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TEST SERIES
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SUGGESTED SOLUTION

IPCC NOVEMBER 2016 EXAM

STRATEGIC MANAGEMENT

Test Code - I N J 1 1 0 8

BRANCH - (MULTIPLE) (Date :14.08.2016)

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Answer-1 (a) :

(a) Incorrect: Businesses do not function in an isolated manner. They function within a whole gambit of relevant environment and have to negotiate their way through it. The extent to which the business thrives depends on the manner in which it interacts with its environment. A business which continually remains passive to the relevant changes in the environment is destined to gradually decline.

(2 Marks)

(b) Incorrect: Environmental constituents such as economic, legal, society, technology and other macro and micro elements are interwoven through complex and haphazard linkages. These constituents comprise of multitude of forces that are inter-related and inter-dependent. They are termed as environment as they are outside the main periphery of business but may affect its functioning directly or indirectly.

(2 Marks)

Answer-1 (b) :

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 (c) :

(a) Corporate strategy is basically the growth design of the firm; it spells out the growth objective - the direction, extent, pace and timing of the firm's growth. It also spells out the strategy for achieving the growth. It serves as the design for filling the strategic planning gap. It also helps build the relevant competitive advantages.

(2 Marks)

(b) A Strategic vision is a road map of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

(2 Marks)

Answer-2 (a) :

Yes, strategy is partly proactive and partly reactive. In proactive strategy, organizations will analyze possible environmental scenarios and create strategic framework after proper planning and set procedures and work on these strategies in a predetermined manner. However, in reality no company can forecast both internal and external environment exactly. Everything cannot be planned in advance. It is not possible to anticipate moves of rival firms, consumer behaviour, evolving technologies and so on.

(2 Marks)

There can be significant deviations between what was visualized and what actually happens. Strategies need to be attuned or modified in the light of possible environmental changes. There can be significant or major strategic changes when the environment demands. Reactive strategy is triggered by the changes in the environment and provides ways and means to cope with the negative factors or take advantage of emerging opportunities.

(2 Marks)

Answer-2 (b) :

- (i) Strategic group mapping is a technique for displaying the different markets or competitive positions that rival firms occupy in the industry. A strategic group is a cluster of firms in an industry with similar competitive approaches and market positions. An industry contains only one strategic group when all sellers pursue essentially identical strategies and have comparable market positions. It involves plotting firms on a two-variable map using pairs of differentiating characteristics such as price/quality range; geographic coverage and so on. **(2 Marks)**
- (ii) Market penetration is a growth strategy where the business focuses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way. Penetration might require greater spending on advertising or personal selling. **(2 Marks)**
- (iii) ADL Matrix: The ADL matrix which has derived its name from Arthur D. Little is a portfolio analysis method that is based on product life cycle. The approach forms a two dimensional matrix based on stage of industry maturity and the firms competitive position, environmental assessment and business strength assessment. **(2 Marks)**

Answer-3 (a) :

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. **(2 Marks)**

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. **(2 Marks)**

Answer-3 (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-4 (a) :

(a) Correct: Augmented marketing refers to deliberate and accelerated efforts to get better marketing returns through additional means. It includes provision of additional customer services and benefits built around the core and actual products that relate to introduction of hi-tech services like movies on demand, on-line computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels. (2 Marks)

(b) Correct: Direct marketing is done through various advertising media that interact directly with customer. Teleshopping is a form of direct marketing which operates without conventional intermediaries and employs television and other IT devices for reaching the customer. The communication between the marketer and the customer is direct through third party interfaces such as telecom or postal systems. (2 Marks)

Answer-4 (b) :

(a) Outbound logistics relate to collection, storage and distribution of the product to customers. It includes all activities such as storage/warehousing of finished goods, order processing, scheduling deliveries, operation of delivery vehicles, etc. (2 Marks)

(b) Value chain analysis refers to separate activities which are necessary to underpin an organization's strategies and are linked together both within and around the organization. Organizations are much more than a random collection of machines, money and people. Value chain of a manufacturing organization comprises of primary and supportive activities. (2 Marks)

Answer-5 (a) :

Various principles that guide the total quality management philosophy are as follows:

- 1) A sustained management commitment to quality (0.5 Mark)
- 2) Focusing on the customer (0.5 Mark)
- 3) Preventing rather than detecting defects (0.5 Mark)
- 4) Universal quality responsibility (0.5 Mark)
- 5) Continuous improvement and learning (0.5 Mark)
- 6) Root cause corrective action (0.5 Mark)
- 7) Employee involvement and empowerment (0.5 Mark)
- 8) The synergy of teams (0.5 Mark)
- 9) Thinking statistically (0.5 Mark)
- 10) Inventory reduction (0.5 Mark)
- 11) Value improvement (0.5 Mark)
- 12) Value improvement (0.5 Mark)
- 13) Training (0.5 Mark)

Answer-5 (b) :

A strategy manager has many different leadership roles to play: visionary, chief entrepreneur and strategist, chief administrator, culture builder, resource acquirer and allocator, capabilities builder, process integrator, crisis solver, spokesperson, negotiator, motivator, arbitrator, policy maker, policy enforcer, and head cheerleader. Managers have five leadership roles to play in pushing for good strategy execution: (2 Marks)

1. Staying on top of what is happening, closely monitoring progress, working through issues and obstacles. (0.5 Mark)
2. Promoting a culture that mobilizes and energizes organizational members to execute strategy and perform at a high level. (0.5 Mark)
3. Keeping the organization responsive to changing conditions, alert for new opportunities and remain ahead of rivals in developing competitively valuable competencies and capabilities. (0.5 Mark)
4. Ethical leadership and insisting that the organization conduct its affairs like a model corporate citizen. (0.5 Mark)

5. Pushing corrective actions to improve strategy execution and overall strategic performance.

(1 Mark)