problems that many entrepreneurs have in starting a new venture are maintaining quality control of products and services and establishing effective managerial controls. And this can be overcome with the help of franchising. **(Any four)** 4

OR

Internal expansion : It results from the gradual increase in the activities of the concern. The net result of internal expansion is the increase in business activities and broadening the present capital structure. The concern may expand its present production capacity by adding more machines or by replacing old machines with the new machines with higher productive capacity.

External expansion : It refers to business combination where two or more concerns combine and expand their business activities. The combination may be among competing units or units engaged in different processes. After combination, the constituted firm pursues some common objectives or goals. In the process of combination, two or more units engage in similar business or related process or stages.

32. (a)

Particulars	Classic Cheese	Toasted Corn	Tangy Tomato
Sales price per unit	80	45	60
Less : Variable cost per unit	40	15	20
Contribution per unit	40	30	40

Ratio of quantity sold = 100 : 40 : 60 = 5 : 2 : 3

$$\text{Classic Cheese} = 40 \times \frac{5}{10} = 20$$

$$\text{Toasted Corn} = 30 \times \frac{2}{10} = 6$$

$$\text{Tangy Tomato} = 40 \times \frac{3}{10} = 12$$

$$\text{Weighted Contribution} = 20 + 6 + 12 = 38$$

$$(b) \quad \text{Total break-even point} = \frac{\text{Total fixed cost}}{\text{Weighted contribution}} = \frac{38,000}{38} = 1,000 \text{ units}$$

Product-wise Break-even point (in units) :

$$\text{Classic Cheese} = 1,000 \times \frac{5}{10} = 500 \text{ units}$$

$$\text{Toasted Corn} = 1,000 \times \frac{2}{10} = 200 \text{ units}$$

$$\text{Tangy Tomato} = 1,000 \times \frac{3}{10} = 300 \text{ units}$$

Product-wise Break-even point (in ₹) :

$$\text{Classic Cheese} = 500 \text{ units} \times 80 = ₹ 40,000$$

$$\text{Toasted Corn} = 200 \text{ units} \times 45 = ₹ 9,000$$

$$\text{Tangy Tomato} = 300 \text{ units} \times 60 = ₹ 18,000$$

4

SECTION-E

33. Operational plan is a system with the help of which a smooth and coordinated flow of work within the business is achieved. The operational plan focuses on the critical operating factors.

Following are the elements of an operational plan :

- (a) **Routing** : It is a process which determines the exact path a product has to follow right from raw material till its transformation into a finished product.
- (b) **Scheduling** : It means fixation of time, date & day when each operation needs to be commenced.
- (c) **Follow-up** : It relates to evaluation and appraisal of work performed.
- (d) **Dispatching** : It involves issuing necessary order, instructions and guidelines, etc.
- (e) **Inspection** : Inspection is the art of comparing materials, product or performance with the established standards.
- (f) **Shipping** : It describes the flow of goods/services from production level to the ultimate consumers. It is the detailed presentation by the entrepreneurs explaining the steps in completing the business transaction profitably.

6

OR

The steps involved in idea and opportunity assessment are :

1. **Product identification** : An idea should lead the entrepreneur to a definite product or service which he can sell. So the first step is to obtain a concept of the product or service suggested by one idea. We should also see whether this product is already available in the market or not. If it is, then we should identify the reason for introducing the same product or service in the market. For example, creating a new pen drive especially for teachers which will have a built in antivirus and which can be worn like a watch so it minimizes the problem of losing the pen drive.
2. **Application and use** : Ideas should be examined for their real life use and application. If it already exists in the market, we will have to find out its present use, then we may think of modifying it for better use. In the above mentioned example, we can clearly see that even though there are many companies manufacturing

pen drives, the latest will be in consonance with the upcoming trends.

3. **Level of operation** : This is a crucial test for product/service identification. Depending on the use of the product/service the entrepreneur will produce it in a cottage industry or a small-scale industry or a large, scale industry.
4. **Cost** : What is the per unit cost of the product at particular level of operation? Whether this cost is comparable with that of other competitive products? These are some of the questions that have to be answered. This will ultimately decide the sale price.
5. **Competition** : Any product or service will face market competition at some stage. So market competition should be assessed through a study of the trends in demand and supply.
6. **Technical complexity** : What type of technology is required to produce the product? Whether training and application of such technology will be locally available or will it have to be supported from other places? What would be the position of supply of plant and machinery for such a technology? These are important issues that have to be resolved.
7. **Annual turnover and profit margin** : Ideas should also have to be examined on the basis of expected annual turnover. This will also indicate the market share of the product or service.

Once the entrepreneur has assessed the opportunities on these basis he/she should go ahead and assess the market also

6

34. **Some reasons for the failure of mergers and acquisitions are :**

- (a) **Unrealistic Price Paid for Target** : M & A involves valuation of the target company and paying a price for taking over the assets of the company. Many a times the shareholders of the target company stand benefitted while that of the acquirer company end up on the losing side. This is because the assets of the target company are overpriced which dilutes the future earnings of the acquirer.
- (b) **Difficulty in Cultural Integration** : The merger of two or more different entities reflect different corporate cultures, styles of leadership, differing employee expectation and functional differences. While the process of merger is being executed, these differences are known but often ignored. Such, ignorance may turn out to be a disaster.
- (c) **Overstated Synergies** : Over estimation of synergies may lead to failure of mergers.
- (d) **Integration difficulties** : It means the combined entity has to adopt to a new set of challenges given by the changed circumstances.
- (e) **Poor Business Fit** : Mergers and Acquisitions also fail when the products or services of the merging entities do not naturally fit into the acquirer's overall business plan. This delays efficient and effective integration and causes failure.
- (f) **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 may result in failure of merger.
- (g) **Regulatory Issues** : The entire process of merger requires legal approvals. If any of the stake-holders 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 risks of deterioration for the business.
- (h) **Human Resource Issues** : Merger or acquisition is identified with job losses, restructuring and the imposition of a new corporate culture and identity. This can create uncertainty, anxiety and resentment among the company's employees. **(Any six)**

6

