KASNEB

CS PART III SECTION 6

STRATEGIC MANAGEMENT

THURSDAY: 24 November 2016. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

Benfica International Limited (BIL)

Benfica International Limited (BIL) is a successful multinational company which manufactures high quality photocopying machines. BIL shipped its first 1,000 copiers in 1980 and for the subsequent fifteen years, it dominated the photocopier market in the world. However, by the year 2000 the company was facing problems. Two Japanese companies, Cassidy and Baiku had emerged as significant global competitors, selling high-quality copiers at a price equivalent to BIL's. Fuelled by relatively high costs and prices, BIL's market share fell by half and its return on assets slumped by 8 percent in the year 2003. BIL's misfortunes increased when it began to produce and market copiers in the United States of America that had been designed by its Japanese affiliate, Beng Copiers. The rejection rate of Beng Copiers parts was 80%. Visits to Beng Copiers revealed that quality in manufacturing does not increase costs, it decreases costs by reducing the number of defective products and service costs.

In 2005, BIL launched a series of initiatives which transformed the way the company ran its operations. Before then, the company had more than 5,000 individual suppliers worldwide. The management realised that by consolidating the company's worldwide supply base, the company could regain its competitive advantage over its rivals. This was achieved using the following two strategies:

- Simplifying the procurement process, which enabled the company to reduce overheads significantly.
- Having each supplier produce a specific part for BIL's photocopiers.

The interventions enabled the suppliers to achieve economies of scale in production. The saved costs were passed on to BIL in the form of lower prices of the photocopier parts. By cutting down the number of suppliers, BIL found it easier to work with fewer suppliers and improve the quality of component parts. Consolidation of suppliers was achieved through formation of commodity teams which included buyers' engineers, costing experts and quality control personnel. These teams were able to reduce BIL's supplier base from 5,000 to 325 suppliers. This indeed was a great achievement. In order to support the suppliers, BIL introduced a quality training programme with its suppliers. The goal of the programme was to reduce the number of defective parts coming from suppliers to under one thousand per million (0.1%). They managed this and even went further to a defect rate for parts of under 300 per million (0.03%).

To further improve operations, BIL introduced effective leadership through quality programmes. Groups were formed throughout the company from top management down to the factory floor. Each group received training on quality improvement programmes. Emphasis was placed on identifying quality shortfalls, determining the cause, developing solutions and implementing them. The company started to focus on its new product development process. The first goal was to design products that could be customised to market conditions in different countries. The products were to contain a large number of globally standardised parts. The second goal was to reduce the time it took to design new products. BIL managed this by establishing multifunctional and multinational product development teams. The teams managed the design, component sources, manufacturing, distribution and follow-up customer service. The new approach enabled the company to come up with new improved photocopiers including the unique 5100 brand. The company also enhanced its collaboration with Beng Copiers.

BIL was able to eliminate over Sh.1 billion costs in inventory and Sh.200 million in other related costs by linking worldwide customer orders more closely with production. The company formed a subsidiary multinational organisation named Brown logistics whose aim was to achieve tight integration between individual customer orders and plant production levels thereby reducing the need to hold excessive inventory. As a result of all these steps, BIL's position improved markedly and the company was able to regain its market share from its competitors. BIL's profits and revenues also went up after its market share increased from a low of 10 percent in the year 2004 to 20 percent in 2009.

Required:

(a) Highlight five functional strategies implemented by BIL towards improving the effectiveness of its operations. (10 marks)

(b) Discuss six ways in which the concept of value chain was applied in Benfica International Limited (BIL). (12 marks)

(c) Illustrate five ways in which the managers of BIL created a sustainable competitive advantage. (10 marks)

(d) Explain two of Michael Porter's competitive strategies which were adopted by BIL. (4 marks)

(e) Examine four factors which could have contributed to the diminished market share of BIL before year 2005. (4 marks)

(Total: 40 marks)

QUESTION TWO

(a) With reference to organisational structure, explain the term "modular organisation". (2 marks)

(b) Analyse three circumstances that might lead to forward integration of organisations. (3 marks)

(c) Assess five product development strategies that an organisation could implement. (5 marks)

(d) Examine five areas that an organisation might focus on while evaluating their strategic performance. (5 marks)

(Total: 15 marks)

QUESTION THREE

(a) Evaluate four strategic orientations of global firms. (8 marks)

(b) (i) With reference to Henry Mintzberg (1988) "typology of generic competitive strategies", distinguish between "differentiation strategies dimension" and "scope strategies dimension". (2 marks)

(ii) In relation to (b)(i) above, discuss five differentiation strategies. (5 marks)

(Total: 15 marks)

QUESTION FOUR

(a) Summarise six limitations of using BCG product portfolio matrix analytics in an organisation. (6 marks)

(b) Analyse four external environmental factors that might have greatly contributed to increased importance of strategic management in organisations. (4 marks)

(c) With reference to Michael Porter's Model of competitive forces, evaluate five barriers to market entry. (5 marks)

(Total: 15 marks)

QUESTION FIVE

(a) Discuss five barriers that could hinder successful strategy implementation. (5 marks)

(b) Explain eight measures that could be instituted in an organisation to deal with organisational politics. (8 marks)

(c) Examine the role of monitoring and evaluation frameworks in strategic management. (2 marks)

(Total: 15 marks)

....