



“Investing in Africa’s future”

**COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE
(CBPLG)**

MMS401: ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT

END OF SEMESTER FINAL EXAMINATIONS

MAY 2020

LECTURER: MR T. MASESE

DURATION: 3 HRS

INSTRUCTIONS

Answer ONE QUESTION from this paper

DO NOT repeat material.

Write legibly.

Credit is given to application of theory and practice

Total marks/ weightage = 60%

Question One

Instructions: Read the case study attached below and answer all questions follow on page 14.

Entrepreneurship Case Study: Malincho. Com

Bulgarian Kalin Pentchev leaned into his cell phone conversation as he scribbled numbers on the top flap of a shipping box. Speaking quickly in his native tongue, the big man jabbed the air in front of him for emphasis.

“Look, I will tell you this. If you come down on your price, I will sign a contract to guarantee that my company will purchase one hundred thousand pounds of your cheese in the coming year.”

He drew circles and blocks around the numbers as he listened to the impassioned response from a feta cheese producer 3,500 miles away.

“You need to think about that?” Kalin said at last with a fair amount of exasperation. “Well, don’t think too long; it’s already April and this year 2003 isn’t getting any younger. You’re not the only producer in Bulgaria, my friend, and you must understand that I will be signing a favourable volume agreement with someone, and soon. Right. Okay, you get back to me.”

Kalin smiled as he clicked off. No matter that he had no idea how he could possibly sell that much cheese in a year, or that he was playing hardball with one of the only producers he felt he could trust back in his homeland. As was his nature, Kalin was moving forward like a tightrope walker performing daring feats without a net, protected only by a supreme faith in his own ability to overcome whatever challenge he encountered or set for himself.

As he resumed packing orders of East European food products to be shipped to his customers all over the United States, Kalin shook off concerns about the pile of neglected tasks back at his apartment: paperwork for a sizable UPS shipping credit, his U.S. tax return, and a few applications for debt-consolidation loans.

With his New Jersey-based import business, Malincho.com, growing exponentially during a slump in the economy, Kalin wasn’t going to let those pressing tasks slow him down. After all, to someone who had grown up under a communist regime, this business of capitalism in America seemed almost like child’s play.

Coming to America

In the spring of 1998, Kalin was awarded a small scholarship from Stockton College in New Jersey. Eager to get to the United States in advance of classes that would begin in September, Kalin joined a few friends who were headed for work with a summer camp in Maine. After discovering that his employer asked much and paid little, Kalin journeyed south:

I left the camp because I had some disagreements with the boss; they were paying way too low . . . He treated us like we were white slave labor from Eastern Europe. I mean, we might be poor, but we are not slaves . . . I went to Atlantic City where I had a friend in the university where I was

going to study accounting. We lived in a community of about 20 people from Bulgaria So we found work pushing chairs on the boardwalk.

Kalin graduated in 2001 with a degree in finance and accounting. Soon after, he appeared to have landed a job with a financial accounting firm. In a twist of fate, he instead found himself at a wedding in the Czech Republic, discussing the import/export business:

A financial accounting firm almost hired me. They showed me the office, everything. They asked if I wanted to take the summer off before starting work like Americans usually do when they finish school. But I said, I need some money here now. I stopped sending resumes, because I considered myself hired. I don't know what happened. I called them two weeks later to ask for advice on a place I could rent in their area, and they said, you know, we found somebody else. I said, why didn't you call me? I mean it was ridiculous. I was very upset. Right after this I went to the Czech Republic. I have two cousins there and one was getting married. A dear friend of mine from Bulgaria had come over for this wedding, and on the day we would talk We started talking about exporting damaged European-made cars from America back to Europe. So he said, when you go back to the United States find out how we can transport these cars

Back in the States, it didn't take Kalin long to learn that the high transport fees would make it nearly impossible to build a profitable damaged-auto export business. His research, however, led him to the idea of importing feta cheese and selling it to fellow Bulgarians on the East Coast—a growing, tight-knit community that he knew was hungry for a taste of home (see Exhibit 1.1). Having decided to forgo looking for a job in favor of building an enterprise from scratch, Kalin held onto a part-time job he had all through school as a breakfast waiter at a popular Greek restaurant along the boardwalk. In July 2001, Kalin took the ferry to New York to meet with a former school classmate whose father owned a high-profile Bulgarian winery:

They own one of the best wineries in Bulgaria and have been in the import-export business a long time. They sell wine all over the world and have offices in Switzerland and England. So this guy told me, "Look, I am exporting cheese now from Bulgaria to Switzerland. If you are thinking about the cheese we can go ahead and do it."

He tells me it works like this. Everything is on the phone. You just call the producer and you order the cheese. You say this has to come here, this has to go there. You pay this guy this, you pay this guy that. You stay home on the phone. The container comes to you, somebody unloads it, and then you have to sell it. That's it. Then he says, you know, you will have to buy a whole container of cheese; not just one pallet, and a shipping container is like a whole room full of cheese And so, I started thinking about the cheese.

Research and the Wine Guy

Kalin already knew that the style of cheese known as “feta” was invented in the Trakia peninsula in southern Bulgaria. The Bulgarians called their version “white cheese,” while the Greeks created a mystique by using the word “*feta*.” Although the Greeks were now trying to legally

prevent other countries from using the term *feta*, most cheese connoisseurs agreed that by any name, the Bulgarian product—especially that made from sheep’s milk—was the best in the world. Kalin learned that wholesalers sold the cheese either vacuum-packed in various retail sizes or as loose portions stacked between sheets of special paper inside sealed tin buckets of salty brine. During the summer of 2001, Kalin spent a good deal of his time searching through the vast resources of the U.S. Customs Department—both online and at their ground-floor offices in the World Trade Center complex in New York City. A young customs clerk, intrigued with Kalin’s enthusiastic quest for information, saved Kalin’s time and money by offering her help in sorting through the myriad of import regulations, restrictions, and fees associated with food imports. Kalin had always assumed that he would be importing an excellent grade of cow’s milk feta, since it was nearly as good as sheep’s feta—and less than half the price. The clerk, however, pointed out that the U.S. government levied significant tariffs on imported dairy cow products as a way of protecting domestic producers. The best-quality sheep feta was duty-free and would therefore be a cheaper import.

All the while, Kalin continued to brainstorm with his Bulgarian winery contact about developing a business where Kalin would receive, sell, and distribute containers of cheese that were funded and exported by this well-heeled and experienced professional. Since a minimum shipment of about 28,000 pounds of cheese would cost \$40,000, Kalin figured that this arrangement would work well until he was able to save some money and gain more experience.

After that, he imagined that he would make an offer to buy his partner out. He never got that chance. As the summer dragged on, Kalin began to suspect that this businessman was more style than substance:

I was doing my research about the cheese: how we can sell this cheese and so on and so forth.

But it took this guy with the wine very much time to finish everything. He said he had a producer, he had the connections, so all we had to do was to agree on what to order and send. But he kept saying he was busy with other things, so at some point I got fed up. I said,

“Look, we have to do something. Time is going.” The cheese business is seasonal since you can only milk the sheep from April to August. The rest of the year I don’t know. A short time later I was disappointed to find out that he was not actually exporting cheese to Switzerland like he had said. He was only helping a friend do it. He didn’t even know the price of the cheese.

EXHIBIT 1.1		Bulgarian Immigration and U.S. Population	
Immigration Period	Reason for Travel	Estimated Numbers	Characteristics
1920–WWII	Work as temporary field and construction workers	10,000	Most stayed and were assimilated into the U.S. culture.
Post-WWII–1989	Asylum seekers escaping the communist regime	Minimal	During the Cold War, many qualified asylum candidates in the United States were regarded as potential spies.
Post-Communism	Tourism, education, work-visa lottery winners	The U.S. Bulgarian community is estimated at 300,000, with 60,000 in Chicago, 30,000 in New York, and 3,000 in the Boston area.	Ease of travel and established ethnic communities have diminished the need for temporary visitors to assimilate fully into the U.S. culture.

Data and analysis: Silvia Zaharinova, Babson College MBA '03

The 2000 United States Census listed 55,489 U.S. citizens of Bulgarian heritage. The states with the large Bulgarian-American communities included:

California - 7,845
 Illinois - 6,000
 New York - 5,937
 Florida - 3,310
 Ohio - 2,937

2000 Census Bulgarian-American population, by state:

Alabama 217	Louisiana 261	Ohio 2,937
Alaska 106	Maine 221	Oklahoma 429
Arizona 1,052	Maryland 1,160	Oregon 904
Arkansas 114	Massachusetts 1,140	Pennsylvania 1,469
California 7,845	Michigan 2,522	Rhode Island 144
Colorado 1,495	Minnesota 963	South Carolina 363
Connecticut 722	Mississippi 97	South Dakota 33
DC 207	Missouri 804	Tennessee 317
Delaware 113	Montana 245	Texas 2,140
Florida 3,310	Nebraska 161	Utah 434
Georgia 967	Nevada 1,014	Vermont 52
Hawaii 100	New Hampshire 118	Virginia 1,168
Idaho 288	New Jersey 1,511	Washington 2,248
Illinois 6,000	New Mexico 228	West Virginia 203
Indiana 1,053	New York 5,937	Wisconsin 766
Iowa 563	North Carolina 609	Wyoming 134
Kansas 237	North Dakota 142	
Kentucky 226		

As Kalin began to press his would-be partner hard for substantive action, he got a warning call from his trusted friend who had been investigating the auto-export opportunity. Bulgarian newspapers were reporting that the father of Kalin's "wine guy" not only was millions of dollars in debt but also was about to be indicted on charges relating to a host of questionable business practices. Kalin acted fast:

So I called the wine guy and said, "Look, why didn't you tell me you are in deep trouble?"

He said, "I have nothing to do with the winery. We have sixteen other firms that do different kinds of things." He said they had a scheme where they can take the money out of the winery and put the cash in through other firms so they end up with the money in the end. He says they are fine, very fine. I mean no problem. So I said, "you are what your father is, and I don't buy any of this". And he said, "oh, you doubt me? I am a big business man, and you are nobody".

With no savings and precious little knowledge of the import business, Kalin tried one last time to force the man into action:

I gave him three options. First, you can pay for the whole container since you are a big business man, and I'm going to sell that cheese here and we are still in business together. Second option was a fifty-fifty split where I would raise half the money. Or third, I would cover his expenses up to that point.

I told him that all this money, this forty-thousand dollars, I have to raise from somewhere. I don't have it in my pocket. I just graduated school and I'm in debt already. He said, 'Look, I am going to give you a chance. You pay for the first container as a test. If you can sell this container, this means that you are a good businessman. Anyway, for a second container you're going to need the same amount of money because you have to overlap the containers. By January, if you sell everything I'm going to join in with the big money. Okay?'

Not okay. Kalin hung up on him and began calling everyone he knew.

The First Container

Kalin had been talking to people in his community about his import business for some time, so many of the calls he made were to friends who had expressed interest and encouragement. He explained that he needed to raise \$40,000 in cash, since, as many of his Bulgarian compatriots already understood, credit cards and bank drafts would not be accepted. Cash meant cash. Kalin described his pitch to raise money.

All my friends were students, working hard—some working two jobs. They have money in the bank, but it is for tuition. I told them, look guys, together me and my girlfriend have over forty-thousand dollars as a line available on our credit cards. What we are going to do if this thing screws up is take cash from those cards—never mind about the big interest that they will charge us—and at least we are going to pay your tuitions with those credit cards. I mean, I never lied to anybody that I have money on the side, or that my father is rich or something.

In one hour Kalin had exhausted his contacts and had raised six individual investments of \$5,000 each—all interest free. Still, he was \$10,000 shy of the cash he would need to order a shipment of cheese. Then he had an idea:

I called up a friend of my family in Bulgaria. Tania was a businessperson for real. She operated one of the best restaurants in the second biggest city, and she was like an aunt to me.

She said, 'Okay, I am going to put ten grand into this.' Now, I knew that I couldn't send all this money to the producer because I didn't know the producer. So I told Tania that all money goes through you, you pay him and make sure you see the things loaded on the container. She said fine. On the fifteenth of August, my friends gave me the money—five days later I sent thirty-thousand dollars to Tania in Bulgaria. So she paid the guy: one-third when we placed the order, one-third when they began packaging our order, and the last third when they loaded it into the container. After the producer has his money, he forgets about you right away.

Lose Your Job? Buy a New Car

On the last morning of August, Kalin reported for his wait staff job at the restaurant as usual, but discovered that he had been taken off the schedule. Earlier that summer, Kalin had mentioned his business idea to the owner of the establishment (a wealthy Greek gentleman who at the time was the largest landowner in Atlantic City) in the hope that the businessman might offer some helpful

advice. He didn't, and when he learned that Kalin had gone ahead with ordering the cheese, he had him terminated because he was afraid that Kalin would become distracted and unreliable. Kalin recalled that his initial anger at this latest curveball was almost immediately overtaken by a desire to hit a homerun:

I had been working there nearly four years; I brought them so many Bulgarian customers and workers! I got so upset I wrote the Greek guy a letter. I said that he should have at least warned me. So he called me and says that his aunt is running the place and she had a bad moment and decided to take me off the schedule. He said it was okay, that I could come back. I said forget about it.

Then I said to myself, "Look, probably this is good, because I will never stop working at the restaurant because it is cash on the side." I was going to be importing-exporting, so I had to forget about that job as a waiter.

My car had just broken down, and my girlfriend and I were fed up with buying old cars that get broken all the time—with dealers and mechanics always screwing you and never fixing it right. Also, when you run a business, you have to have a decent car. So on the fourth of September we ended up buying a brand new Maxima—the perfect car. My container is at sea, and I buy a brand-new car.

Having virtually no cash on hand, Kalin put the \$3,000 down payment for the Maxima on his credit card. With no further payments due for 45 days, Kalin was determined to make the most of this grace period. His first journey in the new car was to a large refrigerated warehouse 30 miles away in North Jersey, since he understood that they would need an established storage facility to accept delivery of his cheese after it cleared customs. Knowing also that these businesses typically would not work with start-ups or inexperienced clients, he wore a suit and tie. Dressing for success might have had some impact, but, he recalled, it was his new set of wheels that really made the difference:

My car helped me to get the storage, because the owner, Tony, was from a rural area and he judged people by their cars. So I come there with a brand-new car. I am young—his age—and I had a better car than he did. He had some truck, and his sister—who owned the storage place with him—was driving a Nissan Sentra. And I drive up in a Maxima with almost no miles on it. So I told him that I had started doing the cheese, and that it was a good business. He showed me the storage, and we started talking about the cheese. He was thinking we are big; he didn't know it was only me. Then he said look you're not dealing drugs, right? I said, come on now, I am not dealing drugs. He was thinking I am Russian. I said no, I speak Russian very good, but I am not Russian, and we are not dealing drugs. After that he said he wanted us to go there. I told him the container was already on its way.

Kalin contracted with a customs broker whose job it was to expedite the paperwork and procedures necessary for the cheese to clear customs. She explained to Kalin that since this was a first-time import, the container would likely be thoroughly checked before it was released.

As nervous as an expectant father, Kalin made it clear to her that he wanted to be notified the moment the container passed customs so that he could be at the storage facility when it arrived.

Then, on September 11, 2001, while Kalin's container of cheese was still somewhere out in the middle of the Atlantic Ocean, terrorists flew a pair of passenger planes into the World Trade Center buildings in New York City.

Welcome to the Business

In the confusion following the attacks, Kalin's broker had been able to get his container released without delay. The bad news was that she never called to give Kalin the good news. On September 25th, Kalin got a heart-stopping call from Tony, the owner of the storage business. The container had been delivered to his facility, but when he opened it (to check for drugs), he discovered a smelly mess of leaking buckets of cheese. Kalin jumped in his Maxima for the long, nerve-racking drive. What he found when he got there was not good:

The producer [in Bulgaria] had packed eighty square metal buckets—they weigh forty-four pounds apiece—one over another in eight rows. Now they are not using perfect metal because they want to keep the packaging cheap—and the salt kills the metal. You can imagine the bottom two rows; these big cans were cracked, and the white salty brine was all over the floor. It smelled, and Tony wanted to know what I was going to do about it. And I was thinking, oh my God, what am I going to do now?

Kalin rolled up his sleeves and went to work. Hours later he was relieved to find that less than 5% of the order had been damaged in transit. Once this tally—just under 1,000 pounds—was confirmed, Tony directed his workers to help Kalin toss the broken containers into the dumpster. Kalin took Tony aside:

I asked him to allow me to repack this cheese. There was a lot of money there, and also, I was brought up that you can't throw away food. I told him that when I was young, I used to starve, and my father used to starve. You always ate everything on your plate. As an American person, Tony was thinking that because the insurance will pay, why bother repacking, just throw it out because you will get the money anyway. I was thinking that since it was insured in Bulgaria, there is no guarantee that I am going to get this two-thousand dollars. So I told him I can't throw the food away; I cannot afford to do that.

Despite a state law prohibiting nonemployees from entering a transfer-warehouse facility, Kalin prevailed. He rushed home to recruit some friends to help him out, and to give the producer in Bulgaria a call:

I called up the producer and said, how did you load this? I pay you for cheese that is supposed to be in a package good for sale, not for repack. Also, out of six different kinds of cheese just one of them was matching the invoice number. Most of them were less, some of them were more. This is ridiculous. I said, come on! I paid you everything; you send me less, and then we have damage because you arranged the cans like this. All he said was,

“Welcomes to the business.” Can you imagine this? But he did give me the recipe for brine—water, salt and lemon extract. With two friends helping, it took us a week to repack those broken cans piece by piece.

On the Road

Now that he had his inventory organized and secure, Kalin began to sell the quality cheese locally at very low prices. A short while later, he received some important advice from a Bulgarian feta producer:

I was doing anything to sell, because I had to sell the cheese, but this guy from Bulgaria reminded me that the milking season was over for the year. He said that to be in this business, you have to sell the cheese slower, and at a higher price. If I sell at 5% margins, he said that you are going to end up getting no more merchandise from us. So I said okay. I make a brochure, I rent a truck, and I went down to a Bulgarian church in [Washington] D. C. where people were getting together. A lot of friends were helping me because they spread out the word to the community, and I was delivering the cheese to people's houses with the truck—no matter the gas.

Realizing that Bulgarian feta was prized throughout the Middle East and Eastern Europe, Kalin cruised the ethnic neighbourhoods around D.C. in search of restaurants, delis, and grocery stores. Since his mobile method of distribution and sales seemed to invite a type of street-side haggling common in open-air marketplaces around the world, Kalin found himself struggling to maintain his pricing structure. At one stop, a Lebanese storekeeper drove a particularly hard bargain for a sizable bulk order. After Kalin had unloaded and packed the order neatly in the shop's cooler, he found the man wasn't finished haggling:

He looks in his drawer, and he says, "You know, this price too much, I'm going to give you less, because you never called me, you never sent me samples, you never did anything. So come on, come on, I'm going to be buying only from you from now on." I got back in my truck after and I said I have to be out of my mind. I mean, if for the rest of my life I'm going to deal with people like this, I'm going to go mad.

Worse than the constant haggling was the realization that while these retailers were selling his product for at least double their cost, Kalin sensed that the truck rental alone would eat up most of the 20% margins he was struggling to uphold. For all his hard work, he suddenly feared that he might even end up with less money than what he had started out with.

Desperate and determined, he started calling large-volume cheese buyers along the East Coast—intent on pre-selling some orders before he set out again. Kalin explained that it was in late October of 2001 when he had a major breakthrough:

So, I call this one big company in Florida—I think they were importing from Greece—but the guy wanted to see the cheese. He asked me to him by UPS Courier one small round can. Oh my gosh, I thought. I immediately called a friend and told him that I sold all of my cheese. He said, really? You sold the cheese? I said no, but if I can send samples on the ground with UPS, then I knew that I am going to sell everything I have—through the mail and online.

Kalin moved quickly. After UPS and Federal Express both assured him that they had no restrictions against shipping cheese products, he established a Website named *Malincho*—a playful Bulgarian nickname for a little boy. Then he set about to find a source of economical shipping containers:

I didn't want to spend money on boxes, so I go to all my friends to see if they had recently bought a TV, a microwave, or had other boxes around. My first two orders I sent to a friend who works in a pizza place in Boston . . . I just put the can in the box—no cushion; nothing else. I figure this can is very tough so I'll just put the label on the box. I just dropped it at UPS, and it was perfect. My friend called and said the can got here—with no damage, thank you very much.

Three weeks after Kalin mailed out that first package, a UPS representative paid a visit to the world headquarters of Malincho.com—the small apartment Kalin shared with his girlfriend and two other friends. Kalin explained to the young salesman that every few days he would fill up the Maxima at the cold storage facility and then store and ship the product on the back porch because it stayed cold out there. The rep—who had been sent there to open a business account with Malincho before their competitor FedEx moved in—seemed surprised and a bit amused by the meager surroundings. Confident that he would be wiping that smile off the lad's face soon enough, Kalin served up strong coffee and laughed right along with him.

Credit Sales

By November, Kalin was driving customers to Malincho.com by word-of-mouth and with small advertisements in Bulgarian newspapers. He set up the site to accept major credit cards, but discovered that many of his fellow countrymen were reluctant to place orders online:

The holidays were coming, and people were visiting online. But many of these Bulgarians had won the "green card lottery" and they came here not knowing English or anything about America. In Bulgaria there is a lot of credit-card fraud, and people had heard that some of the criminals were using Websites to get credit-card numbers. And they think that my site smells like I'm going to get their credit card and start charging for this and that. And if that happens, they think, "How am I going to dispute the charges if I can't even speak English?" So then, they don't buy.

To overcome this obstacle, Kalin decided for a time to build his business on trust. Customers would receive a Malincho invoice with their delivered order, along with a note requesting prompt payment for the cheese plus shipping charges. Kalin carefully tracked his receivables and found that if it had not been for one woman in Ohio and a shopkeeper in New

Hampshire, his bad debt account would have been zero. Many of his friends were shocked to learn that he was shipping orders, some of which totalled hundreds of dollars, on faith. Kalin was not as surprised, though, since Malincho.com was fast becoming an online community of people who literally spoke the same language; and back home, stiffing a vendor was a serious offense:

My buyers were thinking: here is this Bulgarian guy importing cheese. He should be big, or if he's not big, he has somebody powerful behind him. And if I don't pay him, he can get to my relatives in Bulgaria and beat them up for the money. So I figure, why pay over 2% to Visa or MasterCard when with this cash payment method customers appeared to be coming, and paying? And besides, it was helping me build the business.

Expansion

The early part of 2002 was a very busy time for Kalin, who was doing deals all over the board. In January he purchased several pallets of Lutenica, a Bulgarian condiment, from a woman in D.C. who had given up trying to sell off a container that she had imported a couple of years earlier. Kalin added the spread product to Malincho.com at a high markup, and when it sold very well, he rolled his cash on hand into a container of 20 pallets of other assorted dry-storage items like marmalade, roasted red peppers, and thin wafers. With the help of a \$5,000 sale from Florida and a similar sale to an import group in Chicago, by April, Kalin had nearly sold out his inventory of cheese. As the weather warmed up, the Maxima—splattered throughout with cheese and brine—began to reek. Not wanting to degrade the car any further, and needing a larger transport vehicle anyway, Kalin took out his credit card once again to purchase a Chevy van.

The changing season also meant that the back porch of his apartment would no longer work as a refrigerated shipping area, but Kalin had not been able to convince Tony to rent Malincho refrigerated repacking space. After Kalin had placed an order for a third container—all cheese, like the first—he approached an established importer who was leasing a cold-room from Tony:

This one French guy was renting one of the rooms but it was too big for him. So I suggested to the French guy that we split the room—and I would pay Tony extra money. I told him I didn't need much space; just enough so I can pack and ship. But Tony got very offended because to him it looked like I was trying to work out a side deal with the French guy. I said no, no, I am willing to pay you extra to do this so I can get my business going. He refused, and then he said, it's time for you to find another storage place.

Out on the street with another 28,000 pounds of cheese chugging toward New York, Kalin went to see a Russian sausage maker in his neighbourhood that he had heard had more refrigeration and dry-space than he was using. They came to an arrangement that Kalin explained was far from ideal:

The Russian guy said, okay, you can use my place here for six-hundred a month—cash under the table—off the books. But that's it—no key, because, he said, look, I make sausages here; you can come here only when I am here. That's it, end of story. He doesn't know me, and I don't know him, and now I am going to put my product inside his place. I was thinking that once I get all my cheese in there, he could lock the door and say get off my property—I don't want to see you. Sometimes, though, you have no choice—you just have to make decisions on trust.

Even with the shipping department moved off the back porch, the steadily increasing sales had begun to strain life in the small apartment. Kalin and his girlfriend soon moved to an apartment of their own—complete with enough space to run the business side of Malincho.

In advance of the summer months, Kalin set out to devise an insulated shipping container. After much research and running around, Kalin purchased a bulk order of boxes and pre-cut styro foam inserts. Realizing that the sausage maker would never agree to accept numerous pallets of packaging materials, Kalin convinced the box seller to inventory the supplies. Kalin was

pleasantly surprised to discover that once he switched from used appliance boxes to insulated containers with ice packs, sales spiked by more than enough to cover the added shipping costs. By the fall of 2002, Kalin had negotiated volume-customer pricing with UPS and with his corrugated box supplier. He had also convinced his Bulgarian suppliers to properly shrink-wrap all of his orders onto pallets that conformed to U.S. standards for size and construction. Most importantly, those suppliers had agreed to help Kalin control his inventory flow by shipping mixed orders containing a variety of different products.

A reporter from *USA Today* called in the middle of the busy Christmas season. Kalin was at the sausage plant, and Vladimir—Malincho's self-taught (and volunteer) Webmaster who had studied accounting with Kalin back in Bulgaria—answered the phone in his native tongue. The reporter didn't call back, but he did visit Malincho.com (see Exhibit 1.2). Kalin recalled the thrill of having his young enterprise mentioned in the national press:

People called me from Bulgaria because one newspaper in Bulgaria literally translates everything from USA Today. I couldn't image that we had been in business for just one year and a half and here we are being written up in that newspaper, Newsweek magazine did an article and quoted me, and then there was another article in a Bulgarian newspaper called Capital—that reporter didn't even call. He found us online. It was amazing.

Funding Challenges

Bolstered by press coverage and the strategic use of search-engine tags, Malincho continued to add customers to its core base of about 2,000 loyal regulars. Since many of those customers still were not willing or able to shop online, Kalin produced a simple inventory printout that was sent with each order.

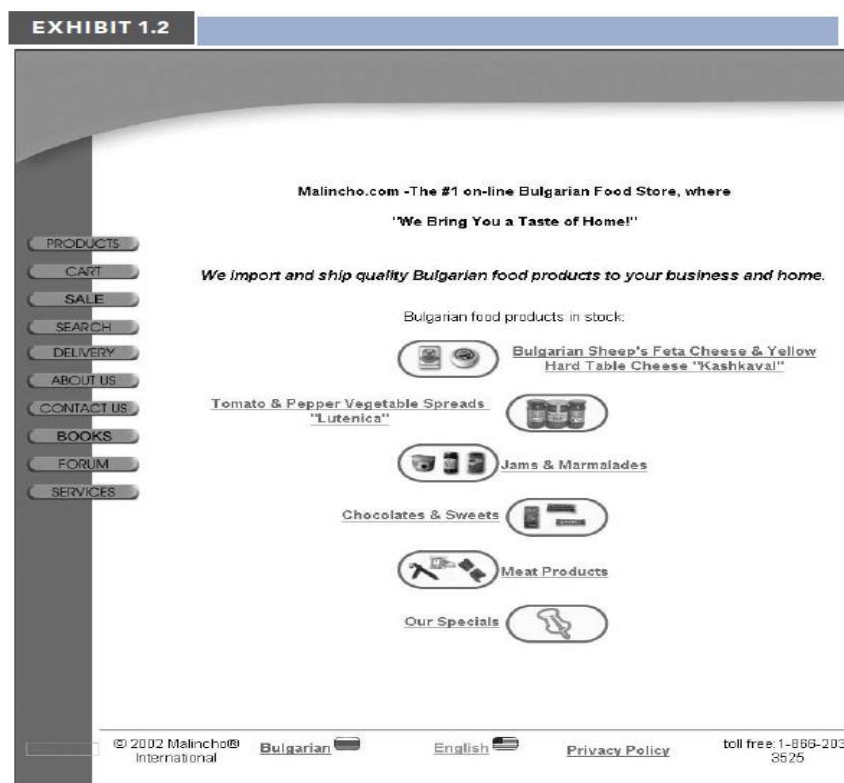
By February of 2003, Kalin had his own key to the factory, and online sales of his landlord's sausages—listed under “Meat Products” on Malincho.com—were more than covering the rent for the shared space. Sales were averaging \$16,000 a month, inventory on hand was just under \$60,000, and the fifth and sixth containers were on their way. Kalin was packing and shipping more than 100 orders per week to customers who were now required to prepay by check or credit card. All of this activity had ballooned his need for short-term capital, and although Kalin had paid back half of the people who had extended him funding for the first container, he had found it necessary to borrow more cash in order to keep his inventory current. Kalin summarized his financial situation:

Right now I owe about forty-thousand to credit cards, and sixty-thousand to people. I also have a ten grand personal loan from Fleet Bank. A while back I went to them and said that I wanted to consolidate the debt on my credit cards. When they gave me money, I put it into the business. Now I want to consolidate for real this time, but the banks say I need three years' tax returns—I haven't been here that long. I figure I need about one-hundred grand to consolidate my debts, and

another fifty-thousand dollars so that I can get my own place for storage and packing. Then I could hire people to work for me so we could grow faster.

Kalin was in that enviable yet difficult point on the new venture curve where his growing business was too small to financially support even one full-time employee, but was large enough to require his every waking hour. He described a typical day:

In the morning I'm taking orders, making labels, calling people, and playing big businessman. In the afternoon I am just a worker who has to check the orders and pack all the packages. It's not easy, but it's worth it. Physical labour is healthy labour. I am not ashamed of doing anything because it's what you have to do to grow.



Not Going to Go Down

Kalin sealed up and labelled the last box for that day. Grabbing a chocolate-coated Mura wafer bar from inventory, he hopped up onto a pallet of Lutenica for a short break before heading home. Long days. Precarious finances. It was time to make some decisions as to how best to move forward. Although Malincho.com had become his main source of sales, Kalin was weighing other options as well. Retail margins, for example, were so much higher than wholesale that he was considering opening a storefront location. Wholesaling, on the other hand, was a no-frills business model that worked well with Kalin's need to meet with a variety of key wholesalers, retailers, and suppliers. Although Kalin knew that getting better control over his finances was critical to the

survival of his growing venture, he had discovered that it takes more than money to grow a business:

I know that a small business can go down for three reasons. First, if you give up, that's it. You have to refuse to give up. The second big reason is the money. If you don't have the cash flow to pay your bills, you die. But the most important thing is you. Because if you believe in something, and you can find other people who believe in the same thing, you're going to be able to do it, no matter what.....

Source: Bygrave, W and Zacharakis, A, (2008) Entrepreneurship, 2nd Edition, John Wiley & Sons, Inc. p.36-48

Answer the Following Questions

- a. Apply the Timmons entrepreneurship framework (entrepreneur-opportunity-resources) to analyse this case. Pay particular attention to Kalin's traits and how he gathered resources for his venture. How did Kalin identify the opportunity **(15 marks)**
- b. Suppose you are a consultant and Kalin approaches you to help with the feasibility analysis of his business idea and preparation of the business plan. Using as much information as you can from the case study prepare the following documents for Malincho.com
 - i. Business Model Canvas **(10 marks)**
 - ii. First Screen Analysis **(10 marks)**
 - iii. Summary Business Plan **(15 marks)**
- c. Imagine you are a potential investor and Kalin has just given you his rocket pitch. What are your concerns? Would you help him out? **(10 marks)**

Question Two

- a. Joseph, a product development specialist at Zishiri Enterprises, plans to write an e-mail message to his dad asking for a loan. The purpose of the loan will be to start a company to sell an environmentally friendly line of cleaning supplies that are suitable for light manufacturing facilities. Justin has spent the past two years developing the products in his spare time, and wants to convince his dad that the idea represents an attractive business opportunity. What is an opportunity and what makes it attractive? In your opinion, what information and insights about the company he wants to start should Joseph include in the e-mail message? **(20 marks)**
- b. Suppose you have been asked by your local chamber of commerce, ZNCC, to teach a two-hour workshop on how to write an effective business plan. The workshop will be attended by people who are thinking about starting their own business but don't currently have a business plan. Write a one-page outline detailing what you'd cover in the two-hour session. **(20 marks)**
- c. Imagine you just received an e-mail message from a friend. The message reads, "Just wanted to tell you that I just finished writing my business plan. I'm very proud of it. It's very comprehensive and is just over 100 pages. The executive summary alone is 9 pages. I plan to start sending it out to potential investors next week. Do you have any words of advice for me before I start get funding?" How would you respond to your friend's request for feedback in not more than 6000 words? **(20 marks)**

Question Three

Assume that you have adequate resources and working experience needed to start up a business. You are required to research and evaluate an entrepreneurial opportunity and address the dominant issues in order to ensure successful implementation of the entrepreneurial venture in the industry of your choice. Write a short report (preferably in the form of a business plan) to demonstrate your understanding of the criteria to select and evaluate a business and manage the venture with sustainable growth. **(60 marks)**

Hints: Do not repeat any business plans you have done in any assignments. Your submission should take the form of a business report and include an executive summary, a table of contents, bibliography and appendices. You should attach any relevant appendices to the assignment.

END OF PAPER