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IPCC MAY 2017EXAM

STRATEGIC MANAGEMENT

Test Code - I M J 7 1 2 6

BRANCH - (MULTIPLE) (Date : 18.12.2016)

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Answer-1(a) :

(a) Incorrect: Every company has its own organisational culture. Each has its own business philosophy and principles, its own ways of approaching to the problems and making decisions, its own work climate, work ethics, etc. Therefore, corporate culture need not be identical in all organisations. However, every organisation over a period of time inherits and percolates down its own specific work ethos and approaches. **(2 Marks)**

(b) Correct: Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating, and internal work environment. In an organizational effort to build strategic supportive corporate culture resistance can impede its successful implementation and execution. **(2 Marks)**

Answer-1(b) :

1) The Internet makes it feasible for companies everywhere to compete in global markets: This is true especially for companies whose products are of good quality and can be shipped economically. In retailing, the Internet opens up a much bigger geographic market than a traditional brick-and-mortar retailer could otherwise reach. e-commerce escalates rivalry among sellers in different geographic areas to a whole new level. **(2 Marks)**

2) Competition in an industry is greatly intensified by the new e-commerce strategic initiatives of existing rivals and by the entry of new, enterprising e-commerce rivals: Not only is the Internet an important new distribution channel that allows sellers to reach vast numbers of buyers relatively inexpensively but the use of online systems afforded by the Internet also holds considerable potential for improving business efficiency and lowering operating costs. Hence, innovative use of the Internet adds a valuable weapon to the competitive arsenal of rival sellers, giving them yet another way to jockey for market position and manoeuvre for competitive advantage. **(2 Marks)**

Answer-2(a) :

Marketing mix is a systematic way of classifying the key decision areas of marketing management. It is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The original framework of marketing mix comprises of 4Ps- product, price, place and promotion. These are subsequently expanded to highlight certain other key decision areas like people, processes, and physical evidence. The elements of original framework are: **(2 Marks)**

- Product: It stands for the "goods-and-service" combination the company offers to the target market. **(0.5 Mark)**
- Price: It stands for the amount of money customers have to pay to obtain the product. **(0.5 Mark)**
- Place: It stands for company activities that make the product available to target consumers and include marketing channel, distribution policies and geographical availability. **(0.5 Mark)**
- Promotion: It stands for activities that communicate the merits of the product and persuade target consumers to buy it. **(0.5 Mark)**

Answer-2(b) :

1. Different strategies offer different degrees of differentiation. Differentiation does not guarantee competitive advantage, especially if standard products sufficiently meet customer needs or if rapid imitation by competitors is possible. Durable products protected by barriers to quick copying by competitors are best. Successful differentiation can mean greater product flexibility, greater compatibility, lower costs, improved service, less maintenance, greater convenience, or more features. Product development is an example of a strategy that offers the advantages of differentiation. **(2 Marks)**

2. A differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes. A successful differentiation strategy allows a

firm to charge a higher price for its product and to gain customer loyalty because consumers may become strongly attached to the differentiation features. Special features that differentiate one's product can include superior service, spare parts availability, engineering design, product performance, useful life, gas mileage, or ease of use **(2 Marks)**

3. A risk of pursuing a differentiation strategy is that the unique product may not be valued highly enough by customers to justify the higher price. When this happens, a cost leadership strategy easily will defeat a differentiation strategy. Another risk of pursuing a differentiation strategy is that competitors may develop ways to copy the differentiating features quickly. Firms thus must find durable sources of uniqueness that cannot be imitated quickly or cheaply by rival firms. **(1 Mark)**

4. Common organizational requirements for a successful differentiation strategy include strong coordination among the R&D and marketing functions and substantial amenities to attract scientists and creative people **(1 Mark)**

Answer-3(a) :

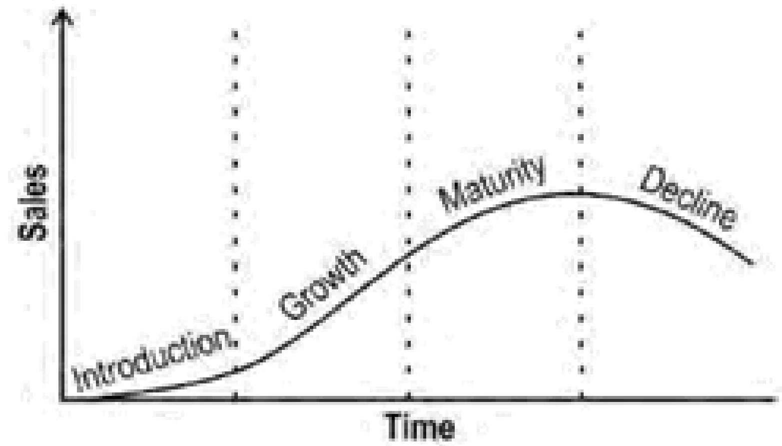
Product Life Cycle is a useful concept for guiding strategic choice. Product Life Cycle is an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction, growth, maturity and decline. **(1 Mark)**

Introduction Stage is the first stage of PLC in which competition is almost negligible, prices are relatively high and markets are limited.

Growth Stage is the second phase of PLC in which the demand expands rapidly, prices fall, competition increases and market expands. The customer has knowledge about the product and shows interest in purchasing it.

Maturity Stage is the third phase of PLC in which the competition gets tough and market gets stablised. Profit comes down because of stiff competition. At this stage organisations may work for maintaining stability.

Decline Stage: In the declining stage of PLC, the sales and profits fall down sharply due to some new product replaces the existing product. So a combination of strategies can be implemented to stay in the market either by diversification or retrenchment. **(4 Marks)**



(1 Mark)

Answer-3(b) :

A Mission statement tells you the fundamental purpose of the organization. It concentrates on the present. It defines the customer and the critical processes. It informs you of the desired level of performance. On the other hand, a Vision statement outlines what the organization wants to be. It concentrates on the future. It is a source of inspiration. It provides clear decision-making criteria. **(1 Mark)**

A mission statement can resemble a vision statement in a few companies, but that can be a grave mistake. It can confuse people. Following are the differences between vision and mission: **(1 Mark)**

The vision describes a future identity while the Mission serves as an ongoing and time-independent guide. The vision statement can galvanize the people to achieve defined objectives, even if they are stretch objectives, provided the vision is specific, measurable, achievable, relevant and time bound. A mission statement provides a path to realize the vision in line with its values. These statements have a direct bearing on the bottom line and success of the organization. **(2 Marks)**

A mission statement defines the purpose or broader goal for being in existence or in the business and can remain the same for decades if crafted well while a vision statement is more specific in terms of both the future state and the time frame. Vision describes what will be achieved if the organization is successful.

(1 Mark)

Answer-4(a) :

Survival: Survival is the will and anxiety to perpetuate into the feature as long as possible. It is a basic, implicit objective of most organizations. While survival is an obvious objective, it gains more value and prominence during the initial stage of the establishment of the enterprise and during general economic adversity. The ability to survive is a function of the nature of ownership, nature of business competence of management, general and industry conditions, financial strength of the enterprise and so on. However, business and other enterprises are interested in more than mere survival. **(2 Marks)**

Stability: One of the most important of objectives of business enterprises is stability. It is a cautious, conservative objective. In a sense, stability is a least expensive and risky objective in terms of managerial time and talent and other resources. A stable and steady enterprise minimises managerial tensions and demands less dynamism from managers. It is a strategy of least resistance in a hostile external environment

(2 Marks)

Growth: This is a promising and popular objective which is equated with dynamism, vigour, promise and success. Enterprise growth may take one or more of the forms like increase in assets, manufacturing facilities, increase in sales volume in existing products or through new products, improvement in profits and market share, increase in manpower employment, acquisition of other enterprises and so on. Growth may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls. **(2 Marks)**

Efficiency: Business enterprise seek efficiency in rationally choosing appropriate means to achieve their goals, doing things in the best possible manner and utilising resources in a most suitable combination to get highest productivity. In a sense, efficiency is an economic version of the technical objective of productivity – designing and achieving suitable input output ratios of funds, resources, facilities and efforts. Efficiency is a very useful operational objective. **(2 Marks)**

Profitability: It is generally asserted that private enterprises are primarily motivated by the objective of profit. Some may go even further and emphasise that profit is the sole motive of business enterprises. All other objectives are facilitative objectives and are meant to be subservient to the profit motive. It is pointed out that private business enterprises are operated on behalf of and for the benefit of the owners who have assumed the business risk of investing their funds. **(2 Marks)**

Answer-4(b) :

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. **(1 Mark)**

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. **(1.5 Marks)**

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.

(1.5 Marks)

Answer-5(a) :

- Likely entry of potent new competitors 1/2
- Loss of sales to substitute products 1/2
- Mounting competition from new Internet start-up companies pursuing e-commerce strategies 1/2
- Increasing intensity of competition among industry rivals – may cause squeeze on profit margins 1/2
- Technological changes or product innovations that undermine demand for the firm's product. 1/2
- Slowdowns in market growth 1/2
- Adverse shifts in foreign exchange rates and trade policies of foreign governments 1/2
- Costly new regulatory requirements. 1/2
- Growing bargaining power of customers or suppliers 1/2
- A shift in buyer needs and tastes away from the industry's product. 1/2
- Adverse demographic changes that threaten to curtail demand for the firm's product 1/2
- Vulnerability to industry driving forces. 1/2

Answer-5(b) :

Value chain analysis has been widely used as a means of describing the activities within and around an organization, and relating them to an assessment of the competitive strength of an organization (or its ability to provide value-for-money products or services). **(1 Mark)**

Value analysis was originally introduced as an accounting analysis to shed light on the 'value added' of separate steps in complex manufacturing processes, in order to determine where cost improvements could be made and/or value creation improved. These two basic steps of identifying separate activities and assessing the value added from each were linked to an analysis of an organization's competitive advantage by Michael Porter. **(2 Marks)**

One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of machines, money and people. These resources are of no value unless deployed into activities and organised into routines and systems which ensure that products or services are produced which are valued by the final consumer/user. **(2 Marks)**