Marks

Q.2 (a) (i) Competitive Advantage

Strategic management is all about gaining and maintaining competitive advantage. This term can be defined as "anything that a firm does especially well compared to rival firms. When a firm can do something that rival firms cannot do, or owns something that rival firms desire, that can represent a competitive advantage. 2

(ii) Vision and Mission Statements

Many organizations today develop a vision statement that answers the question "What do we want to become?" Developing a vision statement is often considered that first step in strategic planning, preceding even development of a mission statement. Mission statements are "enduring statements of purpose that distinguish one business from other similar firms. A mission statement identifies the scope of a firm's operations in product and market terms." 2

(iii) Internal Strengths and Weaknesses

Internal strengths and internal weaknesses are an organization's controllable activities that are performed especially well or poorly. Strengths and weaknesses are determined relative to competitors. Relative deficiency or superiority is important information. 2

(vi) Strategies

Strategies are the means by which long-term objectives will be achieved. Strategies are potential actions that require top management decisions and large amounts of the firm's resources. In addition, strategies affect an organization's long-term prosperity, typically for at least five years, and thus are future-oriented. 2

(v) Policies

Policies are the means by which annual objectives will be achieved. Policies are guides to decision making and address repetitive or recurring situations. Policies are most often stated in terms of management, marketing, finance/ accounting, production/ operations, research and development. 2

(b) There are two general types of diversification strategies: related and unrelated. Businesses are said to be related when their value chains posses competitively valuable cross-business strategic fits; businesses are said to be unrelated when their value chains are so dissimilar that no competitively valuable cross-business relationships exist.

Related diversification may be an effective strategy when:

- An organization competes in a no-growth or a slow-growth industry.
- Adding new, but related, products would significantly enhance the sales of current products.
- New, but related, products could be offered at highly competitive prices.
- New, but related, products have seasonal sales levels that counterbalance an organization's existing peaks and valleys.

Marks

- An organization's products are currently in the declining stage of the product's life cycle.
- An organization has a strong management team.

6 points @ ½ mark each 3

Unrelated diversification may be an especially effective strategy when:

- Revenues derived from an organization's current products or services would increase significantly by adding the new, unrelated products.
- An organization competes in a highly competitive and/ or a no-growth industry, as indicated by low industry profit margins and returns.
- An organization's present channels of distribution can be used to market the new products to current customers.
- The new products have countercyclical sales patterns compared to an organization's present products.
- An organization's basic industry is experiencing declining annual sales and profits.
- An organization has the capital and managerial talent needed to compete successfully in a new industry.
- An organization has the opportunity to purchase an unrelated business that is an attractive investment opportunity.
- There exists financial synergy between the acquired and acquiring firm. (Note that a key difference between related and unrelated diversification is that the former should be based on some commonality in markets, products or technology, whereas the latter should be based more on profit considerations).
- Existing markets for an organization's present products are saturated.
- Antitrust action could be charged against an organization that historically has concentrated on a single industry.

10 points @ ½ mark each 5

Q.3 (a) It is especially important for managers and executives in any organization to **agree on the basic vision** that the firm strives to achieve in the long term. 1

A vision statement should answer the basic question, "**What do we want to become**?" 1

A clear vision provides the foundation for developing a comprehensive mission statement. Many organizations have both a vision and mission statement, **but the vision statement should be established first and foremost.** 1

(b) (i) In this matrix the two most important factors to be successful in the industry are "**advertising**" and "**global expansion**" as indicated by weights of 0.20. 2

(ii)
- Company 1 is strongest on "**price competitiveness,**" as indicated by a rating of 4. 1
- Company 3 is strongest on "**advertising**". 1
- Overall, Company 2 is strongest, as indicated by the total weighted score of 3.15. 1

(iii) Other critical factors include **breadth of product line**, **effectiveness of sales distribution, proprietary or patent advantages, location of facilities, production capacity and efficiency, experience, union relations, technological advantages and e-commerce expertise.** 2

Marks

(c) Evaluating strength & weakness of marketing function

(i) Opportunity (cost-benefits) analysis involves assessing the costs, benefits, and risks associated with marketing decisions. Three steps are required to perform a cost/ benefit analysis:

(1) computing the total costs associated with a decision. 1

(2) estimating the total benefits from the decision. 1

(3) comparing the total costs with the total benefits. 1

An opportunity becomes more attractive, when expected benefits exceed total costs. 1

(ii) The following questions about marketing must be examined in strategic planning:

- Are markets segmented effectively?
- Is the organization positioned well among competitors?
- Has the firm's market share been increasing?
- Are present channels of distribution reliable and cost effective?
- Does the firm have an effective sales organization?
- Does the firm conduct market research?
- Are product quality and customer service good?
- Are the firm's products and services priced appropriately?
- Does the firm have an effective promotion, advertising, and publicity strategy?
- Are marketing, planning and budgeting effective?
- Do the firm's marketing managers have adequate experience and training?
- Is the firm's Internet presence excellent as compared to rivals?

10 questions @ ½ mark 5

Q.4 (a) Important strategy-formulation techniques can be integrated into a three-stage decision-making framework.

The Input Stage involves developing an **EFE Matrix**, an **IFE Matrix**, and a **CPM**. The information derived from these three matrices provides basic input information for the matching and decision stage matrices.

Indicating 3 techniques @ 1 mark each 3

The Matching Stage of the strategy-formulation framework consists of five techniques that can be used in any sequence: **SWOT Matrix**, **SPACE Matrix**, **BCG Matrix**, **IE Matrix**, the **Grand Strategy Matrix**. These tools rely upon information derived from the input stage to match external opportunities and threats with internal strengths and weaknesses.

Matching external and internal critical success factors is the key to effectively generating feasible alternative strategies.

Indicating 5 techniques @ 1 mark each 5

Marks

The Decision Stage:

Any additional strategies resulting from the matching analysis could be discussed and added to the list of feasible alternative options. Participants could rate these strategies differently so that a prioritized list of the best strategies could be achieved. 1

Other than ranking strategies to achieve the prioritized list, there is only one analytical technique in the literature designed to determine the relative attractiveness of feasible alternative actions. 1

This technique is the **Quantitative Strategic Planning Matrix (QSPM)**, which comprises Stage-3 of the strategy-formulation analytical framework. 1

This technique objectively indicates **which alternative strategies are best**. The QSPM uses input from Stage-1 analyses and matching results from Stage-2 analyses to decide objectively among alternative strategies. 1

(b) Strategy implementation is fundamentally different from strategy formulation in the following ways:

Strategy formulation	Strategy implementation	
is positioning forces before the action.	is managing forces during the action.	1
focuses on effectiveness.	focuses on efficiency.	1
is primarily an intellectual process.	is primarily an operational process.	1
requires good intuitive and analytical skills.	requires special motivation and leadership skills.	1
requires coordination among a few individuals.	requires coordination among many individuals.	1

Q.5 (a) Five tests often used to determine whether a performance-pay plan will benefit an organization are as under:

1- Does the plan capture attention?
Are people talking more about their activities and taking pride in early successes under the plan? 1

2- Doe employees understand the plan?
Can participants explain how it works and what they need to do to earn the incentive? 1

3- Is the plan improving communication?
Do employees know more than they used to about the company's mission, plans, and objectives? 1

4- Does the plan pay out when it should?
Are incentives being paid for desired results – and being withheld when objectives are not met? 1

5- Is the company or unit performing better?
Are profits up? Has market share grown? Have gains resulted in part from the incentives? 1

(b) The work/ family issue is no longer just a women's issue. Work/ family strategies have become so popular among companies today that the strategies now represent a competitive advantage

Marks

for those firms that offer such benefits as **elder care assistance, flexible scheduling, job sharing, adoption benefits an on-site summer camp, employee help lines.**

Some specific measures that firms are taking to address work/ family issue are:

- providing **spouse relocation** assistance as an employee benefit;
- providing **company resources for family recreational and educational use**;
- establishing employee country clubs.
- **Maternity leave for both the parents** may also be offered as measure for balancing the work life and home life. A study found that in companies that do not offer paternity leave for fathers as a benefit, most men take short, informal paternity leaves anyway by combining vacation time and sick days.
- Some organizations have developed **family days**, when family members are invited into the workplace, taken on plant or office tours, dined by management. Family days are inexpensive and increase the employee's pride in working for the organization.
- **Flexible working hours** during the week are another human resource response to the need for individuals to balance work life and home life.

Explaining 5 facilities @ 1 mark for each 5

(c) Other reasons why strategy evaluation is more difficult today include the following trends:

1- A dramatic increase in the environment's complexity 1

2- The increasing difficulty of predicting the future with accuracy 1

3- The increasing number of variables 1

4- The rapid rate of obsolescence of even the best plans 1

5- The increase in the number of both domestic and world events affecting organizations 1

6- The decreasing time span for which planning can be done with any degree of certainty. 1

Q. 6 (a)

				Marks
Purchase price of elevator (lift)	560,000	560,000		
Salvage value	160,000			
	400,000			
Life of the elevator – years	20			
Annual depreciation	20,000			1
Acc. Depreciation - 10 years		200,000		
Book value (Rs.)		360,000		1

(b)

				Marks
Cost of purchasing escalator			1,200,000	
Disposal of elevator:				
Book value	360,000			
Market value	320,000	320,000		
Loss on disposal	40,000			
Income tax 25% on loss		10,000		1
Cash flow from diposal			330,000	
Initial outflow on replacement (Rs.)			870,000	1

Marks

(c)

				Marks
Purchase cost – escalator	1,200,000			
Salvage value	400,000			
	800,000			
Life – years	10			
Annual depreciation escalator (new)	80,000			
Annual depreciation elevator (old)	20,000	I.tax	Cash flows	
Incremental depreciation	60,000	15,000	15,000	1
Additional sales	80,000	20,000	60,000	1
Reduction in operating expenses	20,000	5,000	15,000	1
Incremental cash flows on replacement (Rs.)			90,000	

(d)

			Marks
Initial outflow	870,000		
Annual cash flows	90,000		
Payback period	9.67	years	1

(e)

	Year	Cash flows	D.F.at 12%	Disctd.CF	Marks
Cash outflow	1	(870,000)	1.0000	(870,000)	1
Annual cash flows	1-10	90,000	5.6502	508,518	1
Salvage value	10	400,000	0.3200	128,000	1
Net present value at 12% rate (Rs.)				**(233,482)**	
Present value of inflows			636,518		
Present value of outflow			870,000		
Profitablity Index				**0.732**	1

(f)

	Year	Cash flows	D.F.at 16%	Disctd.CF	Marks
Cash outflow	1	(870,000)	1.0000	(870,000)	
Annual cash flows	1-10	90,000	4.8332	434,988	
Salvage value	10	400,000	0.2267	90,680	
Net present value at 16% rate (Rs.)				**(344,332)**	1
Present value of inflows			525,668		
Present value of outflow			870,000		
Profitability Index				**0.604**	1

(g)

	Year	Cash flows	D.F.at 6%	Disctd.CF	Marks
Cash outflow	1	(870,000)	1.0000	(870,000)	
Annual cash flows	1-10	90,000	7.3600	662,400	
Salvage value	10	400,000	0.5584	223,360	
Net present value at 6% rate (Rs.)				**15,760**	2

IRR = 6% + [10% x 15760 ÷ (15760 – 344332)] **6.44 %** 2

(h) The replacement of elevator (lift) should not be accepted in the light of above calculations. 1

In case of avoiding the replacement of elevator there is possibility that potential sales will decrease day by day. 1

THE END