FINAL EXAMINATION

June 2014

F–P15(BSCM)
Syllabus 2012

Business Strategy and Strategic Cost Management

Time Allowed: 3 Hours

Full Marks: 100

SECTION A (50 marks)
(Business Strategy)

Question No. 1 *and* 2 *are compulsory.*
Answer any two *from the rest in this section.*
(Please answer all parts of the question at one place)

1. The Postal Department of GOI is trying to develop competitive strategies to make better profits. The Chief of the postal department presents the following facts:

   (i) There are many couriers who operate in major cities and offer guaranteed delivery at very marginally higher prices than the postal department and yet manage to make a lot of profits.

   (ii) Couriers offer tracking facilities on the e-computer so that a customer knows when his consignment is getting delivered or where it is located at any point of time.

   (iii) Many pick up points are available for customers. Even retail customers find it convenient to book their requirements without having to travel much. For bulk booking, the couriers provided pick up facility at no further cost.

   (iv) Couriers are not available in rural and sub-urban areas whereas postal network is very good in these places.

   (v) Couriers in the cities operate until 7 p.m. whereas the corresponding speed posts or registered posts close at 2-30 p.m. / 4 p.m. in most areas and 6 p.m. / 8 p.m. in big Post Offices in Metro Cities/GPO respectively. There are one or at most two centres which operate speed post counters for 24 hours, but there are no 24x7 courier facilities.

   (vi) Postal services for parcels are much cheaper than the courier services.

   (vii) International courier charges very highly priced for documents and parcels, whereas postal charges are up to 70% cheaper, but delivery is at least 50% slower. Retail customers prefer postal services while corporate houses prefer couriers.

   (viii) International courier is mainly parcel services. Documents are not prominent revenue makers due to electronic mode of communication.

   (ix) Staff in courier services is more customer-friendly than the Postal Dept. staff, whereas the Postal Dept. staff are paid much more.

   (x) While wondering how different the scale of profits could be between similar services, the Chief of Postal Department considers that for a Post Office to operate, in addition to document/parcel bookings, banking services like MIS/PF/Savings Account, etc. telephone bill payment services, stamp sale services and other services are being renderd, requiring the necessary hierachy of approving authority to be present. He is considering opening of more centres exclusively for the equivalent of courier services.

   Required :

   (a) Identify threats to the Postal Department, GOI.

   (b) What would you consider as important strenghts of the Postal Department, GOI?

Please Turn Over

(c) Mention the opportunities that the Postal Department, GOI can profitably consider.

(d) Apart from (x) suggest appropriate business strategies that the Postal Department, GOI may practically apply to successfully run a long-term profitable document/parcel service on the lines of the courier service. (3+3+3+6)

2. (a) Identify types of strategic integration in each of the following independent situtations and state any two conditions when such an integration is not beneficial to a company.

(i) A soft drink manufacturing company "A" is facing stiff competition from another manufacturer. "A" buys bottle from a supplier. "A" wants to manufacture its own bottles and avoid a price mark-up on the bottles and thereby compete with lower cost of packaged drinks.

(ii) Company Comp makes laptops and it wants to acquire its competitor's laptop division "D" and sell under the one brand name "Comp".

(iii) Agricult Company, which is currently engaged in efficient crop production with modern techniques is planning to set up its own outlets to sell raw farm processed agricultural products.

(b) What are loss leaders? Mention its two specific uses.

(c) What are four levels of the residual uncertainty facing most strategic-decision makers? (3+3+3)+2+4

3. (a) Explain in brief the different competitive strategies for competition globally in global industries. Give one example in each strategy.

(b) What things are to be looked by an industry at the time of competitive dynamics analysis? $(1\frac{1}{2}\times4)+(1\times4)$

4. (a) The $23-billion Reliance Industries, representing 4% of India's economy spliced between the brothers Anil and Mukesh Ambani, heirs to the sprawling industries created by their father, Dhirubhai Ambani. It operates in the fields of petrochemicals, telecom, textiles, oils, and finance. It was India's largest private sector company, and had the most shareholders of any company in the world. It was also the only Indian private company in the Fortune 500, and the first to float ADRs in the US market. It operates some of the world's largest oil refineries, and their telecom company purchased FLAG Telecom, with 50,000 kilometers of undersea fiber-optic cable. The founder, Dhirubhai Ambani, structured the company with a number of holding companies, and sub-divisions, over 300 inter-connected organisations. He died in 2002, leaving a murky succession plan. His two sons, Mukesh, a hard-driving engineer, and Anil, seen as a dynamic business-oriented industrialist, assumed the reins, but signs of a split were visible early on, with Anil a no-show at the IPO of Reliance Infocom. Mukesh was named the Chairman and Chief Managing Director. Anil filed his papers for the Indian parliament's upper house in 2004, but faced objections from Mukesh camp.

What factors contributed to political behaviour in Reliance Industries?

What are strategies and tactics aimed directly at gaining power under political strategies and tactics?

(b) Mention the factors by which the choice of strategy is influenced. (4+4)+2

5. (a) Hero Honda joint venture formed in 1984 is a classic case of strategic alliance involving the Indian company Hero group and the Japanese automobile major Honda Motorcycle. The alliance was terminated with the entir 24% stake of Honda Motorcycle in the venture bought by the Hero Group. Getting out of the venture it gives the Japanese Company the freedom to go it alone in the world's second largest market for two-wheelers.

In the context of the above statement, answer the following:

(i) Is joint venture the only way to enter into strategic alliance?

(ii) Alliances are not new, but in the competitive landscape, distinguishing features are emerging. Identify these features.

(iii) What are the key success factors for managing an alliance? Identify the reasons for the termination of a successful joint venture.

(b) "Internal Growth (often called 'Organic Growth') is where strategies are developed that build on the business' own capabilities and sources." — Mention different means by which such growth is achieved. (2+2+4)+2

SECTION B (50 marks)
(Strategic Cost Management)

Question No. 6 *is compulsory.*

Answer any two *from the rest in this section.*

(Please answer all part of the question at one place)

6. (a) Differentiate 'Traditional Cost Management' from 'Strategic Cost Management' in the light of
   (i) cost analysis way
   (ii) cost analysis objectives, and
   (iii) cost driver concept.

   (b) Write in brief PDSA cycle.

   (c) Mention any three objectives of 'transfer pricing'.

   (d) As a CMA how would you apply EOQ in inventory management decisions in a situation of quantity discount offered by vendors? (3+2+3+2)

7. (a) What is meant by Business Process Re-engineering(BPR)? How can BPR be applied to an organisation? Give an example of BPR application.

   (b) A manufacturing company currently operating at 80% capacity has received an export order from Middle East, which will utilise 40% of the capacity of the factory. The order has to be either taken in full and executed at 10% below the current domestic prices or rejected totally.

   The current sales or cost data are given below:

Items	₹
Sales	16.00 lakhs
Direct Material	5.80 lakhs
Direct Labour	2.40 lakhs
Variable Overheads	0.60 lakhs
Fixed Overheads	5.20 lakhs

   The following alternatives are available to the management:
   (i) Continue with domestic sales and reject the export order.
   (ii) Accept the export order and allow the domestic market to starve to the extent of excess of demand.
   (iii) Increase capacity so as to accept the export order and maintain the domestic demand by —
      (a) purchasing additional plant and increasing 10% capacity and thereby increasing fixed overheads by ₹ 65,000, and
      (b) Working overtime at one and half time the normal rate to meet balance of the required capacity.

You are required to evaluate each of the above alternatives and suggest the best one. (2+6+2)+(8+2)

8. (a) Write some typical applications of 'Operation Research'.

(b) The following activities relate to project:

Activity	Duration (days)	Cost of crashing per day
1-2	5	1200
1-3	8	700
2-4	4	600
3-4	0	-
4-5	7	400
4-6	11	-
6-8	0	-
5-7	6	-
7-8	5	600
8-9	5	1000

Only some activities can be crashed and the crashing costs are given. No activity can be crashed more than one day.

Draw the network; find the critical path and the normal duration. Perform step by step crashing and show the effect of crashing on each path to achieve minimum crashing cost. What would be the minimum crashing cost to complete the project three days earlier and the revised critical path(s)?

(c) What are the impacts of 'learning curve model' on labour variances? (5+11+4)

9. (a) What is meant by the term "cost pool" and "cost driver" in Activity Based Costing (ABC)? Give example in reference to R&D activity.

(b) What is meant by 'Continuous Process Improvement (CPI)'? State five phases of CPI procedure.

(c) S.U.Ltd. produces three products namely A, B, and C. The budgeted production, costs and selling prices for the next year are as under:

Particulars	Product A	Product B	Product C
Direct Materials (₹ per unit)	24	16	12
Direct Wages:			
Department Rate/Hour			
Dept. 1: ₹ 4 Hrs/unit	3	5	25
Dept. 2: ₹ 2 Hrs/unit	3	8	6
Budgeted production (units)	10,000	12,000	20,000
Max. possible sales (units)	12,000	16,000	24,000
Selling price (₹ per unit)	75	105	60

Variable overheads:
Dept. 1: Recovered at 100% of direct wages.
Dept. 2: Recovered at 50% of direct wages.
Fixed overheads: ₹ 5,00,000 per annum.

A direct labour hour in Dept. 1 is in short supply and the budgeted volume of output envisages full utilisation of the available direct labour hour. In Dept.2, the company has committed to engage the workers to the extent of the direct labóur hours required for the budgeted volume of production. Should a change in the production mix be desired, the company can engage additional direct labour hours required in Dept.2 at normal rates but any portion of the direct labour hours of Dept.2 rendered surplus by reasons of a change in the present product mix have to be paid by the company as idle wages in view of the commitment already made.

Required:

(i) Present a statement showing the budgeted profitability.

(ii) Set optimal product mix and work out the optimum profit after taking into consideration the idle time wages, if any, payable in the Dept.2.

(iii) If the company desires to subcontract the surplus direct labour hours, if any, in Dept.2, what minimum changes should be quoted per direct labour hour? (1+2+2)+(2+3)+(4+5+1)