

**SECTION –B: STRATEGIC MANAGEMENT**

Question No. 6 is compulsory

Answer any **three** questions from the rest.

**Question 6**

*In spite of high commodity inflation, shortage of components and the threat of third wave of COVID-19 pandemic in India, manufacturers of packaged goods, home appliances and consumer electronics are expecting the business to grow by 12 to 25 percent in the coming months. After one-and-a-half years of disruption, manufacturers are now confident about managing their inventories better, keeping their supply channels well-stocked and preparing themselves to minimize the impact of any COVID related restrictions even as they gear up for the festive season, which usually accounts for 25 to 35 percent of their yearly sales.*

*The home appliances sector could be an example. After a dismal April-June quarter in the year 2021; producers of air conditioners, refrigerators and washing machines are expecting their business to grow by 15-20 percent in the months to come. All the companies operating in the sector have geared up to grab the opportunities available in the market.*

*A leading company in the home appliances domain, XXP India, is planning to launch various innovative product designs and offer loyalty programmes to lure consumers.*

*With reference to Michael Porter's generic strategies, identify which strategy XXP India has planned for? Explain how this strategy will be advantageous to the company to remain profitable? **(5 Marks)***

**Answer**

According to Michael Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies.

**XXP India Ltd. has planned for Differentiation Strategy.** The company is planning to launch various innovative product designs and offer loyalty programmes to lure customers.

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 differentiated features.

**Advantages of Differentiation Strategy**

A differentiation strategy may help an organisation 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 they have fewer options in the market.
3. Suppliers – Because differentiators charge a premium price, they can afford to absorb higher costs of supplies as the 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.

**Question 7**

- (a) *A Chennai based fast moving consumer goods (FMCG) major CDE Ltd. recently announced restructuring its business. The company indicated that the business would be split into mainly four different streams-FMCG, E-commerce, Retail, and Research & Development. The company management has decided that these four units will operate as separate businesses. The top corporate officer shall delegate responsibility for day-to-day operations and business unit strategy to the concerned managers.*

*Identify the organization structure that CDE Ltd. has planned to implement. Discuss any four attributes and the benefits the firm may derive by using this organization structure.*

**(5 Marks)**

- (b) *What are the important aspects of the process of implementation of strategy?* **(5 Marks)**

**Answer**

- (a) **CDE Ltd. has planned to implement Strategic Business Unit (SBU) structure.** Very large organisations, particularly those running into several products, or operating at distant geographical locations that are extremely diverse in terms of environmental factors, can be better managed by creating strategic business units. SBU structure becomes imperative in an organisation with increase in number, size and diversity.

The attributes of an SBU and the benefits a firm may derive by using the SBU Structure are as follows:

- ◆ A scientific method of grouping the businesses of a multi – business corporation which helps the firm in strategic planning.
- ◆ An improvement over the territorial grouping of businesses and strategic planning based on territorial units.
- ◆ Strategic planning for SBU is distinct from rest of businesses. Products/ businesses within an SBU receive same strategic planning treatment and priorities.
- ◆ Each SBU will have its own distinct set of competitors and its own distinct strategy.

- ◆ The CEO of SBU will be responsible for strategic planning for SBU and its profit performance.
  - ◆ Products/businesses that are related from the stand point of function are assembled together as a distinct SBU.
  - ◆ Unrelated products/ businesses in any group are separated into separate SBUs.
  - ◆ Grouping the businesses on SBU lines helps in strategic planning by removing the vagueness and confusion.
  - ◆ Each SBU is a separate business and will be distinct from one another on the basis of mission, objectives etc.
- (b) Implementation and execution are an operations-oriented activity aimed at shaping the performance of core business activities in a strategy-supportive manner. To convert strategic plans into actions and results, a manager must be able to direct organizational change, motivate people, build and strengthen company's competencies and competitive capabilities, create a strategy-supportive work culture, and meet or beat performance targets. Good strategy execution involves creating strong "fits" between strategy and organizational capabilities, structure, climate & culture.

**In most situations, strategy-execution process includes the following principal aspects:**

1. **Developing budgets** that steer ample resources into those activities critical to strategic success.
2. **Staffing the organization with the needed skills and expertise**, consciously building and strengthening strategy-supportive competencies and competitive capabilities and organizing the work effort.
3. **Ensuring that policies and operating procedures facilitate rather than impede** effective execution.
4. **Using the best-known practices** to perform core business activities and pushing for continuous improvement.
5. **Installing information and operating systems** that enable company personnel to better carry out their strategic roles day in and day out.
6. **Motivating people** to pursue the target objectives energetically.
7. **Creating a company culture and work climate conducive** to successful strategy implementation and execution.

Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution. When the organization encounters stumbling blocks or weaknesses, management has to see that they are addressed and rectified quickly.

**Question 8**

- (a) *STU's association with India goes back to 1967, when it played a key role in constructing a very long highway in India spreading over multiple states. Since then, it is contributing in many ways to the country's growth story. Now it is looking at playing an active role in the key projects taken up by the central government. Suggest few Opportunities and Threats that the company should consider. (5 Marks)*
- (b) *"There are certain conditions or indicators which point out that a turnaround is needed if the company has to survive". Discuss. (5 Marks)*

**Answer**

- (a) Faced with a constantly changing environment, each business unit needs to develop a marketing information system to track trends and developments, which can be categorized as an opportunity or a threat. The company has to review its strength and weakness in the background of environment's opportunities and threat, i.e., an organization's SWOT analysis.

STU is looking at playing an active role in the key projects taken up by the central government. Following are the potential opportunities and threats to STU:

**Potential STU's Opportunities:**

- ◆ Alliances or joint ventures with central government that expand the STU's market coverage or boost its competitive capability.
- ◆ Possibilities of working on the future projects of central government.
- ◆ Serving additional customer groups or expanding into new geographic markets.
- ◆ Utilizing existing company skills or technological know-how to enter new projects.
- ◆ Openings to take market share away from rivals.
- ◆ Openings to exploit emerging new technologies.
- ◆ Integrating forward or backward.

**Potential STU's Threats:**

- ◆ Due to COVID-19 pandemic, companies can have face the lockdown situation.
- ◆ Economic factors such as recession etc.
- ◆ Likely entry of potent new competitors.

- ◆ Technological changes/innovations in construction equipment.
  - ◆ Costly new regulatory requirements.
  - ◆ Growing bargaining power of suppliers.
  - ◆ Vulnerability to industry driving forces.
- (b) Rising competition, business cycles and economic volatility have created a climate where no business can take viability for granted. Turnaround strategy is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. Organizations that have faced a significant crisis that has negatively affected operations requires turnaround strategy. Turnaround strategy is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is a question. When organization is facing both internal and external pressures making things difficult then it has to find something which is entirely new, innovative and different. Being organization's first objective is to survive and then grow in the market; turnaround strategy is used when organization's survival is under threat. Once turnaround is successful the organization may turn to focus on growth.

**Conditions for turnaround strategies:** 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. These are certain conditions or indicators which point out that a turnaround is needed if the company has to survive. These danger signals are:

- ◆ Persistent negative cash flow from business.
- ◆ Uncompetitive products or services.
- ◆ Declining market share.
- ◆ Deterioration in physical facilities.
- ◆ Over-staffing, high turnover of employees, and low morale.
- ◆ Mismanagement.

#### Question 9

- (a) *“Business organizations face countless marketing challenges that affect the success or failure of strategy implementation”. In light of this statement, discuss some marketing decisions that require special attention. (5 Marks)*
- (b) *GWA, a leading Japan based automobile company decides to make India a hub for the company's 250 cc motorcycle to be manufactured in collaboration with the TPR Group, a leading Indian motorcycle manufacturer. The production is to be exported to the company's home market as well as to other African countries.*

*What is this growth strategy called? Point out the most important advantages both the companies expect from such strategy/collaboration. (5 Marks)*

**Answer**

- (a) A business organization faces countless marketing challenges that affect the success or failure of strategy implementation. Some examples of marketing decisions that may require special attention are as follows:
1. The amount and the extent of advertising to be done. Whether to use heavy or light advertising. What should be the amount of advertising in print media, television or internet?
  2. Decisions regarding distribution network to be used. Whether to use exclusive dealerships or multiple channels of distribution.
  3. Whether to be a price leader or a price follower?
  4. Whether to offer a complete or limited warranty?
  5. Whether to limit or enhance the share of business done with a single or a few customers?
  6. Whether to reward sales people based on straight salary, straight commission, or on a combination of salary and commission?
- (b) **GWA of Japan and TRP group of India opted for strategic alliance as their growth strategy.** A strategic alliance is a relationship between two or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own. Strategic alliances are often formed in the global marketplace between businesses that are based in different regions of the world.

**Advantages of Strategic Alliance**

Strategic alliance usually is only formed if they provide an advantage to all the parties in the alliance. These advantages can be broadly categorised as follows:

1. **Organizational:** Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners. Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain. Having a strategic partner who is well-known and respected also helps add legitimacy and credibility to a new venture.
2. **Economic:** There can be reduction in costs and risks by distributing them across the members of the alliance. Greater economies of scale can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline. Finally, partners can take advantage of co-specialization, creating additional value, such as when a leading computer manufacturer bundles its desktop with a leading monitor manufacturer's monitor.

3. **Strategic:** Rivals can join together to cooperate instead of competing with each other. Vertical integration can be created where partners are part of supply chain. Strategic alliances may also be useful to create a competitive advantage by the pooling of resources and skills. This may also help with future business opportunities and the development of new products and technologies. Strategic alliances may also be used to get access to new technologies or to pursue joint research and development.
4. **Political:** Sometimes strategic alliances are formed with a local foreign business to gain entry into a foreign market either because of local prejudices or legal barriers to entry. Forming strategic alliances with politically influential partners may also help improve your own influence and position.

**Question 10**

- (a) *“Each organization must build its competitive advantage keeping in mind the business warfare. This can be done by following the process of strategic management.” Considering this statement, explain major benefits of strategic management. (5 Marks)*
- (b) *Why is strategy evaluation more difficult? Give reasons. (5 Marks)*

**OR**

*What are the factors which determine the nature of rivalry in an industry? (5 Marks)*

**Answer**

- (a) Each organization has to build its competitive advantage over the competitors in the business warfare in order to win. This can be done only by following the process of strategic management. Strategic Management is very important for the survival and growth of business organizations in dynamic business environment. Other major benefits of strategic management are as follows:
  - ◆ Strategic management helps organizations to be more proactive rather than reactive in dealing with its future. It facilitates to work within vagaries of environment and remains adaptable with the turbulence or uncertain future. Therefore, they are able to control their own destiny in a better way.
  - ◆ It provides better guidance to entire organization on the crucial point – what it is trying to do. Also provides frameworks for all major business decisions of an enterprise such as on businesses, products, markets, organizational structures, etc.
  - ◆ It facilitates to prepare the organization to face the future and act as pathfinder to various business opportunities. Organizations are able to identify the available opportunities and identify ways and means as how to reach them.
  - ◆ It serves as a corporate defence mechanism against mistakes and pitfalls. It helps organizations to avoid costly mistakes in product market choices or investments.

- ◆ Over a period of time strategic management helps organization to evolve certain core competencies and competitive advantages that assist in the fight for survival and growth.
- (b) Strategic evaluation involves measuring and evaluating performance. The goals achieved are compared with the desired goals to identify deviations and make necessary adjustments in strategies or in the efforts being put to achieve those strategies.

Reasons why strategy evaluation is more difficult today include the following trends:

- ◆ A dramatic increase in the environment's complexity.
- ◆ The increasing difficulty of predicting the future with accuracy.
- ◆ The increasing number of variables in the environment.
- ◆ The rapid rate of obsolescence of even the best plans.
- ◆ The increase in the number of both domestic and world events affecting organizations.
- ◆ The decreasing time span for which planning can be done with any degree of certainty.

**OR**

The intensity of rivalry in an industry is a significant determinant of an industry's attractiveness and profitability. The intensity of rivalry can influence the costs of suppliers, distribution, and of attracting customers and thus, can directly affect the profitability. "The more intensive the rivalry, the less attractive is the industry". Rivalry among competitors tends to be cutthroat and an industry's profitability is low when;

- (i) An industry has no clear leader. Therefore, continuous war for leadership.
- (ii) Competitors in the industry are numerous.
- (iii) Competitors operate with high fixed costs. Thus, aiming for better Return on Investment with more fierce tactics.
- (iv) Competitors face high exit barriers, and therefore, continue to fight for market share.
- (v) Competitors have little opportunity to differentiate their offerings.
- (vi) The industry faces slow or diminished growth.