Marks

Q. 2 (a) Intensive Strategies:

A **market penetration** strategy **seeks to increase market share** for present products or services in present markets through greater marketing efforts.

This strategy is widely used **alone and in combination** with other strategies.

Market penetration includes increasing the number of salespersons, increasing advertising expenditures, offering extensive sales promotion items or increasing publicity efforts. 1

Market penetration may be an especially effective strategy in the following conditions:

- When **current markets are not saturated** with a particular product or service.
- When the **usage rate of present customers** could be increased significantly.
- When the market **shares of major competitors have been declining** while total industry sales have been increasing.
- When the **correlation between sales amount and marketing expenditures** historically has been high.
- When increased **economies of scale provide major competitive advantages**.

Four (4) guidelines @ ½ mark = 2

Market development involves **introducing present products or services into new geographic areas**. ½

"Market development" may be an effective strategy in the following situations:

- When **new channels of distribution are available** that are reliable, inexpensive and of good quality.
- When an **organization is very successful** at what it does.
- When new untapped or **unsaturated markets exist**.
- When an organization **has the needed capital and human resources** to manage expanded operations.
- When an organization has **excess production capacity**.
- When an organization's **basic industry is rapidly becoming global** in scope.

Six (6) guidelines @ ½ mark = 3

Product development is a strategy that seeks increased sales by **improving or modifying present products or services**.

Product development usually entails **large research and development expenditures**. 1

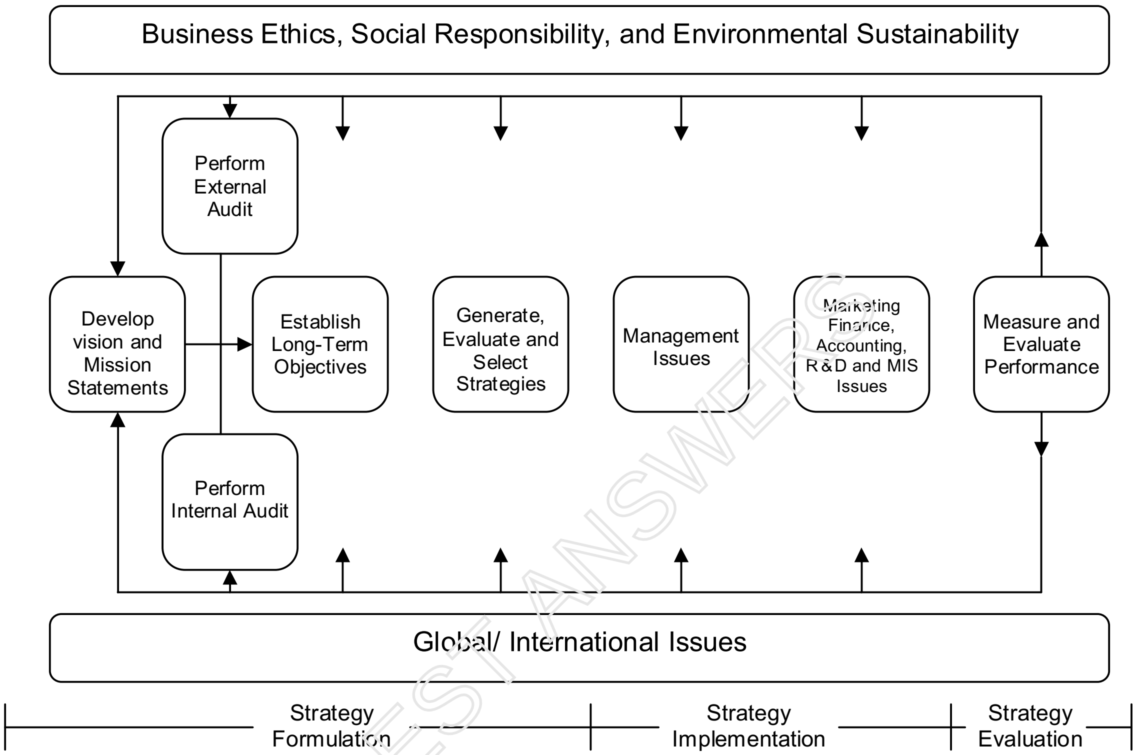
Following guidelines indicate when product development strategy may be an effective strategy to pursue:

- When an organization has successful products that are in maturity stage of the product life cycle; the idea here is to attract satisfied customers to try new (improved) products as a result of their positive experience with the organization's present products or services.
- When an organization competes in an industry that is characterized by rapid technological development.
- When major competitors offer better-quality products at comparable prices.
- When an organization competes in a high-growth industry.
- When an organization has especially strong research and development capabilities.

Five (5) guidelines @ ½ mark = 2½

Marks

(b) The strategic-management process can best be studied and applied using a model. Relationships among major components of the strategic-management process are shown in the model as given below:



10

OR

Strategic Management Model:

Business ethics, social responsibility, and sustainability issues are interrelated and impact **all areas** as stated below of the comprehensive strategic-management model:

Strategy Formulation:

- Developing vision and mission statements ½
- Performing external audit ½
- Performing internal audit ½
- Establishing long-term objectives ½
- Generating, evaluating and selecting strategies ½

Strategy Implementation:

- Resolving management issues ½
- Resolving marketing finance, accounting, R & D and MIS issues ½

Strategy Evaluation:

- Measuring and evaluate performance ½

Global considerations also impact virtually all strategic decisions. The **boundaries of countries no longer can define** the limits of our imaginations. 2

To **see and appreciate the world** from the perspective of others has become a matter of survival for businesses. 1

Marks

The underpinnings of strategic management hinge on managers gaining an understanding of **competitors, markets, prices, suppliers, distributors, governments, creditors, shareholders, and customers worldwide**. 2

The **price and quality** of a firm's product and services must be competitive on a **worldwide** basis, not just on a local basis. 1

Q. 3 (a) Vital Aspects and Variables of Social, Cultural, Demographic and Environmental Changes:

Social, cultural, demographic and environmental changes have a **major impact on virtually all products, services, markets, and customers**.

Small, large, for-profit and non-profit organizations in all industries are being staggered and **challenged by the opportunities and threats arising from changes** in social, cultural, demographic and environmental variables.

Social, cultural, demographic and **environmental trends are shaping the way of people's live**, work, produce and consume. New trends are creating a different type of consumer and, consequently, a need for different products, different services, and different strategies. 2

A summary of important social, cultural, demographic and environmental variables that represent opportunities or threats for virtually all organizations is given as under:

Key Social, Cultural, Demographic and Natural Environmental Variables

Childbearing rates	Government regulation
Number of special-interest groups	Attitudes toward retirement
Number of marriages	Attitudes toward leisure time
Number of divorces	Attitudes toward product quality
Number of births	Attitudes toward customer services
Number of deaths	Pollution control
Immigration and emigration rates	Attitudes toward foreign peoples
Social security programs	Energy conservation
Life expectancy rates	Social programs
Per capita income	Social responsibility
Location of retailing, manufacturing, and service businesses	Attitudes toward careers
	Population changes by race, age, sex, and level of affluence
Attitudes toward business	
Lifestyles	Attitudes toward authority
Traffic congestion	Population changes by city, province, state, region, and country
Inner-city environments	
Average disposable income	Regional changes in taste and preferences
Trust in government	Number of women and minority workers
Attitudes toward government	Number of high school and college graduates by geographic area
Attitudes toward work	
Buying habits	Recycling
Ethical concerns	Waste management
Attitudes toward saving	Air pollution
Attitudes toward investing	Water pollution
Racial equality	Endangered species
Average level of education	

Sixteen (16) elements @ ½ mark = 8

Marks

(b) Elements that are Most Useful in Linking Culture to Strategy:

Following elements are most useful in linking culture to strategy:

- Formal statements of organizational philosophy, charters, creeds, materials used for recruitment and selection, and socialization;
- Designing of physical spaces, facades, buildings;
- Deliberate role modelling, teaching, and coaching by leaders;
- Explicit reward and status system, promotion criteria;
- Stories, legends, myths, and parables about key people and events;
- What leaders pay attention to, measure, and control;
- Leader reactions to critical incidents and organizational crises;
- How the organization is designed and structured;
- Organizational systems and procedures;
- Criteria used for recruitment, selection, promotion, levelling off, retirement, and "excommunication" of people.

Ten (10) points @ 1 mark = 10

OR

Aspects of existing culture that are antagonistic to a proposed strategy should be identified and changed. 2

Research indicates that new strategies are often market-driven and dictated by competitive forces.

For this reason, changing a firm's culture to **fit a new strategy** is usually more effective than changing a strategy **to fit an existing culture**. 2

Numerous techniques available to alter an organization's culture are as under:

- Recruitment;
- Training;
- Transfer;
- Promotion;
- Restructuring;
- Reengineering;
- Role modelling;
- Positive reinforcement;
- Mentoring;
- Revising vision and/ or mission;
- Redesigning physical spaces/ facades;
- Altering reward system;
- Altering organizational policies/ procedures/ practices.

Twelve (12) points @ ½ mark = 6

Marks

Q. 4 (a) Key Financial Ratios, their Purposes and Significance in Measuring Organization Performance:

An important strategy-evaluation activity is **measuring organizational performance**. This activity includes comparing expected results to actual results, investigating deviations from plans, evaluating individual performance, and examining progress being made **toward meeting stated objectives**. 1

Quantitative criteria commonly used to evaluate strategies are financial ratios, which strategists use to make **three critical comparisons**: comparing the firm's performance over different time periods, comparing the firm's performance to competitors', and comparing the firm's performance to industry averages. 1

Some key financial ratios that are particularly useful as criteria for strategy evaluation are as follows:

- Return on investment (ROI);
- Return on equity (ROE);
- Profit margin;
- Market share;
- Debt to equity;
- Earnings per share;
- Sales growth;
- Asset growth.

Identifying eight (8) ratios @ ¼ mark = 2

Following are some potential problems associated with using quantitative criteria for evaluating strategies

- Most quantitative criteria are **geared to annual objectives** rather than long-term objectives.
- **Different accounting methods** can provide different results on many quantitative criteria.
- **Intuitive judgments** are almost always involved in deriving quantitative criteria.

1

(b) Hierarchy of Policies:

Policies allow coordination across organizational units, and reduce the amount of time, managers spend in decision making. ½

Policies can apply to all divisions and departments (for example, "We are an equal opportunity employer"). **Some policies apply to a single department** ("Employees in this department must take at least one training and development course each year"). 1

Policies **serve as a mechanism** for implementing strategies and obtaining objectives. ½

Policies must support a **company strategy**, a **divisional objective**, and a **departmental objective**. 1

This hierarchy is illustrated below:

Company Strategy: Growth in sales and profitability objectives. 1

The supporting policies may be:

- All stores timing will be increased by 4 hours daily.
- All stores must submit a Monthly Control Data Report.

Marks

- All stores must support company advertising by contributing a percent of their total monthly revenues for this purpose.
- All stores must adhere to the uniform pricing guidelines set forth in the Company Handbook. 1

Divisional Objective: Increase the division's revenues from $10 million to $15 million in next year.

The supporting policies to achieve divisional objectives can be illustrated as:

- In the beginning of the year each one of this division's salespersons must file a weekly activity report that includes the number of calls made, the number of miles travelled, the number of units sold, the dollar volume sold, and the number of new accounts opened. (This policy could ensure that salespersons do not place too great an emphasis in certain areas.)
- The division will return to its employees a percent of its gross revenues in the form of a bonus to increase employee productivity. 1

Production Department Objective: Increase production from 20,000 units to 30,000 units in next year.

Its supporting policies may be:

- The employees will have the option of working upto 20 hours of overtime per week to minimize the need to hire additional employees. 1

Some example issues that may require a management policy are as under:

- To offer extensive or limited management development workshops and seminars;
- To centralize or decentralize employee-training activities;
- To recruit through employment agencies, college campuses, and/ or newspapers;
- To promote from within or to hire from the outside;
- To promote on the basis of merit or on the basis of seniority;
- To tie executive compensation to long-term and/ or annual objectives;
- To offer numerous or few employee benefits;
- To negotiate directly or indirectly with labour unions;
- To delegate authority for large expenditures or to centrally retain this authority;
- To allow much, some, or no overtime work;
- To establish a high- or low-safety stock of inventory;
- To use one or more suppliers;
- To buy, lease, or rent new production equipment;
- To greatly or somewhat stress quality control;
- To establish many or only a few production standards;
- To operate one, two, or three shifts;
- To discourage using insider information for personal gain;
- To discourage sexual harassment;
- To discourage smoking at work;
- To discourage insider trading;
- To discourage moonlighting.

Twelve (12) examples @ ¼ mark = 3

Marks

Q. 5 (a) EPS/ EBIT analysis:

Besides net profit from operations and the sale of assets, two basic sources of capital for an organization are debt and equity. Determining an appropriate mix of debt and equity in a firm's capital structure can be vital to the successful strategy implementation. 1

An Earning Per Share/ Earnings Before Interest and Taxes (EPS/ EBIT) analysis is the most widely used technique for **determining whether debt, stock, or a combination of debt and stock** is the best alternative for raising capital to implement strategies. 1

This technique involves an examination of the impact that debt versus stock financing has on earnings per share under various assumptions as to EBIT. An EPS/ EBIT chart can be constructed to determine the break-even point, where one financing alternative becomes more attractive than another. 1

Theoretically, an enterprise should have enough debt in its capital structure **to boost its return on investment by applying debt to products and projects earning more than the cost of the debt.** 1

In **low earning periods, too much debt** in the capital structure of an organization can **endanger stockholder'** returns and jeopardize company survival. Fixed debt obligations generally must be met, regardless of circumstances. 1

EPS/ EBIT analysis is a valuable tool for **making the capital financing decisions** needed to implement strategies, but several **considerations** should be made whenever using this technique as mentioned below: 1

- Profit levels may be higher for stock or debt alternatives when EPS levels are lower.
- Flexibility of EPS/ EBIT analysis is as an organization's capital structure changes, so does its flexibility for considering future capital needs.
- Dilution of ownership can be an overriding concern in closely held corporations in which stock issuances affect the decision-making power of majority stockholders.
- When using EPS/ EBIT analysis, timing in relation to movements of stock prices, interest rates, and bond prices becomes important.

Three (3) limitations/ considerations @ 1 mark = 3

(b) Key Questions of Revised External Factor Evaluation (EFE) Matrix:

A revised EFE matrix should indicate how effective a firm's strategies have been in response to key opportunities and threats. This analysis could also address such questions as the following:

(1) How have competitors reacted to our strategies?

(2) How have competitors' strategies changed?

(3) Have major competitors' strengths and weaknesses changed?

(4) Why are competitors making certain strategic changes?

(5) Why are some competitors' strategies more successful than others?

(6) How satisfied are our competitors with their present market positions and profitability?

(7) How far can our major competitors be pushed before retaliating?

(8) How could we more effectively cooperate with our competitors?

Six (6) question @ 1 mark = 6

Marks

Q. 6 (i) Work done by Kaghan Limited:

		Rs. '000'	
Material cost (for appliances covered under agreement)	W-1 (a)	2,475	
Material cost (for appliances not covered under agreement)	W-2 (a)	825	
Labour cost (for appliances covered under agreement)	W-1 (b)	3,000	
Labour cost (for appliances not covered under agreement)	W-2 (b)	720	
Total receipts		7,020	1
Break-up of receipts:			
Big appliances	(60% of 7,020)	4,212	1
Small appliance	(40% of 7,020)	2,808	1

(ii) Profitability under Three Options:

Rs. '000'

	Option-1	Option-2	Option-3	
Income:				
Big appliances (60% x Rs.648)	388.80	4,212.00	4,212.00	2
Small appliances (40% of x Rs.648)	2,808.00	259.20	2,808.00	2
Total receipts: (A)	3,196.80	4,471.20	7,020.00	
Costs:				
Material	960.00	1,440.00	2,400.00	3
	$\frac{40\% \times (2,475 + 825)}{137.50\%}$	$\frac{60\% \times (2,475 + 825)}{137.50\%}$	$\frac{(2,475 + 825)}{137.50\%}$	
Heat, rent, light etc.	375.00	150.00	450.00	
Management costs	324.00	249.00	450.00	
Service staff costs	690.00	1,320.00	2,250.00	
Transport costs	75.00	660.00	690.00	
Total costs: (B)	2,424.00	3,819.00	6,240.00	1
Profit: (A) – (B)	772.80	652.20	780.00	3

Marks

Recommendation:

Option-3 is most profitable one. 1

Workings:

		Rupees	Marks
1. Material and labour cost (for appliances under after sales agreement):			
(a) Rs.(100 x 110%) x 125%	137.50%		1
Cost of material charged to customers by Kaghan Limited:			
$\frac{\text{Rs. 180,000}}{\text{Rs.10}}$ x	137.50	2,475,000	1
(b) Cost of labour charged to customers by Kaghan Limited:			
$\frac{\text{Rs. 300,000}}{\text{Rs.10}}$ x	100	3,000,000	1
2. Material and labour cost (for appliances not covered under sales agreement):			
(a) Cost of material charged to customers by Kaghan Limited:			
$\frac{\text{Rs. 60,000}}{\text{Rs.10}}$ x	137.50	825,000	1
(b) Cost of labour charged to customers by Kaghan Limited:			
$\frac{\text{Rs. 108,000}}{\text{Rs.15}}$ x	100	720,000	1

THE END