Biyani Institute of Science and Management

I Internal Examination 2019-20

MBA (III Semester)

Subject- Business Policy & Strategic Management (M-301)

Time: 1.30 Hrs. **Set: B** **MM: 30**

[I] Subjective Questions (Attempt any two questions) (2*10=20)

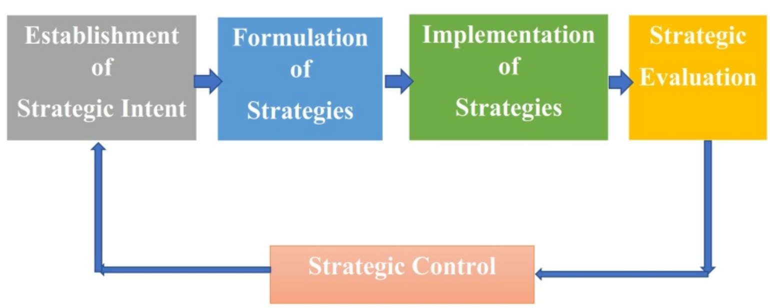
1) Define strategic management. What are the benefits and limitations of strategic management?

A - Definition: The term 'strategic management' is used to denote a branch of management that is concerned with the development of strategic vision, setting out objectives, formulating and implementing strategies and introducing corrective measures for the deviations (if any) to reach the organization's strategic intent. It has two-fold objectives:

- To gain competitive advantage, with an aim of outperforming the competitors, to achieve dominance over the market.
- To act as a guide to the organization to help in surviving the changes in the business environment.

Therefore, strategic management is the continuous planning, monitoring, analysis and assessment of all that is necessary for an organization to meet its goals and objectives. Fast-paced innovation, emerging technologies and customer expectations force organizations to think and make decisions strategically to remain successful. The strategic management process helps company leaders assess their company's present situation, chalk out strategies, deploy them and analyze the effectiveness of the implemented strategies.

The basic process of strategic management involves four steps, as given below:



The benefits of strategic management are:

- It **discharges Board responsibility,** and is the primary reason for the existence of strategic management process.
- It provides a **framework for decision making** within which all the staff can make da-to-day operational decisions.
- It **guides the company to move in a specific direction**. It defines organization's goals and fixes realistic objectives, which are in alignment with the company's vision.
- It **assists the firm in becoming proactive**, rather than reactive, to make it analyze the actions of the competitors and take necessary steps to compete in the market, instead of becoming spectators.

- It acts as a **foundation for all key decisions** of the firm.
- It attempts to **prepare the organization for future challenges** and play the role of pioneer in exploring opportunities and also helps in identifying ways to reach those opportunities.
- It **ensures the long-term survival** of the firm while coping with competition and surviving the dynamic environment.
- It assists in the **development of core competencies and competitive advantage** that helps in the business survival and growth.
- **Financial benefits**: Firms that make strategic plans have good sales, low costs, high EPS (earnings per share) and high profits. Firms have financial benefits if they make strategic plans.
- Strategic management provides information to assess risk and frame strategies to **minimize risk and invest in safe business opportunities**. Chances of making mistakes and choosing wrong objectives and strategies, thus, get reduced.
- Strategic management involves managers at top levels. They are not only committed to objectives and strategies but also think of new ideas for implementation of strategies. **This promotes motivation and innovation**.
- Strategic management makes **optimum utilization of resources** to achieve maximum output.

While strategic planning is growing at a fast pace in the modern world, there are certain limitations that accompany the concept of strategic management:

- **Lack of knowledge**: Strategic planning requires lot of knowledge, training and experience. Managers should have high conceptual skills and abilities to make strategic plans.
- **Interdependence of units**: If business units at different levels (corporate level, business level and functional level) are not coordinated, it can create problems for effective implementation of strategic plans.
- **Managerial perception**: In order to avoid developing risky objectives and strategies which they will not be able to achieve, managers may land up framing sub-optimal goals and plans.
- **Financial considerations**: Strategic planning requires huge amount of time, money and energy. Managers may be constrained by these considerations in making effective strategic plans.
- **Time Consuming**: It takes hard work, time and resources to implement strategic management process.
- **Difficult**: Strategic management is not an easy task. Developing and implementing a strategy for a business required highly trained and specialized individuals.
- **Lack of short term results**: Strategic management is focused on long term results.
- **Unanticipated results:** Strategic management attempts to predict the future. Unfortunately, however, the future cannot be predicted.

2) Strategic Planning has gained huge reception over the last decade. Explain the major reasons for the growth of strategic planning.

A – Strategic planning is an organizational management activity that is used to set priorities, focus energy and resources, strengthen operations, ensure that employees and other stakeholders are working toward common goals, establish agreement around intended outcomes/results, and assess and adjust the organization's direction in response to a changing environment. It is a disciplined effort that produces fundamental decisions and actions that shape and guide what an organization is, who it serves, what it does, and why it does it, with a focus on the future. Effective strategic planning articulates not only where an organization is going and the actions needed to make progress, but also how it will know if it is successful.

The major reasons for the increasing growth of strategic planning are:

- **Increasing rate of technological change**: Technological changes witnessed significant growth particularly during the last quarter of the 1990s. The revolution in the information technology, ERP, business process reengineering, e-commerce, paperless, online marketing, etc. brought phenomenal changes in the field of business development.
- **Long term business plan orientation**: The long term strategic plan orientation from the corporate world's angle is clearly evident through the changed view of the business firms. Business firms were concentrating on short run profits in the past. Strategic planning enhances their role and takes it to the future as well.
- **Increasing complexity of external environment**: External environment is becoming increasingly complex. The shifts in the economic, technological and political factors. Changes include increasing awareness and concern towards the nature and ecology, government interference in the business, increasing concern of workers towards the quality of work life, challenging work and changed management.
- **Offset uncertainty and change**: There is continuous in the environment and the organization has to work in accelerating and adapting to the change. This change is reflected in both tangible and intangible forms. Tangible changes are in the form of changes in technology, market forces, government regulations, etc. Intangible changes are reflected by changes in attitude, values, culture, etc. Strategic planning doesn't stop changes in the environment but gears up the organization to cope up with these changes, and eventually, achieve the organizational goals and objectives.
- **Focus attention on objectives**: Strategic planning focuses on organizational objectives and direction of action for achieving these objectives. Sometimes people in the organization may not be specific about its objectives because of lack of clarity and precise definitions. When planning actions are taken, these objectives are made more concrete and tangible.
- Increase organizational effectiveness: strategic planning ensures organizational effectiveness in several ways. The concept of effectiveness is that the organization is able to achieve its objectives with the given resources.
- Meet the challenges: employees of the new millennium concentrate on productivity, management challenges, quality, service, and the like. Business plan foresees that management challenges, plans for and for formulate the strategies with the commitment of the employees.
- Provides better basis for making judgment: Strategic plan provides the management with a better basis for making judgments about the overall balance among the different parts of the company. Business plans provide a starting point in the analysis of the proposed program.
- Continuous process: strategic planning is a continuous process. This process is aided by modern sophisticated computers.

3) Discuss the competitive strategies given by Michael Porter in detail.

A - Competitive strategy is the means by which organisations seek to achieve and sustain competitive advantage. Porter argues that competitive strategy means "taking offensive or defensive actions to create a defendable position in an industry, to cope with

…competitive forces and thereby yield a superior return for the firm". Firms have discovered different approaches competitive strategy -the best strategy for a firm should reflect its particular circumstances. Competitive advantage is the ability of an organisation to add more value for its customers than its rivals and therefore attain a position of relative advantage. It is what gives a firm an edge over its rivals. It arises from the selection of the generic strategy that best fits the organization's competitive environment. The key drivers of competitive advantage are cost leadership and differentiation of product. Based on this statement, Michael Porter has given the following generic strategies:

Cost Leadership: In cost leadership, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average. Some basic aspects of cost leadership are:

- This strategy concentrates on aiming to become the lowest cost producer in the industry through economies of scale
- In this way the firm can compete on price with every other producers in the industry and earn higher unit profits
- Cost reduction provides the focus of the organization's strategy
- Competitive advantage is achieved by driving down costs
- Cost leadership is based on
- Efficiency to drive down costs
- Effectiveness- knowing what is and what is not important to customers and saving on the latter
- But there is room for only one cost leader
- A successful cost leadership strategy requires that the firm is the cost leader and is unchallenged in this position
- Cost leadership is especially beneficial in markets where customers are price sensitive

Firms that succeed in cost leadership have the following strengths:

- Access to the capital required to make significant investment in fixed assets
- Design skills for efficient manufacture
- A high level of expertise in manufacturing process engineering
- Efficient distribution channels

Examples of cost leadership: Ryanair, Toyota, Wal-Mart (parent company of Asda), Tesco

Differentiation: In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions it to meet those needs. It is rewarded for its uniqueness with a premium price. Some basic aspects of differentiation strategy are:

- A differentiation strategy calls for the development of a product or service that offers attributes that are both unique and are valued by customers
- Customers perceive the product to be different and better than that of rivals
- As a result the value added by the uniqueness of the product may allow the firm to charge a premium price for it
- Success in a differentiation strategy means
    - Gaining a competitive advantage by making their product different from competitors
    - Competing on the basis of value added to customers
    - Persuading customers that the firm's product is superior to that offered by rivals
    - Customers being willing to pay a premium price to cover higher costs
- Differentiation can be based on product image or durability, after-sales, quality, additional features, after sales
- And it requires talent, research capability and strong marketing
- Differentiation adds costs in order to add value
- The extra costs can only be recouped if the market is willing to pay a premium price
- Problems occur if the extra costs incurred outweigh the additional revenue generated by higher prices
- For a successful differentiation strategy it is insufficient merely to add value - customers must recognise and appreciate the difference
- Extra costs should be added only in areas that customers perceive to be important

Firms that succeed in a differentiation strategy have the following characteristics:

- Have access to leading scientific research
- A strong creative product development team
- Strong sales team with the ability to successfully communicate the strengths of the product
- Reputation for quality and innovation

Examples: BMW, Apple products, Mercedes

Focus: The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others.

The focus strategy has two variants.

- Cost focus: cost leader in a particular segment

- Focus differentiation: differentiation in the chosen segment

In cost focus a firm seeks a cost advantage in its target segment, while in differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments. Therefore, the various aspects of this strategy are:

- In a focus strategy the firm concentrates on one (or at most a limited number of) segments of the market
- The premise behind this strategy is that the needs of the group can be bettered served by focussing entirely on it
- The firm might feel more secure in the niche with greater insulation from competition
- A focus strategy means that the firm's efforts are not spread too thinly

[II] Case Study – Compulsory (1*10=10)

On March 14, 2000, Stephen King, the prolific horror writer, published his new book, "Riding the Bullet", on the Internet before it appeared in print. Within 24 hours, almost 400,000 people had downloaded he book – even though most of them needed to download software in order to read the book. The unexpected demand crashed servers. According to Jack Romanos, president of Simon & Schuster, "I don't think anybody could have anticipated how many people were cut there who are willing to accept the written world in a paperless format." To many, this announced the coming of the electronic novel. Environmentalists were thrilled that e-books might soon replace paper books and newspapers, thus reducing pollution coming from paper mills and landfills. The king book was easy to downloaded and took less time than a trip to the bookstore, Critics argued that the King book used the Internet purposely because at 66 pages, it was too short to be a standard printed novel. It was also free, so there was nothing to discourage natural curiosity. Some people in the industry estimated that 75% of those who downloaded the book did not read it.

By 2008, Harper Collins and Random House were offering free online book content. Amazon was selling a US$399 Kindle e-book reader for downloadable books costing US$10each, but Apple CEO Steve Jobs described the Kindle as something that filled no void and would "go nowhere". Sales in electronic trade books increased from US$5.8 million in 2002 to US$ 20 million in 2006 to US$380 million by 2012.

By 2012, the market for e-books accounted for more than 25% of all revenues in the book selling industry and e-book sales had surpassed sales of hardback books.

Amazon went on to release numerous versions of the Kindle reader ranging from US$69 to US$499. Amazon steadfastly refused to release sales figures for the Kindle; however, Forrester (a research firm) estimated that sales of the Kindle Fire (Its flagship product) had exceeded 5 million between its release in November 2011 and Christmas that same year. Far from going nowhere, the Kindle family was clearly a player in the Industry.

One of the lightly touched parts of the market is college textbooks. No individual area in the field of publishing seems as good a fit as asking student to buy an e-reader and then download all the material they will need for all of their courses. Rentals and outright purchases would represent a substantial change.

Questions:

1) Identify the problems associated with long term strategy plan and how your team overcame these problems.
2) Present your conclusion and suggestion to the case.

Summary: This case study basically deals with the idea of a downloaded book and the unexpected demand that arises when a popular author puts up his book for sale/ demo reading on the internet – the rush being so big that it leads to the servers being crashed. The case study also talks about the softwares associated with online books/ e-books, like, Kindle. The case study also emphasizes on the segments of books untouched by the modes of online reading, generally the college textbooks.

A1. Understanding the value of and need for a strategic plan is a great place to start, but just wanting something, isn't enough. If it were, we'd all be famous actors in Hollywood. Developing a strategic plan takes discipline, foresight, and a lot of honesty. Regardless how well the team of publishers was prepared, they're bound to encounter challenges along the way:

- Not understanding the environment or focusing on results. Planning teams must pay attention to changes in the business environment, set meaningful priorities, and understand the need to pursue results.
- Not having the right people involved. Those charged with executing the plan should be involved from the onset. Those involved in creating the plan will be committed to seeing it through execution.
- Writing the plan and putting it on the shelf. This is as bad as not writing a plan at all. If a plan is to be an effective management tool, it must be used and reviewed continually. Unlike Twinkies or a fine vino, strategic plans don't have a good shelf life.
- Ignoring marketplace reality, facts, and assumptions. Don't bury your head in the sand when it comes to marketplace realities, and don't discount potential problems because they have not had an immediate impact on your business yet. Plan in advance and you'll be ready when the tide comes in.
- Unrealistic goals or lack of focus and resources. Strategic plans must be focused and include a manageable number of goals, objectives, and programs. Fewer and focused is better than numerous and nebulous. Also be prepared to assign adequate resources to accomplish those goals and objectives outlined in the plan.

By avoiding these pitfalls, the team could have created an effective planning process, build a realistic business direction for the future, and greatly improve the chances for successful implementation of their strategy.

A2. Accidental success is dangerous. Succeeding without a plan is possible, and plenty of examples exist of businesses that have achieved financial success without a plan. If you're one of them, consider yourself lucky, but ask this question: "Could we have grown and become even more successful if we'd organized a little better?" The answer is definitely yes!

Another danger is that the lack of a strategic plan negatively impacts the attitude of an organization's team. Employees who see aimlessness within an organization have no sense of a greater purpose. People need a reason to come to work every day (besides the paycheck).

Conclusion: Lack of direction results in morale problems, because, as far as your employees are concerned, the future is uncertain, unpredictable, and out of control. These depressing conclusions can only be seen as a threat to employment, which negatively impacts productivity, as is the case here.