

FINAL EXAMINATION

June 2015

P-15(BSCM)

Syllabus 2012

Business Strategy and Strategic Cost Management

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

SECTION A (50 marks)

(Business Strategy)

Question No. 1 is compulsory and carries 20 marks.

Answer any two questions from the rest in this section, each carrying 15 marks.

1. A significant example of Strategic Choices in Indian Corporate in recent times is the growth for Starbucks and the Tata group. Starbucks has opted to enter into a strategic alliance with the Tata Group, as it attempts to establish a position in the Indian market. Tata Starbucks Limited is the 50-50 joint venture between Tata Global Beverages Limited and the Starbucks Coffee Company. The Company celebrated the opening of the 50th Starbuck store in India on 8th July, 2014. The company launched its first store at Phoenix Market City, Velachery, Chennai.

The Company will continue to open more and more stores and grow thoughtfully in the market with a commitment to offer the unique starbucks experience, unrivalled service, hand-crafted beverages, extensive food offerings and with a distinct fragrance and aroma of Coffee to Coffee lovers across the country. With 50 stores now operational across 5 cities, Tata starbucks Limited continues to grow and nurture its brand in India-in line with its promise to build a strong connect with the Indian consumers.

Perhaps somewhat unusually, the stores will be co-branded as "Starbucks Coffee: A Tata Alliance." Long known as a nation of tea drinkers-despite a rich tradition of Coffee in the south-India has embraced Coffee house culture with a vengeance.

"We are going to move as fast as possible in opening as many stores as we can so long as we are successful and so long as we are embraced by the Indian consumers" said John Culver, President of Starbucks China and Asia Pacific. The need to address and respect potential cultural issues seems to have been a key factor in deciding to use the joint ventures route rather than set up a separate Starbucks subsidiary in India.

"We never cosidered 51%," Culver said, "When we looked at the opportunity to enter India, understanding the complexities of the market and the uniqueness that is India, we wanted to find a local business partner."

- (i) What is Strategic Planning? State the Strategic Planning Process. 3+5
- (ii) What approaches to Strategic Planning are advised to Tata Starbucks Limited for the Strategic Choice phases? 5
- (iii) State the important key components of Strategic Planning Process for decision making in "Starbucks Coffee: A Tata Alliance.". 7
2. (a) (i) Quite often, one of the biggest barriers to success in making the transition to strategic leadership is a lack of insight into the roles that leaders need to assume at the senior strategic level. State all the different roles they will often be involved in situations related to more than one role at any given time. 9

Please Turn Over

- (ii) It has been known for many years that the returns from diversification are often poor. Why do managers still persist with it as a strategy? 6
2. (b) (i) "Many organizations in order to achieve quick growth use strategies such as mergers and acquisitions."—Justify. 5
- (ii) Discuss the various types of mergers. 10
2. (c) (i) Today leaders of multi-business corporations are learning to identify the maximum-strategic-opportunity set—those opportunities that can let companies take the fullest advantage of their capabilities and their potential to pursue new strategies. But to exploit those opportunities, you need to explain managers what we call complex strategic integration (CSI). What do you mean by CSI? 4
- (ii) HMT lost market share to Titan in the watch market in India. For analyzing various factors which influenced HMT and Titan actions, one can get insight into competitors or competition through different models of competition. What are the different models of competition? 6
- (iii) The greatest challenge for ensuring a successful business strategy has traditionally been within its "execution" rather than "planning". The reason is simple: unexpected challenges always and shall constantly arise. How organizations prevent "Strategic Drift"? 5

**SECTION B (50 marks)**

**(Strategic Cost Management)**

Question No. 3 which is compulsory, and carrying 20 marks.

Answer any two questions from the rest in this section, each carrying 15 marks.

3. (i) What is the "Simplex Method"? State its advantage over the Graphical method. 1+4
- (ii) Solve the following LPP by using Simplex Method. (Please note that no credit shall be given, if solved by any other method).
- Maximize  $Z = 2x_1 + 5x_2$
- Subject to  $x_1 + 4x_2 \leq 24$
- $3x_1 + x_2 \leq 21$
- $x_1 + x_2 \leq 9$
- $x_1, x_2 \geq 0$  15
4. (a) (i) Aadarsh Instruments, located in Ambala, is a medical instrument manufacturing company considered to apply Value Engineering in to the Focus Adjustment Knob in one of their model SL 250 for Slit Lamp in microscope. This microscope has found application in the field of eye inspection. The value engineering analysis may help company in running its export business of medical microscope. This firm is producing different types of microscopes which they export to various countries around the globe. All of the products manufactured here are conforming to the international standards. It is an ISO certified company.

The total savings after the implementation of value engineering are as given below:

- Cost before analysis—₹ 29.99
- Total Cost of Nylon Knob—₹ 18.40
- Saving per product—₹ 11.59
- Percentage saving per product—38.64%
- Annual Demand of the product—8,000
- Total Annual Saving—₹ 92,720
- Value Improvement—₹ 62.98%

What are the steps to be followed for doing Value Engineering? How can you conclude the decision on the basis of the above Value Engineering? 8

(ii) Write a note on “Kaizen Costing”. 7

4. (b) (i) Maruti India Ltd., offers a range of cars from economy, Sedans, SUVs and used cars have decided to adopt JIT policy, in making of the New Alto Car materials.

The following effects of JIT policy are identified:

- (1) To implement JIT, the company has to modify its production and material receipt facilities at a capital cost of ₹ 10,00,000. The new machine will require a cash operating cost of ₹ 1,08,000 per annum. The capital cost will be depreciated over 5 years.
- (2) The Raw Material Stockholding will be reduced from ₹ 40,00,000 to ₹ 10,00,000.
- (3) The company can earn 15% on its long-term investments.
- (4) The company can avoid rental expenditure on storage facilities amounting to ₹ 33,000 per annum. Property taxes and insurance amounting to ₹ 22,000 will be saved due to JIT programme.
- (5) Presently there are 7 workers in the store department at a salary of ₹ 5,000 each per month. After implementing JIT scheme, only 5 workers will be required in this department. Balance 2 workers' employment will be terminated.
- (6) Due to receipt of smaller lots of Raw Materials, there will be some disruption of production. The costs of Stock-outs are estimated at ₹ 77,000 per annum.

Determine the financial impact of the JIT policy; is it advisable for the Maruti company to implement JIT for New Alto production system? 8

(ii) Distinguish between Cost Reduction and Cost Control. 7

4. (c) (i) Write a short note on Pricing Strategies. 6

(ii) What are the various stages/steps to be taken in the implementation of TQM? 9