IPCC – November 2017

STRATEGIC MANAGEMENT

Test Code – 8097

Branch (MULTIPLE) (Date : 10.09.2017)

(50 Marks)

Note: All questions are compulsory.

Question 1 (3 marks each)

(a) Bargaining power of suppliers: ABC Ltd. has managed to tie with its staff, who are the key suppliers to the organization. This reduces their power to leave and move to one of ABC's Ltd. rivals. 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.

(b) Growth Stage: The second phase of PLC is growth stage. In the growth stage, the demand expands rapidly, prices fall, competition increases and market expands. The customer has knowledge about the product and shows interest in purchasing it. The product is still experiencing strong growth. This has been reduced as the large number of new competitors are entering. It has yet to reach maturity as it is still growing strongly.

(c) Backward vertical integration: Backward integration is a step towards, creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production (as in the case for XYZ).

(d) Turnaround strategy: When firms are losing their grips over market, profits due to several internal and external factors, and if they have to survive under the competitive environment they have to identify danger signals as early as possible and undertake rectification steps immediately.

(e) The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. For initiating strategic change, three steps can be identified as under:

(i) ***Recognize the need for change***: The first step is to diagnose facets of the corporate culture that are strategy supportive or not. The idea is to determine where the lacuna lies and scope for change exists.

(ii) ***Create a shared vision to manage change***: Objectives and vision of both individuals and organization should coincide. Senior managers need to constantly and consistently communicate the vision not only to inform but also to overcome resistance.

(iii) ***Institutionalize the change***: Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of thinking or doing things. All these changes should be set up as a practice to be followed by the organization and be able to transfer from one level to another as a well settled practice.

Question 2

(a) (i) Incorrect: Every organization whether it is large or small requires strategic vision and mission statements. Organizations irrespective of their size face similar business environment and have to work through competition. Small organizations have to plan strategies for their survival in the market where large organizations are also present. **(2 Marks)**

(ii) Incorrect: Supply chain management is an extension of logistic management. Logistic management is related to planning, implementing and controlling the storage & movement of goods & services while supply chain management is much more than that. It is a tool of business transformation and involve delivering the right product at the right time to the right place and at the right price. **(2 Marks)**

(b) According to the ADL Matrix, the competitive position of a firm is based on an assessment of the following criteria:

Dominant: This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.

Strong: By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitors.

Favorable: This position, which generally comes about when the industry is fragmented and no one competitor stand out clearly, results in the market leaders a reasonable degree of freedom.

Tenable: Although the firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.

Weak: The performance of firms in this category is generally unsatisfactory although the opportunities for improvement do exist.

(3 Marks, all points are compulsory)

Question 3

(a) For a new product pricing strategies for entering a market needs to be designed. In pricing a really new product at least three objectives must be kept in mind.

i. Making the product acceptable to the customers.

ii. Producing a reasonable margin over cost.

iii. Achieving a market that helps in developing market share.

(2 Marks)

For a new product an organization may either choose to skim or penetrate the market. In skimming prices are set at a very high level. The product is directed to those buyers who are relatively price insensitive but sensitive to the novelty of the new product.

(1 Mark)

For example call rates of mobile telephony were set very high initially. Even the incoming calls were charged. Since the initial off take of the product is low, high price, in a way, helps in rationing of supply in favour of those who can afford it.

(1/2 Mark)

In penetration pricing firm keeps a temptingly low price for a new product which itself is selling point. A very large number of the potential customers may be able to afford and willing to try the product.

(1/2 Mark)

(b) ERP stand for enterprise resource planning which is an IT based system linking isolated information centers across the organisation into an integrated enterprise wide structured functional and activity bases. **(1 Mark)**

ERP is successor to MRP systems (material requirements and manufacturing resource planning systems). ERP is used for strengthening the procurement and management of input factors. **(1 Mark)**

Modern ERP systems deliver end-to-end capabilities to support the entire performance management of an organisation. It helps in consolidated financial reporting, financial management, planning, budgeting, and performance management and so on **(1 Mark)**

Question 4

(a) Following are the areas on which the strategic planners concentrate to achieve the long term prosperity**: (1 mark each)**

(i) **Profitability:** The ability of an organization to operate in the long run depends on achieving an adequate level of profits. These profits usually expressed in terms of earnings per share or return on equity.

(ii) **Competitive position:** The method of knowing the organization's success is based on the relative dominance of an organization in the market place. Organizations commonly establish an objective in terms of competitive position, using total sales or market place as measures of their competitive position.

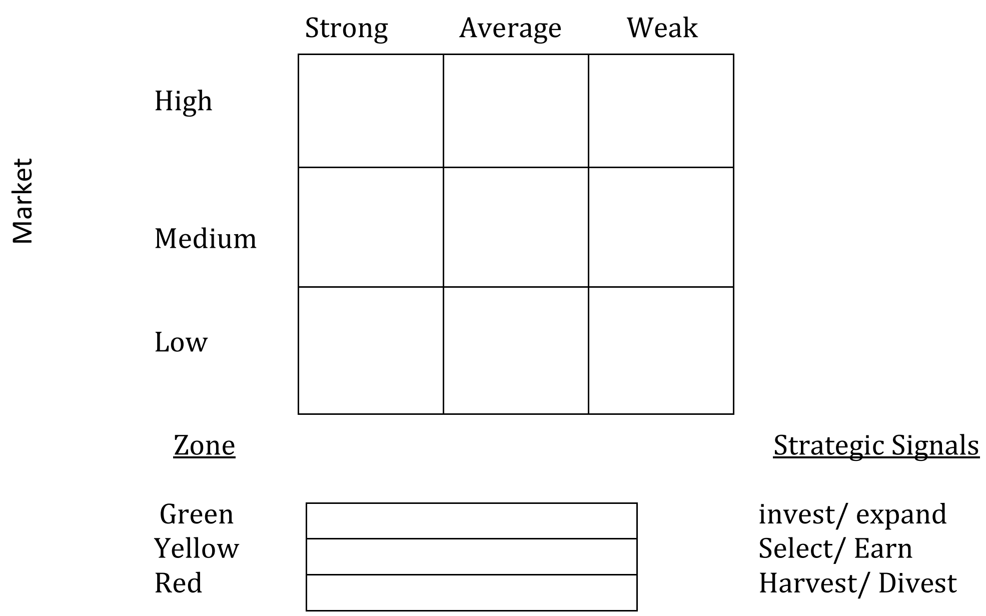
(iii) **Employee development:** Providing employee value education and training leads to increased compensation and job security. Providing such opportunities often increases productivity and decreases turnover.

(iv) **Public responsibility:** Managers recognize their responsibilities towards their customers and to society at large. Many organizations work not only to develop reputations for fairly priced products and services but also to establish themselves as responsible corporate citizens.

(b) To analyse business portfolio the General Electric Company used a model which is also known as **Business Planning Matrix**, **GE Nine-Cell Matrix** and **GE Electric Model**.

The strategic planning approach in this model has been **inspired from traffic control lights.** The lights that are used at crossings to manage traffic are: green for go, amber or yellow for caution, and red for stop. This model uses two factors while taking strategic decisions: Business Strength and Market Attractiveness. The vertical axis indicates market attractiveness and the horizontal axis shows the business strength in the industry. **(2 Marks)**

Business Strength



If a product falls in the green section, the business is at advantageous position. To reap the benefits, the strategic decision can be to expand, to invest and grow. If a product is in the amber or yellow zone, it needs caution and managerial discretion is called for making the strategic choices. If a product is in the red zone, it will eventually lead to losses that would make things difficult for organisations. In such cases, the appropriate strategy should be retrenchment, divestment or liquidation. **(1 Mark)**

Question 5

(a) Concentric and conglomerate diversification are different forms of diversification with the following key differences:

1. Concentric diversification occurs when a firm adds related products or markets. On the other hand conglomerate diversification occurs when a firm diversifies into areas that are unrelated to its current line of business. **(2 Marks)**
2. In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. In conglomerate diversification, no such linkages exist; the new business/product is disjointed from the existing businesses/products. **(1 Mark)**
3. The most common reasons for pursuing a concentric diversification are that opportunities in a firm's existing line of business are available. However, common reasons for pursuing a conglomerate growth strategy is that opportunities in a firm's current line of business are limited or opportunities outside are highly lucrative. **(1 Mark)**

(b) Market Development and product development are two different growth strategies. The following are the differences between these two: **(1 ½ mark for each point)**

Market Development	Product Development
1. Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for current company products.	1. Product development refers to a growth strategy where business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets.
2. Market development strategy may be achieved through new geographical markets, new product dimensions or packaging, new distribution channels or different pricing policies to attract different customers or create new market segments.	2. Product development strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets.

Question 6

(a) The benefits of cooperation are also seen in Japan, where large cooperative networks of businesses are known as *kieretsus*. These are formed in order to enhance the abilities of individual member businesses to compete in their respective industries. **(1 Mark)**

A *kieretsu* is a loosely-coupled group of companies, usually in related industries. *Kieretsu* members are peers and may own significant amounts of each other's stock and have many board members in common. . **(1 Mark)**

Kieretsus are different from conglomerates (common in western countries and also found in India) wherein all members are lineated through ownership pattern. A *kieretsu* also differs from a consortium or an association, as the primary purpose of a *kieretsu* is not to share information or agree industry standards, but to share purchasing, distribution or any other functions. . **(1 Mark)**
In *Kieretsu* members remain independent companies in their own right: the only strategy they have in common is to prefer to do business with other *kieretsu* members, both when buying and when selling. . **(1 Mark)**

(b) **Driving Forces:** Industry conditions change because there are external forces that are driving industry participants to modify their actions. Industry and competitive conditions change because forces are in motion that creates incentives or pressures for changes. **(1 Mark)**

The most dominant forces are called driving forces because they have the biggest influence on what kinds of changes will take place in the industry's structure and competitive environment. Analyzing driving forces has two steps: identifying what the driving forces are and assessing the impact they will have on the industry. **(1 Mark)**

Many events can affect an industry powerfully enough to qualify as driving forces. Some are unique and specific to a particular industry situation, but many drivers of change fall into general category affecting different industries simultaneously. **(1 Mark)**

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