

**QUESTION BOOKLET NUMBER****1010**

Subject Code

**MB311****PROGRAM : MBA****SUBJECT : Business Policy and Strategy****DATE : October 24, 2010****TIMINGS: 14:30 Hrs to 17:30 Hrs****TOTAL MARKS: 100****DURATION: 3 Hours***To be filled by the Student*

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|----------------|--|----------|--|
| ENROLLMENT NO. |  | OMR NO.  |  |
| TEST CENTER    |  | SEAT NO. |  |

*Instructions to Students*

1. Fill in the required particulars in the Question Booklet and the Answer Booklet. In the absence of this data, the Answer Booklet will not be evaluated.
2. Use the OMR Answer Sheet to mark answers for section A. Use the Answer Booklet to write responses for sections B and C.
3. See the back cover page for instructions on marking answers in the OMR Answer Sheet.
4. Section A should be attempted first. Time allotted to answer section A is 30 minutes. Return the OMR Answer Sheet 30 minutes after commencement of the examination. Return the Answer Booklet at the end of the examination.
5. Students can retain this Question Booklet after the examination.

*Answering Materials distributed along with this question booklet:***★ OMR ANSWER SHEET****● ANSWER BOOKLET**

## Section A : Basic Concepts (30 Marks)

- This section consists of questions with serial number 1 - 30.
- Answer all questions.
- Each question carries one mark.
- Maximum time for answering Section A is 30 Minutes.

1. Which of the following types of benchmarking is Cuba Technologies Pvt. Ltd. said to adopt, when it aims to improve its processes or activities by benchmarking with other companies from different business sectors or areas of activity but involved in similar functions or work processes?
  - (a) Strategic benchmarking
  - ☒ (b) Generic benchmarking
  - (c) Competitive benchmarking
  - (d) Internal benchmarking
  - (e) External benchmarking.
  
2. Components of strategic management need to be comprehensively understood in designing effective plans for the future of the organization. Which of the following is/are also referred to as standard operating procedure?
  - (a) Mission of a company
  - (b) Vision of a company
  - (c) Long-term objectives of a company
  - ☒ (d) Policies of a company
  - (e) Operational strategies of a company.
  
3. Board of Directors involvement in strategic management can be classified into different forms. Which of the following is the correct description of the type 'Phantom'?
  - (a) One, who permits officers to make all decisions
  - ☒ (b) One, who does not know what to do
  - (c) One, who normally reviews selected issues that officers bring to his/her attention
  - (d) One, who is involved to a limited degree in the performance or review of selected key decisions
  - (e) One, who takes the lead role in establishing and modifying the mission.
  
4. Firms operating outside an industry are lured by its attractiveness to enter that industry. Which of the following results in a higher degree of threat from a firm trying to enter into the industry?
  - I. Existing firm having highly differentiated products.
  - ☒ II. Low capital requirement for the new entrant.
  - ☒ III. Government clearance not needed.
  - (a) Only (I) above
  - (b) Only (II) above
  - (c) Both (I) and (II) above
  - (d) Both (I) and (III) above
  - ☒ (e) Both (II) and (III) above.

5. The dimensions used as a basis for formally describing the organizational structure are called structural dimensions. Which of the following structural dimensions refer to the extent to which written rules and records are maintained in the organization?
- (a) Formalization
  - (b) Specialization ✗
  - (c) Centralization ✗
  - (d) Hierarchy of authority ✗
  - (e) Professionalism. ✗
6. Cost drivers are considered the structural causes of the cost of an activity and can be more or less under a firm's control. Which of the following is **not** a major cost driver that determines the cost behavior of the value activities?
- (a) Learning
  - (b) Demand for the end product
  - ☒ (c) The pattern of capacity utilization
  - (d) Location
  - (e) Linkages.
7. The transition to maturity can lead to changes in the basic structure of an industry. Which of the following is/are the likely steps involved in strategy formulation in maturing industries?
- I. Rationalizing the product mix. ✓
  - II. Change in pricing methodology.
  - III. ✗ Reducing the number of channels employed. ✗
- (a) Only (I) above
  - (b) ✗ Only (III) above
  - ☒ (c) Both (I) and (II) above
  - (d) ✗ Both (I) and (III) above
  - (e) ✗ Both (II) and (III) above.
8. Which of the following segregates the strategically relevant activities of a firm to understand the cost behavior of each activity?
- (a) Centralization
  - (b) Decentralization
  - (c) Strategic Business Units (SBUs)
  - ☒ (d) Value chain
  - (e) Segmentation.
9. One of the factors, with which premise control is concerned with, is environmental factors. These factors are those, over which a firm has little or no control but which have an impact on the firm's operations. Which of the following is/are example(s) of environmental factors?
- I. ✓ Government policies.
  - II. ✓ Technology.
  - III. Suppliers. ✗
  - IV. Barriers to entry. ✗
- (a) Only (I) above
  - ☒ (b) Both (I) and (II) above
  - (c) Both (I) and (III) above
  - (d) (I), (III) and (IV) above
  - (e) (II), (III) and (IV) above.

10. Which of the following activities is said to take place, when an intended change is realized and new patterns of behavior are institutionalized in an organization?
- (a) Reengineering
  - (b) Restructuring
  - (c) Reshaping
  - ☒ (d) Refreezing
  - (e) Redesigning.
11. Strategic alliances can be classified according to the power of the companies that enter into the alliance with the possibility that the alliance might end in the sale of one or more of the participants. In this context, which of the following relates to a disguised sale?
- (a) ☒ Short-lived alliance between two strong firms that are in direct competition with each other, ultimately resulting in merger/acquisition
  - (b) ☒ Two strong and compatible partners enter into an alliance but competitive tensions develop resulting in one partner selling out to another
  - (c) Short-lived alliance between a weak and a strong firm, wherein the weak partner remains weak during the course of the alliance and is eventually acquired by the stronger partner
  - (d) ☒ Alliance between a weak and a strong firm wherein the weak firm uses the alliance to improve its competencies, but it remains relatively weak and is acquired by the stronger firm in the end
  - (e) ☒ Two weak firms joining hands to improve their positions but both the firms usually grow weaker resulting in takeover by a third party.
12. The information technology department of Menlo Technologies Pvt. Ltd. has started charging transfer price for the services provided to its internal customers, which was earlier provided free of cost. As a result, the buying centers find it suitable to contract with a firm outside Menlo which can provide similar services. Which of the following situations is said to be apt in the context of Menlo Technologies Pvt. Ltd.?
- (a) Traditional cost centers are being converted into revenue centers
  - ☒ (b) Traditional cost centers are being converted into profit centers
  - (c) Traditional cost centers are being converted into investment centers
  - (d) ☒ Traditional investment centers are being converted into revenue centers
  - (e) ☒ Traditional revenue centers are being converted into profit centers.
13. Market penetration is a strategy wherein a firm seeks to increase its market share for present products and services in its present markets through increased marketing efforts. Under which of the following situation(s) is/are pursuing such a strategy suitable?
- I. ☒ Present markets are saturated with present products.
  - II. ☒ Overall industry sales are witnessing an increase but that of the competitors are declining.
  - III. ☒ Correlation between the sales revenues and marketing expenses has been high.
- (a) Only (I) above
  - (b) Only (II) above
  - (c) Both (I) and (II) above
  - (d) Both (I) and (III) above
  - (e) Both (II) and (III) above.

14. Henry Mintzberg classified strategic decision-making into three different modes. They are entrepreneurial mode, adaptive mode and planning mode. Which of the following statements relating to planning mode is **incorrect**?
- (a) ☒ In this mode, appropriate information for situational analysis is gathered systematically
  - (b) ☒ It encompasses both a proactive search for opportunities and a reactive solution to existing problems
  - (c) ☒ It helps the firm to be better prepared for environmental uncertainties
  - (d) ☒ This mode of decision-making results in a fragmented strategy with incremental improvement
  - (e) ☒ It includes the basic elements of the strategic management process.
15. Corporate restructuring can be classified into four forms. All of the following relate to expansion form, **except**
- I. ☒ Mergers and acquisitions.
  - II. ☒ Proxy contests.
  - III. ☒ Tender offers.
  - IV. ☒ Joint ventures.
- (a) Only (I) above
  - (b) Only (II) above
  - (c) Only (III) above
  - (d) Both (II) and (III) above
  - (e) Both (III) and (IV) above.
16. Financial analysis is an important tool for assessing the strength of an organization within its industry. Which of the following types of ratios calculated under financial analysis is used for measuring a firm's efficiency in generating sales and making collections?
- (a) ☒ Liquidity ratio
  - (b) ☒ Leverage ratio
  - (c) ☒ Activity ratio
  - (d) ☒ Profitability ratio
  - (e) ☒ Productivity ratio.
17. Which of the following factors is used to assess procurement, one of the supporting activities of the value chain?
- I. Development of an image of quality and a favorable reputation.
  - II. Development of alternate sources for nipple to minimize dependence on a single supplier.
  - III. ☒ Development of criteria for lease-versus-purchase decisions.
- (a) Only (I) above
  - (b) Only (II) above
  - (c) Both (I) and (II) above
  - (d) Both (I) and (III) above
  - ☒ (e) Both (II) and (III) above.

18. Suppliers are an important component of a firm's competitive environment. The strength of the suppliers vis-à-vis the firm determines the ability of the firm to generate profits. Under which of the following circumstances are the suppliers said to be less powerful?
- (a) ✓ When the product that they sell has few substitutes and is important to the buyer
  - (b) ✗ When no single industry is a major customer for the suppliers
  - (c) ✗ When products in the industry are differentiated to such an extent that they are not easily substitutable
  - (d) ✓ When buying companies use threat to provide for their own needs through vertical integration as a device for forcing down prices
  - (e) When the supplier, to raise prices, use the threat of vertically integrating forward into the industry and competing directly with the buying company.
19. Under a special type of implementation control, the overall strategy is broken down into smaller components for implementation. These smaller components are referred to as
- (a) Milestone reviews ✗
  - (b) ✓ Strategic thrusts
  - (c) Strategic surveillance
  - (d) Premise control
  - (e) Special alert control.
20. Poison pill defense is a popular but controversial defense mechanism against hostile takeover bids. Which of the following is/are true with respect to a poison pill defense mechanism?
- I. The special rights provided to the holders of securities under this mechanism needs to be exercised immediately after a takeover attempt.
  - II. ✗ The takeover attempt could be either a tender offer for control or accumulation of a specified percentage of targeted shares.
  - III. The exercise of the rights makes the takeover more difficult and/or costly for an acquirer.
  - IV. ✗ Shareholders' approval is required for adoption of poison pills by the board of directors.
- (a) Only (I) above
  - (b) Both (I) and (III) above
  - (c) ✓ Both (II) and (III) above
  - (d) (I), (II) and (IV) above
  - (e) (II), (III) and (IV) above.
21. Ford Motors Ltd. manufactures its cars in Europe and provides sales and services in different countries. Thus, Ford derives a cost advantage by sharing technology development and manufacturing costs across Europe. This advantage accrues to Ford Motors on account of which of the following dimensions of competitive scope?
- (a) Segment scope ✗
  - (b) Vertical scope ✗
  - (c) Horizontal scope ✗
  - (d) ✓ Geographic scope
  - (e) Industry scope. ✗

22. Which of the following is an initiative under technology policy that a government has to take in order to meet the global competitive challenges?
- (a) Change in tax laws to stimulate a higher rate of savings
  - (b) ✓ Better coordination among government agencies in policy setting and allocation of funds to Research and Development (R&D)
  - (c) ✗ Permission to banks to invest in equities with safeguards assuring long-term rather than short-term trading
  - (d) ✗ Removal of incentives for financial manipulation in buying and selling corporations
  - (e) ✓ Change in capital gains laws to provide incentives for entrepreneurs and long-term investments.
23. The mission statement is an enduring statement of purpose for an organization; it refers to the philosophy of the business and serves to build the image of the company in terms of activities currently pursued by the organization and its future plans. Which of the following is/are the component(s) of a mission statement?
- I. The basic type of product to be offered.
  - II. The primary markets to be served.
  - III. ✗ The details of the stake holders.
  - IV. ✓ The principal technology to be used in production or delivery.
- (a) Only (I) above
  - (b) Both (I) and (II) above
  - (c) (I), (II) and (III) above
  - (d) (I), (II) and (IV) above
  - (e) (I), (III) and (IV) above.
24. The Balanced Scorecard framework, as proposed by Robert Kaplan and David Norton, takes into consideration four perspectives. Which of the following is **not** one of those perspectives?
- (a) ✗ Customer perspective
  - (b) Financial perspective
  - (c) ✗ Resource planning perspective
  - (d) ✓ Internal business process perspective
  - (e) ✗ Growth perspective.
25. Forex Pvt. Ltd. plans to sell off a part of the firm via offering of shares to outsiders giving them ownership portion of the previously existing firm. Which of the following types of corporate restructuring is applied by the company in this case?
- (a) ✓ Equity Carve Out
  - (b) ✗ Spin-off
  - (c) ✗ Split Up
  - (d) Divestiture
  - (e) ✗ Tender Offer.

26. Business level is one of the three levels at which strategy can be formulated. Which of the following is/are **true** with respect to business level strategy?
- I. It reflects the path towards attaining the vision of an organization.
  - II. ✓ It relates to a distinct product-market area.
  - III. ✗ It outlines in which business unit investments should be increased in line with the vision of the firm.
- (a) Only (I) above
  - (b) Only (II) above
  - (c) Only (III) above
  - (d) Both (I) and (III) above
  - (e) Both (II) and (III) above.
27. Once the management takes the decision to go in for a divestment, the first and foremost step while assembling the divestiture team would be
- (a) To identify the potential purchaser
  - (b) To assemble the core team
  - (c) To select a project manager
  - (d) To formulate a definitive project plan
  - (e) To prepare the offering memorandum.
28. Mr. Ramdev has been assigned by his enterprise, to work on the development of a budget that plans future investments in major assets such as building and heavy machinery. He needs to prepare this budget with great care as it gives a definite form to the spending plans of his enterprise. Which of the following types of budget is Mr. Ramdev working upon?
- (a) Cash budget
  - (b) Revenue budget
  - (c) Capital budget
  - (d) Operating budget
  - (e) Expenditure budget.
29. A firm enters into coalitions to gain certain advantages. Which of the following is/are the advantages of coalition?
- I. ✓ It broadens the scope of operations without broadening the firm.
  - II. ✗ A firms gets an opportunity to share its activities by entering into new industry segments.
  - III. ✗ It bestows the cost and differentiation advantages of vertical linkages without the firm having to go for vertical integration.
- (a) Only (I) above
  - (b) Only (II) above
  - (c) Both (I) and (II) above
  - (d) Both (I) and (III) above
  - (e) Both (II) and (III) above.
30. Which of the following types of mergers can result in decreasing the number of firms in an industry and create a monopoly market, leading to consumer suffering?
- ✗ (a) Horizontal
  - (b) Vertical
  - (c) Product extension
  - (d) Geographic extension
  - (e) Pure conglomerate.

**END OF SECTION A**



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## Sections B&C

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## Section B : Caselets (50 Marks)

- This section consists of questions with serial number 1 – 6.
- Answer all questions.
- Marks are indicated against each question.
- Detailed explanations should form part of your answer.
- Do not spend more than 110 - 120 minutes on Section B.

### Caselet I

**Answer the following questions based on the given Caselet:**

1. To change customers' perceptions about JC Penney Corporation Inc. (JCP) and the employees' perception about themselves, the company and their roles had to change. In this context, discuss the challenges faced by Myron E Ullman in bringing about a cultural change at JCP. Also identify the cultural settings exhibited in JCP before and after Ullman's entry as the chairman and CEO of the company. ( 8 marks)
2. For successful execution of strategy, leaders take up the task of institutionalizing the change to manage and create a distinct culture within their organization. List the ways in which leaders, in general, institutionalize such change. Justify the same in the case of JCP. ( 9 marks)

JC Penney Corporation, Inc. (JCP), which had more than 90 years history behind it, recovered from a weak performance in the late 1990s with a dramatic turnaround between 1999 and 2004. It was against this backdrop, that Myron E Ullman III (Ullman) joined JCP as chairman and CEO in December 2004. Shortly after joining, Ullman unveiled a long term plan with the focus on taking JCP to industry leadership level. One of the strategies to achieve this objective was to make JCP a great place to work in. Ullman felt that there was a correlation between engaged associates (employees) and store profitability. Ullman realized that change was necessary to face the cut-throat competition. JCP, which targeted middle-income customers, was in a particularly tricky situation as it had to face aggressive competition from both the discounters (with lower prices) and the higher-end department stores (with designer brands). To win in this competitive situation, JCP had to shed certain aspects of its culture, Ullman insisted. To change customers' perceptions about JCP and the employees' perception about themselves, the company and their roles had to change.

Ullman wanted to build a customer-focused culture at JCP. But in trying to do so, he met with significant challenges. When Ullman joined the company, he found that the organizational culture at JCP was very formal and rigid. Employees addressed their managers formally, and not by their first names. They were expected to dress formally and to desist from decorating their cubicles. A band of "office police" reporting to the Human Resource (HR) department ensured that the employees complied with the rigid rules. Promoting from within was given more priority. Employees had to work their way up through the stores. Generally, employees could not think of reaching a senior management position without working as a store manager. Furthermore, initiatives taken by middle and lower level managers were discouraged. Moreover, due to the recent turnaround, the mood of the employees was not "forward-thinking" as they were pleased that a major disaster had been averted. Ullman's objective was to take JCP from this position to that of leadership in the industry, but he realized that the prevailing mood would act as a deterrent to these ambitions.

In early 2005, Ullman started the new change initiative at JCP with various symbolic changes. Instead of going in for wholesale changes, the management team at JCP resorted to a series of small changes to initiate the culture change at JCP. They were confident that these changes, called "quick hits," would go a long way in initiating a "cultural revolution" at JCP. A poster campaign called "Just Call Me Mike" was started to promote the idea that "First names create a friendly place to shop and work." The posters were displayed throughout the corporate campus. JCP also relaxed the dress code and allowed employees to decorate their cubicles according to their tastes and preferences. To the joy of the employees, the "office police" team was disbanded. JCP also decided to replace the various art works on its walls with photos of its employees and other art related to the company. Middle and lower level managers were encouraged to take initiatives.

Another significant change at JCP was the launch of the "Winning Together Principles" (WTP). WTP was an updated moral code for employees, that built on and went beyond the Honor, Confidence, Service, Cooperation (HCSC) motto, propounded by JCP's founder. These principles were to guide the employees at work. The principles addressed cultural, ethical, and people development issues. They also included caring about the community. The management felt that to project JCP as a great place to work in, the employees had to feel that they could build a career in the company. In an industry where many companies were reluctant to invest in training due to the high turnover of employees, JCP viewed such investments as a panacea for the problem. JCP believed in in-house training and no training was outsourced. This was because JCP wanted its employees to learn the company's point of view rather than someone else's.

In 2006, JCP started identifying high-potential employees called 'hypos' in JCP parlance. These employees were sent to the "Retail Academy". It was like a graduate school on retailing, strategy, and team development. Modules on leadership were provided to the key people identified by the management. Top level executives including Ullman acted as faculty members at this academy. The key values and focus of JCP were internalized by the trainees as these messages were repeatedly reinforced by different top executives. This helped the trainees develop a conviction regarding the messages, and helping the messages percolate down the line. The program also provided the trainees with an opportunity to network with other employees.

By the end of 2006, the results of the change initiatives adopted by Ullman and his team seemed to be bearing fruit. The various initiatives were having a positive impact on the employees and their job satisfaction. JCP's second "Associate Engagement Survey" (AES) in 2006 revealed that 73 percent of JCP's employees were "engaged" as compared to 67 percent in the 2005 AES. Analysts noted that such high numbers were good, especially for a retail chain. JCP was also able to attract enough talent. Graduates from premier design and retail schools showed an interest in working with the company. The impact on the bottom line was also visible as JCP posted its 15th consecutive quarter of sales gains at the end of fiscal year 2006. Its share prices too showed significant growth. JCP said that the associates, through their involvement, had helped in making the difference. Analysts agreed that culture played an important role in the performance of a company and in how potential employees perceived the company as an employer. They credited Ullman with bringing about a revolutionary change in the culture of JCP, first through symbolic changes, and then following up with a sustained involvement of the top management with the employees.

**END OF CASELET 1**

## Caselet 2

**Answer the following questions based on the given Caselet:**

3. Benetton group forayed into different types of businesses using a mix of growth strategies. Identify the instances from the case which can be grouped into various heads of growth strategies. ( 6 marks)
4. Benetton entered into several businesses from sportswear to merchant banking using growth strategies. Discuss the generic objectives behind such growth strategies. How far was Benetton able to achieve its objectives? ( 9 marks)

Benetton was founded as a single shop in Italy in 1965. Three years later the company expanded into France. Eventually, Benetton spread throughout Europe and by 1979 it was established in the United States. Benetton Group is a unique global group that is a part of a larger organization known as the Edizione Holding Group. This is the holding company through which the Benetton family has ownership in many different businesses including hotels, publishing, and real estate. The Edizione Holding Group as well as the Benetton Group was founded by the Benetton family, which is made up of four siblings: Luciano, Chairman; Gilberto, Deputy Chairman and Joint Managing Director; Carlo, Director; and Giuliana, Director, who own and run the company. The Benetton family had its humble beginning in a small town selling handmade sweaters. The handmade sweaters business gradually became a highly successful international clothing business. After achieving such success, in the late 1980s the family began entering into various other businesses following the saturation of the Italian market.

Since the 1980s, the Benetton family has forayed into several businesses through its holding company, Edizione Holding (Edizione). The Benetton family entered the areas of sportswear and equipment through Benetton Sportssystem; food outlets and catering through Autogrill; motorways construction and management through Autostrade; the telecom business through Telecom Italia; and merchant banking and private fund management through 21 Investimenti. Some of these moves proved profitable, while the others lost money for the parent company. Some of these companies were later sold. Not only did Benetton lose money through some of these initiatives, but it also had to face investigations by the Italian Competition Authority for anti-competitive practices and non-compliance with the stipulations regarding acquisitions.

Because financial services were poor in Italy, Benetton began lending to its suppliers. By 1986 this informal business grew to \$400 million in leasing and factoring. Bencom S.p.A. was incorporated as a subsidiary in 1987 to undertake leasing activities, and a financial services company was formed. Like the retail line, financial services were structured with the Benetton management philosophy-independent entrepreneurs selling and receiving commissions. The financial services evolved to include insurance products and personal and corporate financial services. Other non-retail interests included stakes in Italy's largest department store chains, banks, hotels, and real estate. Unfortunately, these ventures required heavy capital investments and took away concentration of management time from the retail sector. Nevertheless, Benetton's retail line was expanded. However, the move proved inappropriate and in 1989, the company sold its merchant banking interests.

Since 1989, Edizione has managed several sports brands through its company, Benetton Sportssystem. This company managed an ensemble of labels such as Ektelon, Grafalloy, Kastle, Killer Loop, Nordica, Prince and Rollerblade. Many of these brands were market leaders and synonymous with the sport for which they produced sportswear and equipment. When Edizione bought the various sports equipment brands, it believed that there was a synergy to be derived. But with hindsight, it appears that things were more complicated.

Mike Bizner (Bizner), Benetton Sportssystem's winter sports director at the time, later explained, "After buying at the height of the market, there was a tremendous pressure to create an 'umbrella' of sorts. 'Finding the right synergy' between these brands became a big deal. However, there were multiple false starts in searching for those synergies. Like Fibre Tube skis." The perceived synergy between Prince and Kastle did not materialize and, in fact, dealt a major blow to Kastle's brand value.

The Benetton group's foray into various businesses brought them both admiration and criticism from the Italian business community and the Government. While Autogrill and Autostrade made brisk business, the same could not be said for Benetton Sportssystem and Telecom Italia. Initially, all the sports brands that were acquired were managed by Benetton sportssystem, which was held by Edizione. It was then, in 1997, sold to the Benetton Group, which was also held by Edizione. At the time, many financial experts expressed the opinion that the only reason the sale was made, was to reduce Edizione's debt. "The deal boils down to using Benetton Group cash to cover the debt upstairs", said a Milan-based investment banker. However, the Benetton family maintained that it was a fair deal. In addition, they believed that the Benetton Group's vast retailing experience in the clothing business would benefit Benetton Sportssystem.

To beat the worldwide recession and increase market share, in 1992 Benetton developed strategies to achieve the following goals: to improve operating margins, reducing prices by about 15 percent, increasing production volume, improving product mix, and taking advantage of the devaluation of the lira to improve operating efficiency, reducing number of styles of its collection from 4,000 to 2,600, and acquiring and integrating the operations of four key former subcontractors; and to improve cash flows, refinancing short and medium-term debt. The mix of items was improved by introducing sophisticated classic professional apparel through shops dedicated to these higher-margin product lines and for dress shirts, Di Varese for shoes, and Benetton Uomo and Benetton Donna for mature men and women- and by continuing to expand into the sporting goods market. By mid-1992, Benetton bought the remaining interest in Galli Filati and consolidated interests in four suppliers of woolen and cotton materials; now about 68 percent of the cost of production was represented by charges from subcontractors, compared with 87 percent in 1991. As a result, 1992 group sales rose by 10 percent.

## END OF CASELET 2

### Caselet 3

**Answer the following questions based on the given Caselet:**

5. PSA Peugeot Citroen (PSA) concentrated on entering into strategic alliances to counter the challenges posed by its competitors. Discuss the benefits reaped by PSA by entering into the various strategic alliances. ( 9 marks)
6. In spite of the benefits reaped from the various alliances, PSA was still experiencing fall in its sales in the European market. In this context, analyze
  - i. The challenges faced by PSA.
  - ii. The need for revision of strategy in terms of working with alliances versus working alone. ( 9 marks)

Forming of strategic alliances by various companies in the automobile industry is not new. PSA Peugeot Citroen (PSA) could be considered the pioneer of strategic alliances in the automobile industry. Its first alliance with Renault started way back in 1966. Over the years, the company has gained considerably from its strategic alliances with several automobile and auto component companies. Subsequently, other automobile companies have taken the cue from PSA, and entered into alliances and partnerships of their own, with their competitors.



In the 1990s and 2000s, intense competition in the auto industry led to a wave of consolidation. Several auto companies bought stakes in their competitors. For example, DaimlerChrysler bought a 37% stake in Mitsubishi, Ford bought a 33% stake in Mazda, GM held a 20% stake in Fiat Auto, and Renault acquired a 44% stake in Nissan. PSA did not make any effort to buy or acquire stakes in other auto companies. "We can definitely get by on our own," Folz said. PSA, however, concentrated on entering into strategic alliances to counter the challenges posed by its competitors. A major advantage of such strategic alliances over a merger or acquisition was that PSA did not have to look for massive debt financing and years of inefficiencies due to duplications in manufacturing. PSA entered joint ventures mostly with strong players - Ford, Renault, Toyota, and BMW. And the purpose of these alliances was to share costs and investments and create synergies.

PSA believed that an important factor for success was the ability to bring out a variety of models with minimum costs. Folz said, "The key to succeeding in this car market is to rapidly produce cars as varied and attractive as possible and to do that at a competitive cost." PSA's alliances with Toyota and Fiat helped it to expand its product range. At the same time, by sharing the costs and risks, it was able to provide more choice to its customers with minimum investment.

PSA's strategic alliances were also meant to achieve economies of scale, which in turn helped lower per unit costs and risks. The company brought out several models of cars based on a single platform, using its superior styling and design skills to differentiate the models. Folz said, "The key to survival in the car industry today is not to produce three, four or five million cars. The real question is one's ability to produce a maximum number of cars on a limited number of platforms. That's what we're trying to do." The alliances with Toyota for small cars and with Fiat for light commercial vehicles served to create new platforms, which would be used to launch several future models.

PSA's alliances with Renault, Ford and BMW helped it develop engines with the latest technology, something which it might have found it difficult to manage alone. The alliances were successful in creating synergies between PSA and its partners. Owing to its alliances with the major players, PSA managed to remain at the forefront of engine technology.

The shared costs and risks helped PSA not only to price its cars competitively but also enjoy higher margins. While Volkswagen, the market leader and PSA's rival in the European market, had a profit margin of less than 1% in 2004, PSA enjoyed a margin as high as 4% in the same period.

Apart from sharing costs, risks, and investments, strategic alliances also helped PSA to acquire and develop new technologies. In the joint venture with Toyota, though the production was controlled by Toyota, 10 managers from PSA were stationed at the plant providing them with the opportunity to learn about the world-renowned production system followed by Toyota. This was expected to improve the production system at PSA in the future.

PSA also seemed to be reaping unexpected rewards from its joint ventures. A case in point was again its joint venture with Toyota for the Peugeot 107, Citroen C1 and Toyota Ayga city cars. Toyota was known the world over for the superior quality and dependability of its cars. The high quality was the direct result of the famed Toyota Production System (TPS). On the other hand, PSA cars didn't figure very high on dependability, as evidenced by their poor customer satisfaction scores and low resale values. Analysts however expected the 107 and C1 cars to have higher resale values owing to Toyota's involvement in their production.

In 2005, the European automobile market was witnessing slow growth rate coupled with rising prices of gasoline. This aggravated the competition between PSA and Volkswagen, the undisputed leader (in terms of the number of cars sold) in the European car market in 2005. Even though PSA continued to retain its second position in Europe, the gap with

Volkswagen was widening. Volkswagen managed to increase its market share from 18.6% in 2004 to 19.3% in 2005, while PSA's share fell from 13.8% to 13.5%. Though Toyota was a distant eighth in the rankings, it had improved its sales in a shrinking market. Moving towards its goal of capturing 15% of the world automobile market by 2010, Toyota was intensifying its efforts in Europe - an important market for the carmaker. PSA's strength was in compact cars which were hugely popular in most countries in Europe, its traditional market. However, the Japanese players like Honda were increasingly targeting the same segment. Even DaimlerChrysler and BMW were expanding their product ranges to include small cars.

PSA received a mere 15% of its revenues from outside Western Europe. In other markets where PSA had a presence, the company was not doing too well. In China, GM and Volkswagen were ruling the roost. PSA's market share in China was stuck at around 5% over several years. And in India the company was not even present. Though PSA collaborated with its competitors, it was also sometimes critical of them. For example, PSA criticized some technologies introduced by Toyota. PSA was of the opinion that the Prius gasoline-electric hybrid car introduced by Toyota in the early 2000s was high-priced. The high price resulted in low sales, which it felt didn't do much to help the environment.

Though PSA was considered a champion of alliances, analysts felt that competition from its partners in the future might affect its relationship with them. However, other analysts felt that the purpose of alliances was to lower costs and risks and PSA was certainly reaping these benefits. Carlos Ghosn, Chief Executive, Renault talking about his company's alliances once said, "It (entering into alliances) doesn't mean that people will be complacent of each other. We're still competitors, and competing heavily. But at the same time we are business people. That means when an agreement makes sense it has to be done."

**END OF CASELET 3**

**END OF SECTION B**

### **Section C : Applied Theory (20 Marks)**

- This section consists of questions with serial number 7 - 8.
- Answer all questions.
- Marks are indicated against each question.
- Do not spend more than 25 -30 minutes on Section C.

7. In fragmented industries, such as retail and service, no firm has a significant market share. However, the majority of firms can strongly influence the outcome of the industry. Reasons for fragmentation of the industry may vary from the historical to the economical. Discuss these reasons in detail. ( 10 marks)
8. Board of directors acts as a collective entity and contributes to the strategy team. In the context of strategic management, discuss the various responsibilities of Board of directors. ( 10 marks)

**END OF SECTION C**

**END OF QUESTION PAPER**

# INSTRUCTIONS FOR MARKING ANSWERS ON THE OMR SHEET

## 1. Section - I

Use **Ball Point Pen** only.

Fill in all the particulars in the space provided.

## 2. Section - II

Use **H B Pencil** only.

Fill in one character/digit per cell and darken the corresponding circle below that cell.

Details to be filled include enrolment no., question booklet no., test centre code & OMR answer sheet number.

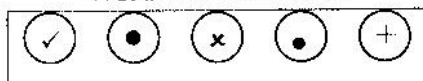
In case you want to change any of the information in this section, erase completely the pencil marking in the already darkened circle before darkening a new cell.

## 3. Section - III

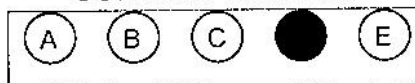
### (i) Marking the answer

- ☞ Mark your **answers** in this section using **H B Pencil** only.
- ☞ For answering each question five circles marked with options A, B, C, D and E are provided corresponding to the five options given in the question.
- ☞ Mark your answer by darkening completely the circle consisting of the option you think is the right answer.
- ☞ Do not darken more than one circle for any answer.
- ☞ Do not fill the circle by darkening partly or putting a tick mark, cross mark or any other kind of mark.

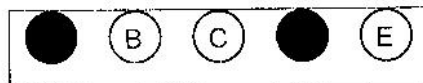
### WRONG METHOD



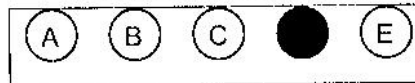
### CORRECT METHOD



### WRONG METHOD



### CORRECT METHOD



### (ii) Changing the answer

- ☞ To change your response, erase completely the pencil marking in the circle before darkening a new circle.

For Example assume that you have marked option (e) as the answer to a question as follows:

1.      (a)      (b)      (c)      (d)      (e)

If you want to change this answer to option (c), erase completely the circle marked earlier i.e., (e) and darken the circle with option (c) as follows:

1.      (a)      (b)      (c)      (d)      (e)

4. **DO NOT** fold, tear or crumple the OMR answer sheet.

5. **DO NOT** use the OMR answer sheet for any rough work or scribbling.