**BIRLA INSTITUTE OF TECHNOLOGY & SCIENCE, PILANI (HYDERABAD)**

**I Semester 2022-23, Course No: BITS F428 Marks: 35M CLOSED BOOK**

**Date: 05/11 /22 Duration:90 minutes Course Title: Essentials of Strategic Management**

**I. Question 1-4 carries 4 Marks each [4\*5=20M]**

**1**.**Why are the industries fragmented? What are the primary ways in which companies can turn a fragmented industry into a consolidated industry?**

**2. It is possible for a company to be lowest cost producer in its industry and simultaneously have an output that is most valued by customers. Discuss this statement**

**3. Zara a fast fashion apparel companies manufacture everything in-house, whereas its rival H&M outsource its production to Asian countries. Applying value chain analysis, explain what factors determine the strategy choice between outsourcing and in-house production?**

**4.**For decades, the breakfast cereal industry was one of the most profitable in the United States. The industry has a consolidated structure dominated by Kellogg’s, General Mills, and Kraft Foods with its Post brand. Kellogg’s, which accounted for over 40% of the market share, acted as the price leader in the industry. Every year Kellogg’s increased cereal prices, its rivals followed, and industry profits remained high. This favorable industry structure began to change in the 1990s when growth in demand slowed or rather became stable due to threat from substitute product namely when bagel or muffin replaced cereal as the American morning fare and private labels gaining over 10% of the market.

**Mention atleast 2 strategies that these three players should adopt to manage rivalry among themselves. Suggest atleast 2 strategies that will not impact industry profitability in long run.**

**5.** The first smartphones started to appear in the early 2000s. The early market leaders included Research in Motion (RIM), with its Blackberry line of smartphones, and Microsoft, whose Windows Mobile operating system powered a number of early smartphone offerings made by companies such as Motorola. These phones were sold to business users, and marketed as a business productivity tool. They had small screens, and a physical keyboard that was crammed onto a relatively small form factor. Although they had an ability to send and receive e-mails, browse the Web, and so on, there was no independent applications market, and consequently, the utility of the phones was very limited. Nor were they always easy to use. System administrators were often required to set up basic features such as corporate e-mail access. They were certainly not consumer-friendly devices. The customers at this time were primarily innovators and early adopters. The market changed dramatically after the introduction of the Apple iPhone in 2007. First, this phone was aimed not at power business users, but at a broader consumer market. Second, the phone was easy to use, with a large touch-activated screen and a virtual keyboard that vanished when not in use. Third, the phone was stylishly designed, with an elegance that appealed to many consumers. Fourth, Apple made it very easy for independent developers to write applications that could run on the phone, and they set up an App store that made it easy for developers to market their apps. Very quickly new applications started to appear that added value to the phone. These included mapping applications, news feeds, stock information, and a wide array of games, several of which soon became big hits. Clearly, the iPhone was a device aimed squarely not at business users, but at consumers. The ease of use and utility of the iPhone quickly drew the early majority into the market, and sales surged. Meanwhile, sales of Blackberry devices and Windows Mobile phones started to spiral downward.

**Why was pioneering companies like RIM and Microsoft unable to create a business model that allowed them to be successful over time and remain market leader whereas Apply dominated the smart phone market? Explain in term of rate of diffusion, how Apple managed to accelerate customer demand.**

**II.RETAIL INDUSTRY IN USA MARKET -15M**

Wal-Mart is one of the most extraordinary success stories in business history. Started in 1962 by Sam Walton, Wal-Mart has grown to become the world’s largest corporation. In 2014, the discount retailer— whose mantra is “Everyday low prices”—had sales of more than $475 billion, close to 11,000 stores in 27 countries, and more than 2.2 million employees. Some 8% of all retail sales in the United States are made at a Wal-Mart store. Wal-Mart is not only large; it is also very profitable. Between 2005 and 2014, the company’s average ROIC was 14.1%– better than its well–managed rivals, Costco and Target, which earned 11.8% and 11%, respectively. Brick and Motor, retail industry is characterized by high fixed costs, delivering commoditized products, with large number of competitors both in organized and unorganized sectors. There is threat from wholesalers, mom and pop small retail shops, not to mention the online giants like Amazon. New players to enter into this industry requires high investment and requires strong distribution/logistic network to compete with existing players.Super store Customers are provided with lots of choices and undifferentiated product makes low switching cost. Increased buyer’s information pressurizes retailers to compete with each other on the price and are very price sensitive. Suppliers are important drivers of cost in this industry. For example, from Walmart’s income statement, we can calculate that the cost of goods sold (the amount the company pays suppliers for the products it sells) is 76% of its superstore sales. Labor costs are a critical factor in this low­ margin industry. Payroll expenses are about 8% or 9% of sales. The average size of a supercenter is 185,000 square feet. Suppliers of land will be less powerful in small towns surrounded by underdeveloped property. Driving and payment are complementary to superstore shopping. Customer switching costs are influenced by driving distance and the opportunity cost of lost savings. Switching costs will be greatest in markets dominated by one large­scale store, because switching will involve driving a significant distance. Loyalty programs may also increase switching costs. Restrictive government policy can be a barrier to entry.

Wal-Mart was one of the first companies to apply the self- service supermarket business model developed by grocery chains to sell general merchandise. Unlike rivals such as K-Mart and Target that focused on urban and suburban locations, Sam Walton’s WalMart concentrated on small, southern towns that were ignored by its rivals and which had enough demand to support one large discount store. Walton realized that, in rural America, people would drive an hour to Wal-Mart in a small town rather than drive 2 to 3 hours to a major city. This meant that a small town with a population of 25,000 actually had a catchment area containing 100,000 people. Wal-Mart grew quickly by pricing its products lower than those of local retailers, often putting them out of business. By the time its rivals realized that many small towns could support one large discount general merchandise store, Wal-Mart had already pre-empted them and had spread out to small towns across America. Walmart typically represents a much larger share of the supplier’s business than the supplier represents for Walmart. For example, by 2003 Walmart was by far P&G’s largest customer, accounting for 17% of P&G’s total revenue, but P&G’s share of Walmart’s total revenue was less than 3%. Walmart commanded as much as 30% of the U.S. market in a number of household staples such as disposable diapers and shampoo. Walmart increases competition in many product segments through selling store brands and buying directly from manufacturers. In 2003, private labels accounted for about 20% of store sales, reducing product differentiation and increasing the availability of substitutes for supplier products. Over time, the company became an innovator in information systems, logistics, and human resource practices. Actions taken in these functional areas resulted in higher productivity and lower costs as compared to rivals, which enabled the company to earn a high ROIC while charging low prices. Wal- Mart led the way among U.S. retailers in developing and implementing sophisticated product-tracking systems using bar-code technology and checkout scanners. This information technology enabled Wal-Mart to track what was selling and adjust its inventory accordingly so that the products found in each store matched local demand. By avoiding over- stocking, Wal-Mart did not have to hold periodic sales to shift unsold inventory. Over time, Wal-Mart linked its information system to a nationwide network of distribution centers in which inventory was shipped from vendors, and then shipped out on a daily basis to stores within a 400-mile radius. The combination of distribution centers and information systems enabled Wal-Mart to reduce the amount of inventory it held in stores, and thus to devote valuable space to selling and to reduce the amount of capital it had tied up in inventory. With regard to human resources, Sam Walton set the tone. He held a strong belief that employees should be respected and rewarded for helping to improve the profitability of the company. Under- pinning this belief, Walton referred to employees as “associates.” He established a profit-sharing plan for all employees and, after the company went public in 1970, a program that allowed employees to purchase Wal-Mart stock at a discount to its market value. Wal-Mart was rewarded for this approach by high employee productivity, which translated into lower operating costs and higher profitability. As Wal-Mart grew, its sheer size and purchasing power enabled it to drive down the prices that it paid suppliers and to pass on those savings to customers in the form of lower prices–which enabled Wal-Mart to gain more market share and hence lower prices even further.

**6. Walmart’s return on invested capital (ROIC) is around 14.1%, while— according to Porter—the average ROIC for retail industries in the United States from 1992 to 2006 was about 11%. Analyse the retail industry in general against Porters 6 forces and explain how was Walmart able to mitigate the threat of these 6 competitive forces to achieve higher ROIC as compared to its rival Target/Costco? [5+5=10M]**

**7. Identify resources, capabilities and Core competencies of Walmart? Applying VRIO framework, describe to what extent these resources can be considered to possess sustainable competitive advantage. [ 5M]**