ANSWER KEY

SRTRATEGIC MANAGEMENT (IAT-II) MBA-II SEMESTER (2017-2019 BATCH)

Part A - Answer Any Two Full Questions (16*02=32 Marks)

1(a) What are outsourcing strategies? Give an example.

ANSWER: Outsourcing is the process in which the organization gives the recurring activities and the internal decision of the firm to a provider from the outside on the basis of a contract established earlier in order to focus on the core activities of the firm. Many firms outsource their non- core activities to focus on their main operations and generate revenue for the firm. outsourcing includes foreign as well as domestic contracting and sometimes include off shoring.

LEVELS OF OUTSOURCING:

- **Individual level** – it is the level in which the specific positions are moved out of the organization
- **Functional level**- it is gaining specialized knowledge and responsibilities for the outsourced activities.
- **Process level** – it is the method in which the product and service move out of the operations of the organization's functioning.

1(b) Illustrate the major key success factors of an organisation.

ANSWER: **KEY SUCCESS FACTORS**

1. Engagement

Strategic Planning is a process not an event. A key element in the process is the engagement of all levels of staff throughout the organization. Staff engagement generates additional input and helps build their commitment to the end plan. It is essential to involve employees in the planning of strategy and direction for the organization. Employee's input will:

- Provide insight into issues, challenges, concerns, and opportunities which may not have been known or fully understood.
- Ensure their "buy-in" to help execute the strategies.

The senior management team will not execute the strategies – staff will. Engage them and your strategy execution success rate will increase dramatically.

2. Communication

Strategic Planning processes are successful when a bottom up and top down communication approach is taken. It starts off with a communication to all levels of employees informing them that a Strategic Planning process will be undertaken. It includes how they will be involved in this process. This is the bottom up communication. Employees will provide input to the strategic planning process through feedback surveys, focus groups, meetings, etc. regarding their ideas for organizational direction, etc.

It is followed by the top down communication. Senior management will share the strategic plan with employees. They will communicate to all employees how their engagement will help ensure success in the execution of these strategies.

3. Innovation

Some strategic plans include strategies to develop a new product or deliver a new service or re-structure a department, etc. They put teams of individuals together to work on these major initiatives and give them investment money to ensure success. Yet over time it becomes apparent that this team won't realize the strategic goal given to them and the strategy itself will be deemed a failure. This is wrong!!

This is not a failure of execution. It is the lack of an Innovation Process to manage the strategy that led to the failure. The senior management created strategies that required innovation to achieve them. This is unfortunately, very common.

Many organizations tell their employees to be more innovative. They create strategies for new products and services. But they fail to develop a strategy for Innovation which includes reshaping the organizational culture to be innovative, implementing a process for managing innovations, etc. Research in Motion is a classic case. They'll tell you that they're very innovative. They market it and promote it. But look at their Strategic Plan. They lack a clear strategy for innovation – but they do have strategies for new product development. Yet since the development of the Blackberry, they haven't released a single innovative product. They will of course disagree. The Playbook is an Ipad with less functionality. It's not an innovation.

However, there are many examples of organizations that have a strategy for innovation and this helps drive their new product and service delivery strategies. These include Apple, Google, Zodiac and BMW.

4. Project Management

Once the strategic plan is together, there are two critical elements related to project management. One is to identify the projects that are required to ensure success in the execution of each strategy. Another is to develop a prioritization of all these projects to ensure the high priority ones have the proper resourcing to ensure success. This requires a high involvement and commitment on the part of employees to spend the time required on the projects.

The high level of involvement of employees ensures that they understand the strategic plan. It increases their level of commitment to ensure the strategy is successfully executed because they understand how their work and the work they're completing on the project helps the organization to realize some or all of one of their key strategies.

5. Culture

Organizational Culture is the commonly held attitudes, values, beliefs and behaviours of its employees. The culture of an organization is as unique and diverse as an individual's personality. If the employees of an organization believe that change is something to be feared and avoided, then change implementation is often reactive and haphazard. If the employees believe that all change should be aggressively implemented "from above", then change is seldom supported. However, if the employees of an organization believe that change is worthwhile and everyone's responsibility; then change and growth occur with relative ease. These are the few "excellent" organizations that continue to excel in their industry.

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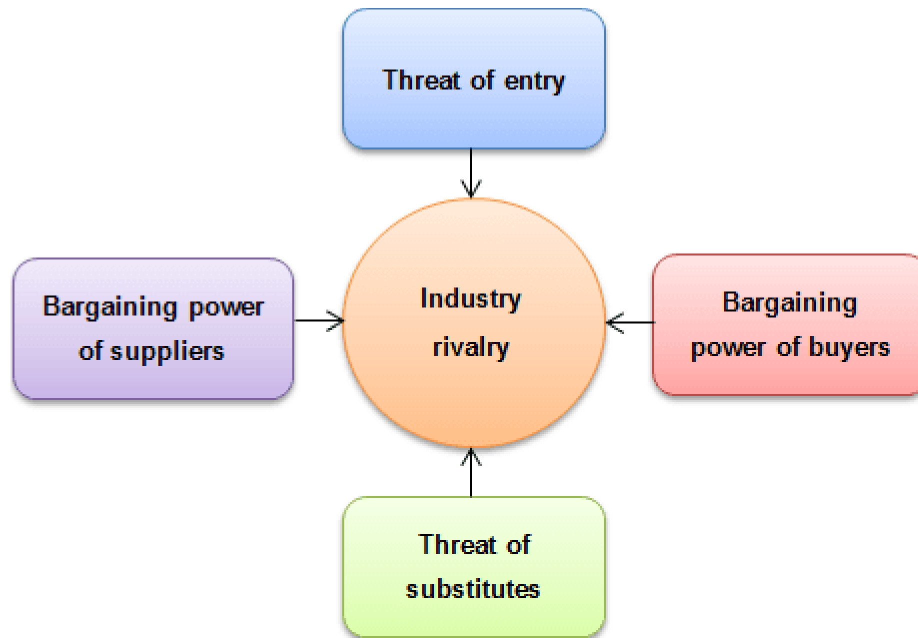
1© Analyse and explain the "Porter's five forces model" with using an example of any organisation.

ANSWER: Porter's five forces model is an analysis tool that uses five industry forces to determine the intensity of competition in an industry and its profitability level.

These forces determine an industry structure and the level of competition in that industry. The stronger competitive forces in the industry are the less profitable it is. An industry with low barriers to enter, having few buyers and suppliers but many substitute products and competitors will be seen as very competitive and thus, not so attractive due to its low profitability.



1. **Threat of new entrants.** This force determines how easy (or not) it is to enter a particular industry. If an industry is profitable and there are few barriers to enter, rivalry soon intensifies. When more organizations compete for the same market share, profits start to fall. It is essential for existing organizations to create high barriers to enter to deter new entrants. Threat of new entrants is high when:

- Low amount of capital is required to enter a market;
- Existing companies can do little to retaliate;
- Existing firms do not possess patents, trademarks or do not have established brand reputation;
- There is no government regulation;
- Customer switching costs are low (it doesn't cost a lot of money for a firm to switch to other industries);
- There is low customer loyalty;
- Products are nearly identical;
- Economies of scale can be easily achieved.

2. **Bargaining power of suppliers.** Strong bargaining power allows suppliers to sell higher priced or low quality raw materials to their buyers. This directly affects the buying firms' profits because it has to pay more for materials. Suppliers have strong bargaining power when:

- There are few suppliers but many buyers;
- Suppliers are large and threaten to forward integrate;
- Few substitute raw materials exist;
- Suppliers hold scarce resources;
- Cost of switching raw materials is especially high.

3. **Bargaining power of buyers.** Buyers have the power to demand lower price or higher product quality from industry producers when their bargaining power is strong. Lower price means lower revenues for the producer, while higher quality products usually raise production costs. Both scenarios result in lower profits for producers. Buyers exert strong bargaining power when:

- Buying in large quantities or control many access points to the final customer;
- Only few buyers exist;
- Switching costs to other supplier are low;
- They threaten to backward integrate;
- There are many substitutes;
- Buyers are price sensitive.

4. **Threat of substitutes.** This force is especially threatening when buyers can easily find substitute products with attractive prices or better quality and when buyers can switch from one product or service to another with little cost. For example, to switch from coffee to tea doesn't cost anything, unlike switching from car to bicycle.

5. **Rivalry among existing competitors.** This force is the major determinant on how competitive and profitable an industry is. In competitive industry, firms have to compete aggressively for a market share, which results in low profits. Rivalry among competitors is intense when:

- There are many competitors;
- Exit barriers are high;
- Industry of growth is slow or negative;
- Products are not differentiated and can be easily substituted;
- Competitors are of equal size;
- Low customer loyalty.

2(a) Define Benchmarking.

ANSWER: **Benchmarking** is a strategy tool used to compare the performance of the business processes and products with the best performances of other companies inside and outside the industry. Benchmarking is the search for industry best practices that lead to superior performance.

Benchmarking is simply "Finding and implementing the best business practices". Managers use the tool to identify the best practices in other companies and apply those practices to their own processes in order to improve the company's performance. Improving company's performance is, without a doubt, the most important goal of benchmarking.

2(b) Discuss in detail Generic Competitive Strategy.

ANSWER: Porter called the generic strategies "Cost Leadership" (no frills), "Differentiation" (creating uniquely desirable products and services) and "Focus" (offering a specialized service in a niche market). He then subdivided the Focus strategy into two parts: "Cost Focus" and "Differentiation Focus."

Competitive Advantage

Competitive Scope	Lower Cost	Differentiation
Broad Target	1. Cost Leadership	2. Differentiation
Narrow Target	3a. Cost Focus	3b. Differentiation Focus

1. **The Cost Leadership Strategy**

Porter's generic strategies are ways of gaining competitive advantage – in other words, developing the "edge" that gets you the sale and takes it away from your competitors. There are two main ways of achieving this within a Cost Leadership strategy:

- Increasing profits by reducing costs, while charging industry-average prices.
- Increasing market share through charging lower prices, while still making a reasonable profit on each sale because you've reduced costs.

The Cost Leadership strategy is exactly that – it involves being the leader in terms of cost in your industry or market. Simply being amongst the lowest-cost producers is not good enough, as you leave yourself wide open to attack by other low-cost producers who may undercut your prices and therefore block your attempts to increase market share.

2. The Differentiation Strategy

Differentiation involves making your products or services different from and more attractive than those of your competitors. How you do this depends on the exact nature of your industry and of the products and services themselves, but will typically involve features, functionality, durability, support, and also brand image that your customers value.

- To make a success of a Differentiation strategy, organizations need:
- Good research, development and innovation.
- The ability to deliver high-quality products or services.
- Effective sales and marketing, so that the market understands the benefits offered by the differentiated offerings.

Large organizations pursuing a differentiation strategy need to stay agile with their new product development processes. Otherwise, they risk attack on several fronts by competitors pursuing Focus Differentiation strategies in different market segments.

3. The Focus Strategy

Companies that use Focus strategies concentrate on particular niche markets and, by understanding the dynamics of that market and the unique needs of customers within it, develop uniquely low-cost or well-specified products for the market. Because they serve customers in their market uniquely well, they tend to build strong brand loyalty amongst their customers. This makes their particular market segment less attractive to competitors.

As with broad market strategies, it is still essential to decide whether you will pursue Cost Leadership or Differentiation once you have selected a Focus strategy as your main approach: Focus is not normally enough on its own.

But whether you use Cost Focus or Differentiation Focus, the key to making a success of a generic Focus strategy is to ensure that you are adding something extra as a result of serving only that market niche. It's simply not enough to focus on only one market segment because your organization is too small to serve a broader market (if you do, you risk competing against better-resourced broad market companies' offerings).

The "something extra" that you add can contribute to reducing costs (perhaps through your knowledge of specialist suppliers) or to increasing differentiation (though your deep understanding of customers' needs).

TYPES OF GENERIC COMPETITIVE STRATEGIES:

1. **A low-cost provider strategy** – striving to achieve lower overall costs than rivals and appealing to a broad spectrum of customers, usually by under pricing rivals.

2. A broad differentiation strategy – seeking to differentiate the company's product offering from rivals' in ways that will appeal to a broad spectrum of buyers.

3. A best-cost provider strategy – giving customers more value for their money by incorporating good-to-excellent product attributes at a lower cost than rivals; the target is to have the lowest (best) costs and prices compared to rivals offering products with comparable attributes.

4. A focused (or market niche) strategy based on low costs – concentrating on a narrow buyer segment and out competing rivals by having lower costs than rivals and thus being able to serve niche members at a lower price.

5. A focused (or market niche) strategy based on differentiation – concentrating on a narrow buyer segment and out competing rivals by offering niche members customized attributes that meet their tastes and requirements better than rivals' products.

2© Distinguish between Merger and Acquisition with one example of each.

ANSWER: Merger is considered to be a process when two or more companies come together to expand their business operations. In such cases, the deal is finalized on friendly terms, both the companies are treated as equal and share the profits equally in the newly created entity. The companies join forces in order to increase the strength of their assets, have a higher market value and consumer base, and ultimately make higher profits. The corporations are jointly owned and are registered as a new legal and different entity.

An 'acquisition' occurs when one company or corporation takes control of another company and rules all its business operations. In this process of restructuring, one company overpowers the other company and the decision is mainly taken during downturns in the economy or during declining profit margins. Among the two, the one that is financially stronger and bigger in all ways 'establishes its power'. The combined operations then run under the name of the powerful entity who also takes over the existing stocks of the other company.

	Merger	**Acquisition**
Definition	Merger is considered to be a process when two or more companies come together to expand their business operations.	An acquisition occurs when one company or corporation takes control of another company and rules all its business operations.
Terms	They are considered as amicable.	They are considered as hostile.
Stocks	New stocks are issued.	No new stocks are issued.
Companies	The companies of same size join hands together.	The larger companies acquire smaller companies.
Power	Both the companies are treated as equal.	The company that is stronger gets the power.
Challenges	The two companies of same size combine to increase their strength and financial gains along with breaking the trade barriers.	The two companies of different sizes come together to combat the challenges of downturn.
Agreement	A buyout agreement is known as a merger when both owners mutually decide to combine their business in the best interest of their firms.	A buyout agreement is known as an acquisition when the agreement is hostile, or when the target firm is unwilling to be bought.

Examples	Disney and Pixar merged together to collaborate easily and freely.	Google acquired Android for $50 million in August 2005.

3(A) Cite any two examples of collaborative partnerships.

ANSWER: Examples:-

- Vodafone & Telefónica agreed to share their mobile network
- BMW and Toyota co-operate on research into hydrogen fuel cells, vehicle electrification and ultra- lightweight materials
- West Coast – joint venture between Virgin Rail & Stagecoach
- Google and NASA developing Google Earth
- Hollywood studios combining to fight internet piracy
- Alliances in airline industry e.g. Star Alliance and One World
- Renault-Nissan

3(b) Write a detailed note on International Business Strategies.

ANSWER: A firm that has operations in more than one country is known as a **multinational corporation (MNC).** The largest MNCs are major players within the international arena. Walmart's annual worldwide sales, for example, are larger than the dollar value of the entire economies of Austria, Norway, and Saudi Arabia. Multinationals such as Kia and Walmart have chosen an international strategy to guide their efforts across various countries.

TYPES OF INTERNATIONAL BUSINESS LEVEL STRATEGIES:

1. **Multidomestic Strategy**

A firm using a **multidomestic strategy** sacrifices efficiency in favor of emphasizing responsiveness to local requirements within each of its markets. Rather than trying to force all of its American-made shows on viewers around the globe, MTV customizes the programming that is shown on its channels within dozens of countries, including New Zealand, Portugal, Pakistan, and India. Similarly, food company H. J. Heinz adapts its products to match local preferences. Because some Indians will not eat garlic and onion, for example, Heinz offers them a version of its signature ketchup that does not include these two ingredients.

2. Global Strategy

A firm using a **global strategy** sacrifices responsiveness to local requirements within each of its markets in favor of emphasizing efficiency. This strategy is the complete opposite of a multidomestic strategy. Some minor modifications to products and services may be made in various markets, but a global strategy stresses the need to gain economies of scale by offering essentially the same products or services in each market. Microsoft, for example, offers the same software programs around the world but adjusts the programs to match local languages. Similarly, consumer goods maker Procter & Gamble attempts to gain efficiency by creating global brands whenever possible. Global strategies also can be very effective for firms whose product or service is largely hidden from the customer's view, such as silicon chip maker Intel. For such firms, variance in local preferences is not very important.

3. Transnational Strategy

A firm using a **transnational strategy** seeks a middle ground between a multidomestic strategy and a global strategy. Such a firm tries to balance the desire for efficiency with the need to adjust to local preferences within various countries. For example, large fast-food chains such as McDonald's and KFC rely on the same brand names and the same core menu items around the world. These firms make some concessions to local tastes too. In France, for example, wine can be purchased at McDonald's. This approach makes sense for McDonald's because wine is a central element of French diets.

3© Summarize the concepts of Value Chain Analysis and SWOT Analysis with a suitable example of both.

ANSWER: **SWOT analysis** involves the collection and portrayal of information about internal and external factors which have, or may have, an impact on business. **SWOT** is a framework that allows managers to synthesize insights obtained from an internal analysis of the company's strengths and weaknesses with those from an analysis of external opportunities and threats.

Strengths: factors that give an edge for the company over its competitors. **Weaknesses:** factors that can be harmful if used against the firm by its competitors. **Opportunities:** favorable situations which can bring a competitive advantage. **Threats:** unfavorable situations which can negatively affect the business.

SWOT analysis of Company "A"	
Strengths	**Weaknesses**
▪ Have an excellent staff for handling sales with strong knowledge of current products ▪ Strong customer relationships ▪ Strong internal communications system ▪ A strong geographical location with high traffic input ▪ Well-designed and successful marketing strategies ▪ Business reputation of being innovative	▪ Too many missed deadlines and a lot of work on pending ▪ High cost of rental for the office ▪ Infrequent cash flow system ▪ Too much stock in inventory and higher inventory costs ▪ An inefficient record maintenance system in place ▪ Outdated market research data
Opportunities	**Threats**
▪ Products similar to yours in the market are expensive or of poor quality ▪ Customers in the market are loyal ▪ Seasonal high demand of the product ▪ High demand for product or similar merchandise	▪ A lot of competitors in the market with similar products ▪ A new advertising campaign launched by competitors ▪ A competitor opening new shop in a nearby location ▪ A downturn in economy and less spending budget of people

VALUE CHAIN ANALYSIS:

Value chain analysis (VCA) is a process where a firm identifies its primary and support activities that add value to its final product and then analyze these activities to reduce costs or increase differentiation. **Value chain** represents the internal activities a firm engages in when transforming inputs into outputs. Value Chain Analysis describes the activities that take place in a business and relates them to an analysis of the competitive strength of the business. Work by Michael Porter suggested that the activities of a business could be grouped under two headings:

(1) **Primary Activities** - those that are directly concerned with creating and delivering a product (e.g. component assembly)

(2) **Support Activities**, which whilst they are not directly involved in production, may increase effectiveness or efficiency (e.g. human resource management). It is rare for a business to undertake all primary and support activities.

STEPS IN VALUE CHAIN ANALYSIS:

Value chain analysis can be broken down into a three sequential steps:

(1) Break down a market/organisation into its key activities under each of the major headings in the model;

(2) Assess the potential for adding value via cost advantage or differentiation, or identify current activities where a business appears to be at a competitive disadvantage;

(3) Determine strategies built around focusing on activities where competitive advantage can be sustained.

EXAMPLE: "MUMBAI DABBAWALAS"

Meal delivery system in Mumbai, India, would be among the world's most successful performance chains. And yet, a system based on barefoot men, public trains and simple, reusable containers in a city of some 12.5 million people is widely regarded as one of the top performance chains in the world.

In fact, the 125-year-old industry using dabbawalas was recognized at the six sigma level by Forbes in 2002. More than 175,000 lunches are moved and delivered each day by an estimated 4,500 to 5,000 dabbawalas across Mumbai. What's more impressive is that according to a recent survey, dabbawalas make less than one mistake in every 6 million deliveries. Now that's efficiency.

So, what are these dabbawalas doing so right?

- No over-reliance on technology. Sure, the dabbawalas are now using Web technology and SMS for orders, but for the most part this is a fairly low-tech operation. It relies on trains and barefoot men. No computer chips. No social networks. Just guys busting their humps and a reliable train service. The lesson for organizations? Don't expect technology to solve your issues — usually the issue has more to do with process, execution and expectations than it does bits and bytes.

- Create an integrated performance chain. In other words, the dabbawala system keeps its eye on the sum — not the individual parts. When you boil it down to simple terms, a performance chain is really just a system of moving pieces. Focus too much on those individual pieces and you get hung up in the details and, as a result, are less efficient. Concentrate on the entire system and flow of products and information and you have a much better chance of success.

- Acute visibility. The beauty of the dabbawala-based system is that all of the dabbawalas understand exactly what is happening and when — to the minute. If certain deadlines and hand-offs are missed, people don't eat. It's as simple as that. Make sure everyone within your chain understands what he or she needs to do, where they need to be and what needs to happen for the chain to be successful.

- Keep it simple. Real simple. One of the key lessons any organization can learn from the dabbawalas is the simplicity with which this system works. The dabbawalas are intimately aware of what their customers value (food delivered on time, every day). And, just as importantly, they don't try to do anything other than that. They don't overcomplicate things. They don't add extraneous value. They simply understand what their customers want, and they focus 100 percent of their time and energy on meeting that need.

Part B - Compulsory (01*08=08 marks)

4(a) Examine the partnership and understand the reasons for the breakup, and discuss ways in which the situation could have been salvaged.

ANSWER: OPEN ENDED ANSWER

4 (b) Discuss the challenges that lie ahead for the companies and possible remedial actions.

ANSWER: OPEN ENDED ANSWER