

QUESTION BOOKLET NUMBER

0111

Subject Code

MB311

PROGRAM : MBA

SUBJECT : Business Policy and Strategy

DATE : January 23, 2011

TIMINGS: 14:30 Hrs to 17:30 Hrs

TOTAL MARKS: 100

DURATION: 3 Hours

To be filled by the Student

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. Mr. Warren Buffet, the chairman of Berkshire Hathaway, donated on behalf of the company, \$31 billion to the Gates Foundation, which campaigns to eradicate malaria and river blindness. This initiative was seen as a big boon to help cure fatal diseases. Which of the following types of social responsibilities is being discharged by Berkshire Hathaway in the above scenario?
(a) Economic responsibility
(b) Legal responsibility
(c) Ethical responsibility
(d) Financial responsibility
(e) Discretionary responsibility.
2. Backward integration involves encompassing a role previously executed by a supplier. Which of the following does **not** represent an advantage specific to backward integration?
(a) The firm can have a regular and uninterrupted supply of raw materials, components and other inputs
(b) The firm can enjoy economies of large-scale operations
(c) The firm can enjoy greater degree of control over the interactions with the customers
(d) Quality control of raw materials, components and parts is ensured
(e) The firm can increase its power of negotiation with other suppliers in view of access to information on costs, facilities, earning potential etc.
3. Strategic control can be established in various forms. Which of its forms checks on the validity of the assumptions, the basis on which a strategy was formulated?
(a) Premise control
(b) Strategic thrusts
(c) Milestone reviews
(d) Strategic surveillance
(e) Special alert control.

4. Organizations often fail to develop sound strategic management perspectives for a variety of reasons; "Kidding themselves" syndrome, being one of them. This syndrome occurs when
- (a) Information systems fail to provide the information needed by the top management to determine the organization's position relative to that of the competitors
 - (b) Senior managers ignore the unpleasant information that does not tally with their own preferred views of the operating environment
 - (c) Senior managers get complacent after seeing initial successes
 - (d) Senior managers are excessively involved in everyday operational problems of the organization
 - (e) Managers are reluctant to see the organization move in a new direction.

5. A follower of 'Machiavellianism' is said to use which of the following forms of power?

- (a) Expert power
- (b) Personal power
- (c) Legitimate power
- (d) Coercive power
- (e) Information power.

6. All the following statements refer to one concept in common.

- I. It builds upon the interplay between core ideology and foreseen future.
- II. It provides managers with a unity of direction that transcends individual, parochial and transitory needs.
- III. It projects a sense of worth and intent that can be identified and assimilated by those inside and outside the firm.

Identify from the following, the said concept.

- (a) Vision
- (b) Mission
- (c) Annual objectives
- (d) Long-term objectives
- (e) Policies.

7. Infotech Ltd., and Alcatel Ltd., two reputed software companies enter into an alliance in order to gain competitive advantage. However, after a short span of time, several differences crop up between the two partners leading to competitive discrepancies and tensions, the outcome of which was Alcatel Ltd., selling out to Infotech Ltd. The given instance stands as an example for which of the following types of strategic alliances?

- (a) Collision between two partners
- (b) Evolution to a sale
- (c) Disguised sale
- (d) Bootstrap alliance
- (e) Alliance of complimentary equals.

8. Value chain framework is useful for organizations in general and to managers in particular. Which of the following is/are **true** with respect to the strengths of the value chain analysis framework?
- I. It clearly highlights the importance of customer value.
 - II. It provides a sense of direction to managers by offering a generic checklist of what to analyze when assessing a firm.
 - III. It provides a sense of how various activities interact or relate to one another.
 - IV. It indicates that everything an organization does can be managed to improve the firm's overall ability to create value.
- (a) Only (I) above
 - (b) Both (II) and (III) above
 - (c) (I), (II) and (III) above
 - (d) (I), (II) and (IV) above
 - ☒ (e) (II), (III) and (IV) above.
9. When individual business managers get the right to take decisions for their respective business units, the organization is considered to have a high degree of
- (a) Formalization
 - (b) Specialization
 - (c) Centralization
 - ☒ (d) Decentralization
 - (e) Hierarchical authority.
10. An organization, adopting which of the following anti-takeover defense mechanisms, indulges in private negotiations and repurchases a large block of its own stock from an individual shareholder or a subset of shareholders at a premium?
- ☒ (a) Greenmail
 - (b) Golden parachutes
 - (c) Leveraged recapitalization
 - (d) People pill
 - (e) Poison pill.
11. Which of the following type(s) of corporate restructuring results in the creation of a separate legal entity?
- I. Equity carve-out.
 - II. Split-offs.
 - III. Split-ups
 - IV. Divestitures.
- (a) Only (I) above
 - (b) Both (I) and (II) above
 - (c) (I), (II) and (III) above
 - (d) ~~(I), (III) and (IV) above~~
 - ☒ (e) (II), (III) and (IV) above.

12. London based Mclean Ltd. has been into the retail business of clothing for a decade. It has over 100 outlets all over Europe and is planning to enter India, where growth for retailing is encouraging. For getting into the Indian retail market, Mclean has decided to form a joint venture with the Future Group and the investment in the venture would be around ₹10 billion. Which of the following is **least likely** to be a reason for Mclean to form a joint venture in order to enter the Indian retail industry?
- To reduce the negative effects of competition
 - To extend business by overcoming entry barriers
 - To avoid the internal costs of developing new products
 - To create a separate business entity in order to evade tax
 - To extend business by sharing investments.
13. Financial analysis is an important tool for assessing the strength of an organization within its industry. Which of the following is **true** with respect to profitability ratios, calculated in the process of financial analysis?
- They indicate the firm's ability to meet its short term obligations
 - They indicate how effectively a firm is being managed
 - They measure a firm's efficiency in generating sales and making collections
 - They depict a firm's ability to service its financial charges
 - They identify the investment vehicle for a firm's capital.
14. Thomson & Co., a management consultancy firm, wants to construct a Boston Consultancy Group (BCG) matrix for conducting the corporate strategic analysis of Avon Pvt. Ltd. Which of the following parameter(s) would Thomson & Co. consider for building the said matrix?
- Growth rate of the market.
 - Industry attractiveness.
 - Business strengths.
 - Relative market share.
- Both (I) and (II) above
 - Both (I) and (III) above
 - Both (I) and (IV) above
 - Both (II) and (III) above
 - Both (III) and (IV) above.
15. The organization structure of General Electronics (GE) is characterized by all the following:
- Team members are provided with resources, motivation and the authority to take core decisions.
 - Team members are cross-trained so that they can substitute each other if required.
 - Creativity, flexibility, trust, cooperation, employee empowerment and a customer-centric approach.
- GE's organization structure is said to be
- Horizontal
 - Functional
 - Divisional
 - Matrix
 - Hybrid.

16. Which of the following strategies need to be pursued by an organization when it has grown so rapidly that it requires a period of consolidation?
- (a) Market penetration
 - (b) Market development
 - (c) Product development
 - (d) Vertical integration
 - ☒ (e) Retrenchment
17. Sources of power help us in understanding and assessing the importance of power in relation to culture within strategic management. Which of the following constitute the internal sources of power for an organization?
- I. Control of strategic resources.
 - II. Control of the environment.
 - III. Resource dependence.
 - IV. Exercising discretion.
- (a) Both (I) and (II) above
 - (b) Both (I) and (III) above
 - (c) (I), (II) and (III) above
 - ☒ (d) (I), (II) and (IV) above
 - (e) (II), (III) and (IV) above
18. The Board of Directors of Tisco Pvt. Ltd. take the lead role in establishing and modifying the mission, objectives, strategy and policies of the organization. It has a very active strategy committee. Based on the degree of involvement of Board of Directors in strategic management, which of the following types does the Tisco board come under?
- (a) Phantom
 - (b) Rubber stamp
 - (c) Normal participation
 - (d) Active participation
 - ☒ (e) Catalyst
19. There are two theoretical perspectives that provide reasons for the decline of firms, the first stage in a turnaround process. They are K-extinction and R-extinction perspectives. Which of the following is/are **true** with respect to the K-extinction perspective?
- I. Macro or external factors are responsible for the decline.
 - II. The decline in the firm is due to a reduction in the resources within the firm.
 - III. As the concerned firm is part of an industry, any decline in the industry will result in the decline 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

20. Benchmarking emphasizes on improving a given business operation or a process by exploiting best practices and not best performance. Companies can adopt several types of benchmarking. Which of the following is **true** with reference to external benchmarking?
- (a) It is used by companies to compare their positions with respect to the performance characteristics of their key products and services
 - (b) It is used by companies to improve their overall performance by studying the long-term strategies and approaches that helped the best practice companies to succeed
 - ☒ (c) It is used by companies to improve specific key processes and operations with the help of best practice organizations involved in performing similar work or offering similar services
 - (d) It is used by companies in seeking an opportunity to learn from high-end performers
 - (e) It is used by companies against companies outside the country, as there are very few suitable benchmarking partners within the country.
21. The cost behavior of value activities is determined by ten major cost drivers. Which of the following cost drivers is a function of seasonal, cyclical and other demand or supply fluctuations unrelated to a competitive position?
- (a) Learning
 - (b) Linkages
 - ☒ (c) Capacity utilization
 - (d) Interrelationships
 - (e) Integration.
22. The following table presents the classification made by Henry Mintzberg of modes of strategic decision-making and their characteristics.

| Modes of Strategic decision-making | Characteristics |
|------------------------------------|---|
| i. Entrepreneurial mode | a. This mode is characterized by reactive solutions to existing problems. |
| ii. Adaptive mode | b. In this mode, appropriate information for situational analysis is gathered systematically. |
| iii. Planning mode | c. In this mode, strategies are framed by one powerful individual. |

Which of the following options represents a correct match between the mode and its characteristic?

- (a) i/a, ii/b, iii/c
- (b) i/a, ii/c, iii/b
- (c) i/b, ii/a, iii/c
- ☒ (d) i/c, ii/a, iii/b
- (e) i/c, ii/b, iii/a.

23. Change decisions can be categorized in terms of their significance to the organization. Which of the following decisions deal with changes in the relationships between divisions and functions?
- (a) Reengineering
 - ☒ (b) Restructuring
 - (c) Innovation
 - (d) Refreezing
 - (e) Redesigning
24. Competitive scope influences the competitive advantage by shaping the structure and economies of the value chain. It has different dimensions. Which of the following is/are **true** with respect to vertical scope, a dimension of competitive scope?
- I. It emphasizes on the variety of products and the types of buyers.
 - II. It refers to the extent of activities that are performed in-house.
 - III. It helps in streamlining the value activities between a firm and its suppliers, channels and buyers.
- (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
25. Excel Pvt. Ltd. is planning to adopt overall cost leadership strategy. According to this strategy, the firm has to make sustained efforts to reduce costs in all areas of business without compromising on the quality of its products and services. Which of the following is **not** a pitfall associated with the cost leadership strategies?
- (a) Linkage among activities such as quality assurance, inspection and service are rarely recognized
 - (b) Linkage between the purchased inputs and costs of other value activities goes unrecognized
 - (c) Too much attention is paid to activities representing a small fraction of total cost
 - (d) Failure to recognize the existence of segments in which costs behave differently
 - ☒ (e) Employing contradicting means of reducing cost.
26. Organizations have several types of budgets that are combined into an overall master budget. Revenue budgets are one of the types of budgets that translate company objectives into implementable plans. Which of the following statements is/are **true** with respect to revenue budgets?
- I. It provides for the daily management of financial resources.
 - II. It outlines specific spending for equipment, inventories and other such related items.
 - III. It gives a definite form to the spending plans of an enterprise.
- ☒ (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

27. Which of the following forms of corporate restructuring results in change in ownership structure and is identified with transactions that involve private companies borrowing substantially from third parties?
- (a) Management buyouts
 - ☒ (b) Leveraged buyouts
 - (c) Premium buy-backs
 - (d) Exchange offers
 - (e) Going private.
28. Which of the following types of external environment focuses on the study of instances like provision of better healthcare facilities leading to longer life spans, which in turn, have led to the increase in demand for certain products for elderly people?
- ☒ (a) Social environment
 - (b) Political environment
 - (c) Economic environment
 - (d) Operating environment
 - (e) Legal environment.
29. Crystal Clear Pvt. Ltd. is into glass making business. Its products are in the declining stage of the product life cycle. The industry is almost stagnating. However, the firm has the capability to offer related products at highly competitive prices. Which of the following types of strategies is the firm **most likely** to adopt under the given circumstances?
- (a) Product development
 - (b) Horizontal integration
 - ☒ (c) Concentric diversification
 - (d) Conglomerate diversification
 - (e) Horizontal diversification.
30. A takeover is the purchase of one company by another. Which of the following is/are **true** with respect to the factors that make a firm a desirable candidate for acquisition but vulnerable to a takeover?
- I. A low stock price compared to asset replacement cost or its potential earning power.
 - II. A highly liquid balance sheet with large amounts of excess cash.
 - III. Relatively large stock holdings under the control of incumbent management.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Only (III) above
 - ☒ (d) Both (I) and (II) above
 - (e) Both (II) and (III) above.

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| END OF SECTION A |
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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 1

Answer the following questions based on the given Caselet:

1. Operational efficiency is the hallmark of low cost airlines. Low cost airlines achieve low operational costs through efficiency, and pass on the advantage of lower costs in the form of low fares to customers. Analyze how AirAsia's strategy attained operational efficiency, keeping costs low. (9 marks)
2. Based on the discussion in the case, identify the type of generic competitive strategy which AirAsia is said to adopt. Also enlist the various risks that companies adopting such strategies are likely to encounter. (8 marks)

According to analysts, operational efficiency is the hallmark of low cost airlines. They make a distinction between 'low cost airlines' and 'low fare' or 'budget' airlines. Low fare airlines offer fares that are lower than those of the competitors. However, their costs may or may not support these fares. When an airline offers low fares without achieving low costs, it is detrimental to its financial health. Low cost airlines, on the other hand, achieve low operational costs through efficiency, and pass on the advantages of lower costs in the form of low fares to customers.

Malaysian based AirAsia airlines had the lowest cost per available seat mile (CASM, an important industry metric to measure costs) in the airline industry. AirAsia's CASM in 2004 was around \$0.04 (four cents), which was lower than even noted low cost airlines like JetBlue and Southwest Airlines. It achieved its low CASM by consciously and constantly making efforts to identify and eliminate or minimize all unnecessary costs.

AirAsia did not serve food on its flights. It correctly understood that airline food was not very popular with passengers and so did not enhance service or create value in any way. In addition, when an airline served food on board, it had to incur higher overall costs on the maintenance of the aircraft and appoint a larger cabin crew to serve passengers. Facilities also had to be made on board to store food items. Therefore, AirAsia did away with in-flight catering. Instead, it sold snacks like sandwiches, noodles and soups, priced between five and seven Malaysian ringgits, on board. It also sold hot and cold non-alcoholic beverages. These foods were relatively easier to store, and also generated additional revenue for the airline. The airline also did not allow outside food to be eaten on board. Eliminating catering on board helped AirAsia improve its turnaround time. AirAsia had a turnaround time of 25 minutes, which was on a par with some of the most successful low cost airlines of the world. One of the important contributors to AirAsia's low turnaround time was the fact that the crew itself helped clean the planes between flights.

AirAsia was the first Asian airline to introduce 'ticketless travel'. The airline made extensive use of the Internet to lower ticketing costs and make booking simpler for

guests. In 2003, it became the world's first airline to introduce SMS (cellular phone text messaging) bookings. Internet and SMS bookings help airlines lower costs by eliminating the commissions payable to travel agents. Airlines that have an online booking system in place can also operate with less manpower and lower overhead costs. By 2004, more than 50 percent of AirAsia's booking was done through the Internet.

AirAsia's guests who booked tickets through the Internet were issued a document with the itinerary and other details printed on it. This document was normally sent by email or faxed to the buyer. The passengers had to only bring this document, and where necessary, their passports, to board the flights. The airline did not assign seat numbers on its flights and seating was done on a first come first served basis (although the elderly and families with children were allowed to board first). This simplified the check-in procedure tremendously and contributed to achieving faster turnarounds, as people checked in early to get seats of their choice.

Like most other low cost airlines in the world, AirAsia aimed at operating a single type of aircraft. When Tony Fernandes (CEO of AirAsia) and his partners took over AirAsia, it had two Boeing 737 planes. Over the years, a few more planes of the same type were added. In late 2004, AirAsia placed the order with Airbus for 40 new A320 planes, with the first to be delivered in early 2006. (Some analysts thought that Airbus planes were more fuel-efficient and cost less to maintain than Boeing aircraft).

Company insiders said the airline would operate a mixed fleet for a few years, but that it would phase out its Boeing models as soon as the delivery of the Airbus planes was complete. Operating a single type of aircraft has several advantages for airlines, as it lowers overall maintenance costs and allows interchangeability of crews and spare parts. It also lowers pilot and crew training costs for the airline and brings economies of scale. AirAsia's planes were also configured in a single class to allow simplicity in operations.

AirAsia flew short haul, point-to-point flights rather than use a hub-and-spoke system. The point-to-point system was easier to operate and less expensive than the hub-and-spoke system as it eliminated the hassle of providing connections. It also lowered turnaround time and increased aircraft utilization, as aircraft did not have to be kept idle waiting for the connecting flight to arrive. A point-to-point system could also be operated with a smaller ground crew than a hub-and-spoke system.

With the exception of Kuala Lumpur, where AirAsia flew from the main airport, the airline used secondary airports in most other places. The rationale behind this was that these airports charged lower landing and parking fees than major airports. Most low cost airlines around the world use secondary airports so that they can pass on the advantages of lower costs to passengers. When AirAsia first started operating under Fernandes, it flew out of Subang airport, a smaller airport in Kuala Lumpur.

AirAsia incorporated cost economy into the cultural fabric at the airline. Everything was measured in terms of costs and the airline did whatever it could to lower costs wherever possible. Cost cutting, however, did not mean bad service quality. AirAsia was one of the few airlines in Asia that used leather upholstery for its seats. Leather seats enhanced the comfort of passengers and also contributed to lower

costs in the long run. The airline estimated that although leather seats had a high initial cost, they were cheaper to maintain and lasted longer than ordinary fabric seats. The costs were, therefore, spread over a longer period of time. Leather seats were also easy to clean, and contributed to lowering the turnaround time. Drew Magill, director of market analysis at Boeing Commercial Airplanes, estimated that low-cost airlines earn around 45 percent less revenue per mile than full-service airlines and so, need 50 percent lower costs. Therefore, the only low cost airlines that succeed are those that make cost savings an inherent part of their culture.

Carrying on its low cost strategy, AirAsia has set its eyes on the Indian aviation market in a big way. AirAsia entered India in 2008 with the inaugural flight from Tiruchirappalli (Trichy), India to Kuala Lumpur in a true Southern Indian spirit to depict the first route launched by AirAsia to India. Buoyed by an encouraging response from Indian travellers over a period of time, Air Asia decided to enlarge its operations in India by linking major cities including Delhi, Mumbai, Chennai, Bengaluru and Hyderabad in 2010 with various attractive low cost fare packages. One such package being Kuala Lumpur to Chennai at RM199.00 (INR 2,999.00). With the passage of time, it is to be seen whether AirAsia is able to create its magic in Indian territory as it has done in other countries.

END OF CASELET 1

Caselet 2

Answer the following questions based on the given Caselet:

3. Going by Hindalco's aim of becoming the world's leading producer of aluminium flat rolled products by acquiring Novelis, identify the type(s) of merger and acquisition to which this deal belongs and justify the same. (6 marks)
4. The acquisition of Novelis by Hindalco was one of the biggest acquisitions by an Indian company. In this regard, discuss the strategic benefits that accrued to Hindalco from the acquisition. Also state the issues raised against the acquisition. (9 marks)

On May 16, 2007, India based Hindalco Industries Limited (Hindalco), a subsidiary of the AV (Aditya Vikram) Birla Group of Companies, acquired the Canadian aluminum giant Alcan Inc.'s subsidiary Novelis Inc. (Novelis). The acquisition was the result of an agreement arrived at between Hindalco and Novelis on February 10, 2007. Hindalco was to buy Novelis for US\$ 6 billion in cash, making it one of the biggest acquisition by an Indian company.

After the deal was signed for the acquisition of Novelis, Hindalco's management issued press releases claiming that the acquisition would further internationalize its operations and increase the company's global presence. By acquiring Novelis, Hindalco aimed to achieve its long-held ambition of becoming the world's leading producer of aluminium flat rolled products. Hindalco had developed long-term strategies for expanding its operations globally and this acquisition was a part of it.

Novelis was the leader in producing rolled products in the Asia-Pacific, Europe, and South America and was the second largest company in North America in aluminum recycling, metal solidification and in rolling technologies worldwide. Novelis had the most modern technology in the industry and efficiently produced high-quality products in several countries across the world. While combining the assets of both the companies, the merged entity could establish a global integrated aluminum

producer with low-cost alumina and aluminum production facilities along with aluminum rolled product capability.

[Hindalco, which had an upstream technology of mining bauxite and converting it into alumina and then smelting it into aluminum, would benefit from the downstream technology of Novelis which produced a variety of aluminum products from the raw aluminum. Novelis had a downstream product capacity of 3.0 million tons while Hindalco had approximately 500 kilo tons.] In this context, Debu Bhattacharya, Managing Director of Hindalco, said, "If we earn \$10 for every \$100 of aluminum we sell, we will now be able to earn another \$10 for every \$100 worth of aluminum that Novelis processes into rolled products." [The deal was expected to help Hindalco in the long run by reducing the costs and time spent in accessing raw materials and by catering to the global customers of Novelis. The most important link between them was aluminum, which was Hindalco's finished product and the raw material for Novelis.]

[Hindalco got its revenues from the sale of its raw metal aluminum, while Novelis added value to the raw metal aluminum to come out with rolled aluminum products. These products were used in several high technology applications like automobiles, beverages, building and construction, etc. This helped Hindalco to capture the total value chain in the aluminum business. As the value chain was already established, it could directly access the market at a lower freight cost. Hindalco served one end of the value chain while Novelis served the other end.] [Novelis had highly sophisticated technology which would have taken Hindalco at least ten years to develop.] According to analysts, Novelis' assets had a replacement value of US\$ 12 billion and Hindalco would take a long period to match these assets in the four continents at its current production of 3.3 million ton.

Apart from gaining technology, Hindalco would also have access to the contracts which Novelis had entered into for the supply of can body (material for beverage cans). These contracts were to expire in January 2010. After 2011, Novelis can pricing issues would have been solved and the management expected that it would generate nearly 12 percent return on capital with an annual cash flow of US\$ 400 million. Hindalco would have more aluminum capacity by then and earn good returns on investments as it planned to add new capacities in its plants which were closer to Novelis plants in Malaysia and South Korea. Hindalco was a low cost producer of aluminum with good numbers on its balance sheet. However, it was still affected by the fluctuations in the prices of aluminum set by the London Metal Exchange (LME) in the previous few years. With this acquisition it expected to solve this problem.

Though the Hindalco-Novelis merger had many synergies, some analysts raised the issue of valuation of the deal as Novelis was not a profit-making company and had a debt of US\$ 2.4 billion. They opined that the acquisition deal was over-valued as the valuation was done on Novelis' financials for the year 2005 and not on the financials of 2006 in which the company had reported losses. They said that Hindalco might have to collect a huge amount of resources to revive and restructure Novelis. After the deal, Hindalco's debt-equity ratio was expected to slide down to 2:1 from 1:2. This was expected to further affect Hindalco's balance sheet. Analysts were predicting a dilution in the Earnings Per Share (EPS) of Hindalco by 18 percent after the acquisition. Further the deal could reduce Hindalco's reserves, which were being used for funding the deal. The profits would

also be affected due to the interest on the debt borrowed. The analysts therefore were of the opinion that the acquisition would dilute the earnings of the company. Due to the massive expansion plans taken up by Hindalco, Novelis would further push Hindalco's high gearing level.

However, Hindalco's management felt that the deal would be beneficial for the company in the long term and would allow it access to global customers. Kumar Mangalam said, "The complementary expertise of both these companies will create and provide a strong platform for sustainable growth and ongoing success." He added that the acquisition would lead Hindalco into the Fortune 500 companies' list, three years ahead of the target. Hindalco was expected to double its turnover to US\$ 20 million after the acquisition. After the acquisition was completed in May 2007, Novelis became a subsidiary of Hindalco.

END OF CASELET 2

Caselet 3

Answer the following questions based on the given Caselet:

5. Moser Baer, which followed a concentration strategy, has transformed itself from a single business into a multi-technology organization, diversifying into different businesses. Discuss the factors which have contributed to the success of Moser Baer worldwide. Also present the generic reasons that may induce a firm to shift away from concentration strategies. (10marks)
6. Moser Baer's diversification into Solar Energy domain is a tricky one as solar energy is an emerging industry. In this context, discuss the various aspects that need to be considered by a company wishing to formulate strategies to enter an emerging industry. (8 marks)

Moser Baer, headquartered in New Delhi, is one of India's leading technology companies. It was established in 1983 as a Time Recorder unit in technical collaboration with Maruzen Corporation, Japan and Moser Baer Sumiswald, Switzerland. In 1988, Moser Baer India moved into the data storage industry by commencing manufacturing of 5.25-inch Floppy Diskettes. By 1993, it graduated to manufacturing 3.5-inch Micro Floppy Diskettes (MFD). In 1999, Moser Baer India set up a 150-million unit capacity plant to manufacture Recordable Compact Disks (CD-Rs) and Recordable Digital Versatile Disks (DVD-Rs). The strategy for the optical media project was identical to what had successfully been implemented in the diskette business – creating a facility that matched global standards in terms of size, technology, quality, product flexibility and process integration.

Moser Baer is an R&D-focused organization that endeavors to drive the market by launching innovative products. The company has a rich pool of dedicated research personnel. It has forged R&D alliances with major global players to facilitate the joint development of products and process innovations. The scientists of the company have developed innovative process design and machinery engineering, which has propelled the company to higher levels of manufacturing excellence. Moser Baer has capabilities to produce all its products using in-house proprietary technology.

The company successfully developed cutting edge technologies to become the world's second largest manufacturer of Optical Storage media like CDs and DVDs. The company also emerged as the first to market the next-generation of storage

formats like Blu-ray Discs and HD DVD. The company is today the only large Indian manufacturer of magnetic and optical media data storage products, exporting approximately 85 percent of its production.

[The synergy between its Indian and EU (European Union) operations has been one of the main factors for Moser Baer's success. Through its Indian operations, the company provides high quality while enjoying the advantages of incurring low costs in production and human resources. The European subsidiaries help the company to keep pace with the latest trends and technologies.]

[Since inception, Moser Baer has always endeavored to create its space in the international market. Aiding the company in its efforts has been a carefully-planned and sustainable business model – low costs, high margins, high profits, reinvestment and capacity growth. Along the way, deep relationships have been forged with leading OEMs (Original Equipment Manufacturers), with the result that today there are hardly any global technology brands in the optical media segment that Moser Baer is not associated with.]

[Moser Baer has added value to its products and services by customizing them according to its customers' needs. It has consistently succeeded in meeting diverse client requirements. The company has been described by its customers as the 'most flexible, reactive and innovative supplier'. Moser Baer serves 11 out of the 12 largest OEM customers in the world; it has not lost a single OEM customer till date. The company has implemented a comprehensive e-CRM programme. Moser Baer's deep understanding of business cycles and markets has helped the company to make productive investments, thereby increasing its returns and giving it a competitive edge.]

[It owns a comprehensive logistics and supply chain system, enabled by an in-house IT system, which is integrated with freight forwarders, major shipping lines, customers and suppliers at the back-end. Moser Baer leverages this integration to respond with celerity to changes in customer expectations and market conditions. As one of the major containerized cargo shipping companies, Moser Baer has reduced its shipment lead time by more than 20 per cent in the last few years; it has also brought down the instances of delays in shipments to less than 0.1 per cent of the total despatches.]

Recently, the company, which followed a concentration strategy, has transformed itself from a single business into a multi-technology organization, diversifying into exciting areas of Solar Energy, Home Entertainment and IT Peripherals & Consumer Electronics. Moser Baer has a presence in over 82 countries, serviced through six marketing offices in India, the US, Europe and Japan, and has strong tie-ups with all major global technology players.

The diversification into Solar Energy domain is a tricky one as it is an emerging industry. Moreover, the technologies in the industry are still emerging and it is not clear which technologies will emerge to be successful in the future. Accordingly Moser Baer has entered into strategic relationships with research firms working on alternative technologies to hedge against the risk of technological obsolescence.

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. After a dismal financial performance during the 1990s, Netherlands based Royal Philips NV (Philips) embarked on a restructuring exercise, to turn the company around. While doing so, it embarked on an improvement program, in all its divisions and departments across the world, encompassing all the employees. The program was called Business Excellence through Speed and Teamwork (BEST). Philips used several tools and approaches as a part of BEST which included the Balanced Scorecard (BSC). The BSC was used to communicate the strategy across Philips' divisions that had more than 1,20,000 employees spread across 150 countries in the world. In this context, discuss the various perspectives that were considered by Philips while designing the BSC and how it was used as a tool for strategic performance control. (10)
8. Responsibility centers, which facilitate management control and help in implementing the strategies chosen to accomplish the organization's goals, can be classified into four types. Explain in detail any of its **two** types. (10)

END OF SECTION C

END OF QUESTION PAPER