SOLUTION: STRATEGIC MANAGEMENT, NOV 2007

QUESTION 1

(a) Strengths

- Qualified and committed work force
- Track record of good performance
- Competent engineers
- Market leader

Weaknesses

- Lack of financial analysis
- Lack of product initiative
- Close product portfolio

Opportunities

- Availability of market
- Diversified product
- Growth in the industry

Threats

- Competition
- New technologies
- Availability of substitutes

(b) (i) Market Development: This involves introducing present or existing products of the company into new geographic areas. This is because the company has been successful in the past and new untapped or unsaturated market exists. The industry in which the firm is operating is rapidly becoming global in scope.

(ii) Product Development: This is a strategy that seeks increased sales by improving or modifying present products in order to increase their market penetration within existing customer groups. For example, re-launch of a range of products. The recommendation is based on the facts that the company is in a growing industry and competitors are offering quality products at comparable prices. The company competes in an industry that is characterized by rapid technological developments.

(iii) Market Penetration: This strategy seeks to increase market share for present products in present market through greater marketing efforts. This can be used as a lone strategy and in conjunction with other strategies. The approach includes extensive sales promotion and increasing advertising expenditure. The reasons are the fact that the current markets are not saturated; the firm could enjoy economies of scale.

(c) Exporting has many advantages, including:

(i) Offering the company an opportunity to learn and develop appropriate familiarity with international markets. The firm can try this on a small scale.

(ii) Helping the company reduce business risk by providing a broader customer base that serves as a hedge against unfavourable domestic market.

(iii) Enabling the company to achieve economies of scale because of increased production volume.

(iv) Not requiring major capital outlay as compared to establishing a company there..

LIQUIDITY	2006	2005	2004
Current ratio: Current assets Current Liabilities	1,292 = 2.2:1 598	1,232 = 2.2:1 549	1,068 = 1.9:1 565
Quick ratio: Current assets-stock Current liabilities	1,292 – 570 = 1.2 598	1,232 – 542 = 1.3 549	1,068 – 483 = 1.0 565

EFFICIENCY	2006	2005	2004
Fixed Asset Turnover: Sales Fixed Assets	1,000 = 1.1 891	1,000 = 1.0 1,006	1,000 = 0.8 1,252
Stock Turnover (days): Stock x 365 Cost of sales	570 x 365 675 = 308.2 days	542 x 365 662 = 298.8 days	483 x 365 653 = 270 days
Debtors Turnover (days): Debtors x 365 Sales	722 x 365 1,000 = 263.5 days	680 x 365 1,000 = 248.2 days	585 x 365 1,000 = 213.5 days

QUESTION 2

(a) The value claim concept views the firm as a chain of value-creating activities. By identifying the key activities and performing them better than competitors in terms of cost reduction or quality improvement, the firm creates a competitive advantage.

(b) In this part, candidates must draw the model showing the specific activities of the organization and explaining how cost can be reduced or quality improved through the value chain.

The activities themselves may be grouped broadly into inbound logistics, operations, outbound logistics marketing and sales and service.

These are supported by technology, human resource management, procurement and firm infrastructure.

QUESTION 3

a) Strategy formulation:

This refers to the task of establishing an organisation's direction, setting objectives and selecting an appropriate strategy or strategies.

(i) <u>Establishing an organisation's direction:</u>

This involves defining where the organization be headed to (vision) and clarifying exactly what the company's business is (mission).

(ii) <u>Setting objectives</u>

An objective is a specific result an organization seeks to achieve. Objectives convert an organisation's mission into specific performance targets, objectives provide specific targets against which the success of the strategic plan could be measured. Objectives may be set at the strategic level, in each function area and in key result areas.

(iii) Environmental scanning and analysis

(iv) Determining alternative strategies

(v) Strategic Analysis and Choice

QUESTION 4

(a) An in industry is said to be attractive when it provides firms with the requisite resources, and opportunity to achieve competitive advantage.

Factors which make an industry attractive include a high growth potential, moderate rivalry among competitors, high entry barriers, few or no substitutes for products, low potential for future risks, among others.

(1) High Growth

An industry with a high growth potential offers an opportunity for firms in that industry to do better business and earn more profits through a high sales, turn over.

(2) Moderate rivalry

When the intensity of competition is moderate rather than high, firms are able to make more sales and therefore earn high profits.

Intense competition in terms of price or quality lowers profit margins and therefore total profits.

Few or no Substitutes

The fewer the substitutes for an industry's products the better it is for the firms in that industry. Plastics and fibre as substitutes for glass reduce the potential of the latter to attract higher prices, because this gives buyers a higher bargaining power.

High Entry Barriers

High entry barriers in terms of high capital outlay, prohibitive government policy, patents and the economics of scale enjoyed by existing firms discourage new firms or make entry difficult for them.

Future Risks

Where the industry is thought to be facing potential risk in future it is clearly not an attractive business to invest in. But where there are no foreseeable risks in future, then the industry is an attractive one to invest in, provided other factors are favouable.

It must be noted that firms need the required resources to be able to take advantage of the industry's attractive opportunities.

(b) <u>Entry Barriers</u>

These are characteristics that restrict firms outside the industry from entering into business relating to the industry.

Some of these barriers include Government policy, patents and proprietary knowledge, specific asset requirements and organizational economies of scale.

Government-created barriers

Government reduces competition through the granting of monopolies and through regulation. Industries such as utilities – water, electricity are considered monopolies because, only one organization is allowed to operate in the industry in each case.

Patents and Proprietary Knowledge

Ideas and knowledge that provide competitive advantages are treated as private property when patented, preventing others from using the knowledge and thus creating a barrier to entry.

Specific Asset Requirements

When an industry requires highly specialized technology or plants and equipment, potential entrants are reluctant to invest in specialized assets that cannot be sold or converted when the venture fails. Such requirements therefore constitute a barrier for entry by new entrants.

Economies of Scale

Where existing firms are already producing at minimum cost levels new entrants are deterred because they cannot compete with those who are already in the industry.

QUESTION 5

(a) Critical success factors for any business are the limited number of areas in which the firm must be competent in order to be competitive or financially successful. A critical success factor can be technology-related such as expertise, manufacturing-related such as low-cost production distribution-related such as fast delivery or skill-related such as superior talent.

(b) The beer/brewing industry. Key successful factors:

- utilization of brewing capacity (to keep manufacturing costs low)
- a strong network of wholesale distributors (to gain access to retail outlets)
- clever advertising (to induce beer drinkers to buy a particular brand)
- product attribute
- competencies
- competitive capabilities
- market achievements