INTER CA – NOVEMBER 2018

Sub: STRATEGIC MANAGEMENT

Topics – Corporate Level strategies, Business level strategies, Functional level strategies, Organisation strategic leadership, Strategic implementation and control.

Test Code – N50

Branch: Multiple Date:

(50 Marks)

Note : All Questions are compulsory

Question:1 (6 marks)

ANS: Acquisition or merger with an existing concern is an instant means of achieving the expansion. It is an attractive and tempting proposition in the sense that it circumvents the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialise growth. Organizations consider merger and acquisition proposals in a systematic manner, so that the marriage will be mutually beneficial, a happy and lasting affair.

Apart from the urge to grow, acquisitions and mergers are resorted to for purposes of achieving a measure of synergy between the parent and the acquired enterprises. Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on. Only positive synergistic effects are relevant in this connection which denotes that the positive effects of the merged resources are greater than the some of the effects of the individual resources before merger or acquisition.

Merger and acquisition in simple words are defined as a process of combining two or more organizations together. There is a thin line of difference between the two terms but the impact of combination is completely different in both the cases. Some organizations prefer to grow through mergers. Merger is considered to be a process when two or more companies come together to expand their business operations. In such a case the deal gets finalized on friendly terms and both the organizations share

profits in the newly created entity. In a merger two organizations combine to increase their strength and financial gains along with breaking the trade barriers.

When one organization takes over the other organization and controls all its business operations, it is known as acquisitions. In this process of acquisition, one financially strong organization overpowers the weaker one. Acquisitions often happen during recession in economy or during declining profit margins. In this process, one that is financially stronger and bigger establishes it power. The combined operations then run under the name of the powerful entity. A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association where the powerful organization either consumes the operation or a company in a weaker position is forced to sell its entity

Question:2 (6 marks)

A differentiation strategy may help to remain profitable even with: rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

1. Rivalry - Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.
2. Buyers - They do not negotiate for price as they get special features and also they have fewer options in the market.
3. Suppliers - Because differentiators charge a premium price, they can afford to absorb higher costs of supplies and customers are willing to pay extra too.
4. Entrants - Innovative features are an expensive offer. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.
5. Substitutes - Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

Disadvantages of Differentiation Strategy

1. In long term, uniqueness is difficult to sustain.

2. Charging too high a price for differentiated features may cause the customer to switch-off to another alternative.
3. Differentiation fails to work if its basis is something that is not valued by the customers.
Achieving Focused Strategy

To achieve focused cost leadership/differentiation, following are the measures that could be adopted by an organization:

1. Selecting specific niches which are not covered by cost leaders and differentiators.
2. Creating superior skills for catering to such niche markets.
3. Generating high efficiencies for serving such niche markets.
4. Developing innovative ways in managing the value chain.

Question: 3 **(6 marks)**

Successful implementing of supply chain management systems require a change from managing individual functions to integrating activities into key supply chain processes. A key requirement for successfully implementing supply chain will be network of information sharing and management.
The following are the major steps which are required for the successful implementation of Supply Chain Management in business organizations:

1. **Product development:** Customers and suppliers must work together in the product development process. When products are developed and launched in shorter time, it would help organizations to remain competitive.

2. **Procurement:** Procurement requires careful resource planning, quality issues, identifying sources, negotiation, order placement, inbound transportation and storage. Organizations have to coordinate with suppliers in scheduling the uninterrupted supplies and also to involve them in planning the manufacturing process.

3. **Manufacturing:** Flexible manufacturing processes must be in place to respond to market changes. They should be adaptive to accommodate customization and changes in the taste and preferences. Changes in the manufacturing process be made to reduce manufacturing cycle.

4. **Physical distribution:** Delivery of final products to customers is the last position in a marketing channel. Availability of the products at the right place at right time is important for each channel participant. Through physical distribution processes serving the customer become an integral part of marketing.

5. **Outsourcing:** Outsourcing is not limited to the procurement of materials and components, but also include outsourcing of services that traditionally have been provided within an organization. The company ought to focus on those activities where it has competency and everything else will be outsourced.

6. **Customer services:** Organizations through interfaces with the company's production and distribution operations develop customer relationships so as to satisfy them. They work with customer to determine mutually satisfying goals, establish and maintain relationships. This in turn helps in producing positive feelings in the organization and the customers.

7. **Performance measurement:** There is a strong relationship between the supplier, customer and organisation. Supplier capabilities and customer relationships can be correlated with a firm performance. Performance is measured in different parameters such as costs, customer service, productivity and quality.

1. What do you understand by divisional Structure organisation? (8 marks)

2. Discuss the leadership role played by the managers in pushing for good strategy execution. (4 marks)
3.

Question: 6 (6marks)

Concentric diversification: Concentric diversification amounts to related diversification. In this form of diversification, the new business is linked to the existing businesses through existing systems such as process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. There are benefits of synergy with the current operations. However, concentric diversification differs from vertically integrated diversification in the nature of the linkage the new product has with the existing ones.

While in vertically integrated diversification, the new product falls within the firm's current process-product chain, in concentric diversification, there is a departure from this vertical linkage. The new product is only connected in a loop-like manner at one or more points in the firm's existing process/technology/product chain. In concentric diversification there are benefits of synergy with the current operations.

Question:7 (6 Marks)

Five forces model of Michael Porter is a powerful and widely used tool for systematically diagnosing the significant competitive pressures in the market and assessing their strength and importance. The model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the over all market. These five forces are:

1. Threat of new entrants: New entrants are always a powerful source of competition. The new capacity and product range they bring in throw up new competitive pressure. And the bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players.

2. Bargaining power of customers: This is another force that influences the competitive condition of the industry. This force will become heavier depending on the possibilities of the buyers forming groups or cartels. Mostly, this is a phenomenon seen in industrial products. Quite often, users of industrial products come together formally or informally and exert pressure on the producer. The bargaining power of the buyers influences not only the prices that the producer can charge but also influences in many cases, costs and investments of the producer because powerful buyers usually bargain for better services which involve costs and investment on the part of the producer.

3. Bargaining power of suppliers: Quite often suppliers, too, exercise considerable bargaining power over companies. The more specialised the offering from the supplier, greater is his clout. And, if the suppliers are also limited in number they stand a still better chance to exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, industry attractiveness and profitability.

4. Rivalry among current players: The rivalry among existing players is quite obvious. This is what is normally understood as competition. For any player, the competitors influence strategic decisions at different strategic levels. The impact is evident more at functional level in the prices being changed, advertising, and pressures on costs, product and so on.

5. Threats from substitutes: Substitute products are a latent source of competition in an industry. In many cases they become a major constituent of competition. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry. And they can bring it about all of a sudden. For example, coir suffered at the hands of synthetic fibre. Wherever substantial investment in R&D is taking place, threats from substitute products can be expected. Substitutes, too, usually limit the prices and profits in an industry.

The five forces together determine industry attractiveness/profitability. This is so because these forces influence the causes that underlie industry attractiveness/profitability. For example, elements such as cost and investment needed for being a player in the industry decide industry profitability, and all such elements are governed by these forces. The collective strength of these five competitive forces determines the scope to earn attractive profits. The strength of the forces may vary from industry to industry.

Successful implementation of any project needs additional funds. What are the different Successful strategy implementation often requires additional capital. Besides net profit from operations and the sale of assets, two basic sources of capital for an organization are debt and equity. Being a financial manager to determine an appropriate mix of debt and equity in a firm's capital structure can be vital to successful strategy implementation. Fixed debt obligations generally must be met, regardless of circumstances. This does not mean that stock issuances are always better than debt for raising capital. If ordinary stock is issued to finance strategy implementation; ownership and control of the enterprise are diluted. This can be a serious concern in today's business environment of hostile takeovers, mergers, and acquisitions.
The major factors regarding which strategies have to be made by a financial manager are: capital structure; procurement of capital and working capital borrowings; reserves and surplus as sources of funds; and relationship with lenders, banks and financial institutions. Strategies related to the sources of funds are important since they determine how financial resources will be made available for the implementation of strategies. Organizations have a range of alternatives regarding the sources of funds. While one company may rely on external borrowings, another may follow a policy of internal financing.

4.

5. Difference between Transformational and Traditional leadership style (4 marks)

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