SUGGESTED SOLUTION

IPCC NOVEMBER 2016 EXAM

STRATEGIC MANAGEMENT

Test Code - I N J1 0 2 3

BRANCH - (MUMBAI) (Date : 31.07.2016)

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Answer-1 (a) :

1. Technology is the most dynamic of all the environmental factors. An individual enterprise is concerned with the dynamics of its product and process technology, research and development activities in the industry and elsewhere, innovations in products and processes, technological obsolescence and so on. Changes in technology vitally affect the enterprise's costs, profitability, plant location decisions, product lines, growth and development. **(1.5 Marks)**

2. The technology and business are highly interrelated and interdependent also. Technology is patronized by business. Technology also drives business and makes a total change on how it is carried out. **(1 Mark)**

3. Technology can act as both opportunity and threat to a business. It can act as opportunity as business can take advantage of adopting technological innovations to their strategic advantage. However, at the same time technology can act as threat if organisations are not able to adopt it to their advantage. For example, an innovative and modern production system can act as weakness if the business is not able to change their production system. New entrants or existing competitors can always use availability of technological improvements in products or production methods that can be a threat to a business. **(1.5 Marks)**

4. Technological opportunities and threats are not limited to the product or production. Technology permeates whole gambit of business. It can transform how a business acts and functions. **(1 Mark)**

Answer-1 (b) :

A company which has gone global is called a multinational (MNC) or a transnational (TNC). An MNC is, therefore, one that, by operating in more than one country gains R&D, production, marketing and financial advantages in its costs and reputation that are not available to purely domestic competitors. The global company views the world as one market, minimises the importance of national boundaries, sources, raises capital and markets wherever it can do the job best. **(1 Mark)**

To be specific, a global company has three characteristics:

1. It is a conglomerate of multiple units (located in different parts of the globe) but all linked by common ownership **(1 Mark)**
2. Multiple units draw on a common pool of resources, such as money, credit, information, patents, trade names and control systems **(1 Mark)**
3. The units respond to some common strategy. Nestle International is an example of an enterprise that has become multinational. It sells its products in most countries and manufactures in many. Besides, its managers and shareholders are also based in different nations. **(1 Mark)**

Answer-2 (a) :

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-2 (b) :

Decision making is a managerial process and a function of choosing a particular course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Strategic decisions are different in nature than all other decisions which are taken at various levels of the organization during their day-to-day working. The major dimensions of strategic decisions are given below: **(2 Marks)**

- Strategic issues require top-management decisions: Strategic issues involve thinking in totality of the organizations and also there is lot of risk involved. **(1 Mark)**
- Strategic issues involve the allocation of large amounts of company resources: It may require huge financial investment to venture into a new area of business or the organization may require huge manpower with new set of skills in them. **(1 Mark)**
- Strategic issues are likely to have a significant impact on the long term prosperity of the firm: Generally the results of strategic implementation are seen on a long term basis and not immediately. **(1 Mark)**
- Strategic issues are future oriented: Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions. **(1 Mark)**
- Strategic issues usually have major multifunctional or multi-business consequences: As they involve organization in totality they affect different sections of the organization with varying degree. **(1 Mark)**
- Strategic issues necessitate consideration of factors in the firm's external environment: Strategic focus in organization involves orienting its internal environment to the changes of external environment. **(1 Mark)**

Answer-3 (a) :

SWOT analysis is a tool used by organizations for evolving strategic options for the future. The term SWOT refers to the analysis of strengths, weaknesses, opportunities and threats facing a company. Strengths and weaknesses are identified in the internal environment, whereas opportunities and threats are located in the external environment. **(2 Marks)**

Strength: Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitor. Weakness: A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it. Opportunity: An opportunity is a favourable condition in the external environment which enables it to strengthen its position. Threat: An unfavourable condition in the external environment which causes a risk for, or damage to the organisation's position. **(2 Marks)**

Answer-3 (b) :

(i) Star in BCG Matrix: BCG growth-share matrix is a simple way to portray an organisation's portfolio of investments. Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company. The matrix is based on combinations of relative market share of the products or SBUs and their market growth rate. **(2 Marks)**

Stars, a position in the matrix, are characterised by high market share and high growth rate. They are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. Business organisations that enjoy star positions have best opportunities for expansion and growth. **(2 Marks)**

Answer-4 (a) :

(a) **Correct:** An acquisition is a strategy through which one firm buys a controlling or complete interest in another firm. Acquisition of an existing concern is an instant means of achieving growth through expansion and/or diversification. Ideally, acquisition strategy should be used when the acquiring firm is able to enhance its economic value through ownership and the use of the assets that are acquired. **(2 Marks)**

(b) **Incorrect:** Although, organisations can diversify into businesses that are vertically or horizontally related to the existing businesses, the diversification is not limited to the related businesses. In conglomerate diversification; the new businesses/ products are disjointed from the existing businesses/products in every way. There is no connection between the new products and the existing ones in process, technology or function. **(2 Marks)**

Answer-4 (b) :

Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. On the other hand, Retrenchment Strategy involves redefinition of business by divesting a major product line or market. **(1.5 Marks)**

Expansion is a promising and popular strategy that tends to be equated with dynamism, vigour, promise and success. Retrenchment or retreat becomes necessary or expedient for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal. **(1.5 Marks)**
Expansion may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls. Retrenchment involves regrouping and recouping of the resources. **(1 Mark)**

Answer-5 (a) :

Promotion stands for activities that communicate the merits of the product and persuade target consumers to buy it. Strategies are needed to combine individual methods such as advertising, personal selling, and sales promotion into a coordinated campaign. In addition promotional strategies must be adjusted as a product move from an earlier stage from a later stage of its life. **(2 Marks)**

Modern marketing is highly promotional oriented. Organizations strive to push their sales and market standing on a sustained basis and in a profitable manner under conditions of complex direct and indirect competitive situations. Promotion also acts as an impetus to marketing. It is simultaneously a communication, persuasion and conditioning process. There are at least four major direct promotional methods or tools – personal selling, advertising, publicity and sales promotion. **(2 Marks)**

Answer-5 (b) :

The reasons why functional strategies are needed can be enumerated as follows:

- The development of functional strategies is aimed at making the strategies-formulated at the top management level-practically feasible at the functional level. **(1 Mark)**
- Functional strategies facilitate flow of strategic decisions to the different parts of an organisation. **(0.5 Mark)**
- They act as basis for controlling activities in the different functional areas of business. **(0.5 Mark)**
- The time spent by functional managers in decision-making is reduced as plans lay down clearly what is to be done and policies provide the discretionary framework within which decisions need to be taken **(1 Mark)**
- Functional strategies help in bringing harmony and coordination as they remain part of major strategies. **(0.5 Mark)**
- Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers. **(0.5 Mark)**

Answer-5 (c) :

(a) Functional structure is widely used because of its simplicity and low cost. A functional structure groups tasks and activities by business function. The functional structure consists of a chief executive officer or a managing director and limited corporate staff with functional line managers in dominant functions such as production, accounting, marketing, R&D, engineering and human resources. Disadvantages of a functional structure are that it forces accountability to the top, minimizes career development opportunities, etc. **(2 Marks)**

(b) Social marketing and service marketing are marketing strategies primarily with different orientations. Social Marketing refers to the design, implementation and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group. For instance, the publicity campaign for prohibition of smoking or encouraging girl child, etc.

On the other hand, service marketing is applying the concepts, tools, and techniques, of marketing to services. Service is any activity or benefit that one party can offer to another that is essentially intangible and non- perishing. These may be from business to consumer and from business to business. **(2 Marks)**