Paper 15 - Business Strategy & Strategic Cost Management

Section A

Question No. 1 & 2 are compulsory. Answer any two questions from the rest.

1. The sequence of strategies suggested by Ansoff is industry specific. Develop this sequence for two diverse industries like Insurance and Colour TVs keeping in mind the Indian market. **(15)**

2. (a) A company is currently involved in negotiations with its union on the upcoming wage contract. With the aid of an outside mediator, the table below was constructed by the management group. The pluses are to be interpreted as proposed wage increases while a minus figure indicates that a wage reduction is proposed, the mediator informs the management group that he has been in touch with the union and that they have constructed a table that is comparable to the table developed by the management. Both the company and the union must decide on an overall strategy before negotiations begin. The management group understands the relationship of company strategies to union strategies in the following table but lacks specific knowledge of game theory to select the best strategy (or strategies) for the firm. Assist the management on this problem. What game value and strategies are available to the opposing groups ? **(10)**

(b) Convert the following game theory game problem, involving two-person 'zero-sum' game in to a linear programming problem :

Player A	Player B			
	B_1	B_2	B_3	B_4
A_1	8	20	-3	1
A_2	6	25	4	2
A_3	0	-8	12	9
A_4	16	9	21	0

Don't solve. **(5)**

3. (a) What advantages does the GE matrix model have over the BCG matrix? **(7)**

(b) "Growth through concentric diversification into a related industry may be a very appropriate corporate strategy" Comment. **(3)**

4. Discuss the techniques of competence analysis. **(10)**

5. What are the strategies adopted to combat hostile takeover? **(10)**

Section B

Question No.6 is Compulsory. Answer any two questions from the rest.

6. Find the forecast for various years using Mean, Naïve, Linear Trend, Non-Linear Trend forecast from the following data.

Year	2007	2008	2009	2010	2011	2012
Sales (₹ in Crores)	24.50	25.90	27.60	30.10	34.80	41.50

(10)

7.

(a) Why Life Cycle Costing is important? **(5)**

(b) A Company paid ₹20,000 and acquired a machine on 1-10-1012. Its annual operating cost is ₹15,000 excluding depreciation. The machine will have a 5-year useful life with zero terminal value.

The machine was just put on trail and was used for one day when the supplier offered a different model to do the same job. The annual operating cost of the revised model is ₹9,000 exclusive of depreciation. The new machine will cost ₹24,000. The old machine can be sold for ₹10,000. The cost of removal of the old machine is ₹2,000. The new machine will also have a five year life with zero terminal value. Sales will be ₹2,50,000 per annum and all other cash costs will be ₹2,10,000 per annum regardless of the decision to change the machine. The machine is installed in a separate building and the written down value of the building is ₹5,00,000. If this building is sold now, it will fetch ₹10 lakhs but the company proposes to use the building for installing the machine.

You are required to explain weather each item of income and expenses or cost stated above is relevant or not in deciding on the replacement of the machine. **(8)**

(c) An Airline Company's budget and actuals for the Quarter January to March 2005 are as under:

Particulars	**₹ in Million**	
	Budget	**Actual**
Income	200	209.0
Variable costs	120	145.2
Contribution	80	63.8
Fixed costs	70	68.0
Operating Profit (Loss)	10	(4.2)

The following further details are available.

(a) There was a 90% decrease in air – face resulting in a 5% decrease in the income for the quarter.

(b) Variable cost like fuel, wages, catering, etc. are increased by 10% over budget.

Prepare an analysis reconciling the budgeted and actual profits for the quarter **(7)**

8.

(a) A Company trading in Motor Vehicle Spares wishes to determine the level of stock it should carry for the items in its range. Demand is not certain and replenishment of stock takes 3 days. For item X, the information is given

Demand (unit per day)	1	2	3	4	5
Probability	0.10	0.20	0.30	0.30	0.10

Each time an order is placed, the company incurs an ordering cost of ₹20 per order. The Company also incurs a carrying cost of ₹2.50 per unit per day. The inventory carrying cost is calculated on the basis of average stock.

The Manager of the Company wishes to compare two options for his inventory decision-

A. Order 12 units, when the inventory at the beginning of the day plus orders outstanding is less than 12 units.

B. Order 10 units, when the inventory at the beginning of the day plus orders outstanding is less than 1o units.

Currently (on 1st day) the Company has a stock of 17 units. The Random numbers to be used is- 08, 91, 25, 18, 40, 27, 85, 75, 32, 52, using first number for day 1. Make a simulation run for 10 days, recommended which option the Manager should choose. **(9)**

(b) Why is Lean Accounting Needed? **(4)**

(c) Samir Healths centre specializes in the provision of sports/ exercise and medical advice to clients. The service is provided on a residential basis and clients stay for whatever number of days suits their needs.

Budgeted estimates for the year ending 31st March, 2012 are as follows:

(i) The maximum capacity of the centre is 50 clients per day for 350 days in the year;

(ii) Clients will be invoiced at a fee per day. The budgeted occupancy level will vary with the client fee level per day and is estimated at different percentages of maximum capacity as follows:

Client fee per day	Occupancy level	Occupancy as % of maximum capacity
₹180	High	90%
₹200	Most likely	75%
₹220	Low	60%

(iii) Variable costs are also estimated at one of the three levels per client day. The high, most likely and low levels per client day are ₹95, ₹85 and ₹70 respectively.

The range of cost levels reflect only the possible effect of the purchase prices of goods and services.

Required:

(a) Prepare a summary which shows the budgeted contribution earned by Samir health centre for the year ended 31 – 3 – 2012 for each of nine possible outcomes.

(b) State the client fee strategy for the year which will result from the use of each of the following decision rules-

(i) Maximax ; **(ii)** maximin; **(iii)** minimax regret.

Your answer should explain the basis of operation of each rule. **(7)**

9.

(a) "Kaizen Costing is an approach that explicitly incorporates continuous improvement during the budget period" Discuss the statement. **(4)**

(b) Industrial metal Works Ltd., have received an enquiry from Calcutta Enterprise for the manufacture and supply of 200 units of a product. The offer if finalized would be a repeat order. The first 100 units at the selling price of ₹300 each was completed last month but IMWL did not make any profit or loss on the order. Analysis of the completed order shows the following:

(i) Tooling cost to the extent of ₹1,000 was charged totally to the order since the tools would not benefit the production of any subsequent order.
(ii) Raw material cost per unit was ₹80. An increase of 10% is estimated for the new order.
(iii) Finishing cost of the product was ₹6 per unit. The operation is highly mechanical and no learning function is applicable.
(iv) The cost of inspection was ₹2 per unit. This is manual work to which learning function would apply.
(v) Direct labour cost was ₹202 per unit. Negotiations with the worker's union are almost complete and as a result of which labour costs are likely to go up by 10% by the time the order materialise.

IMWL expects profit of 10% on the cost of the proposed contract but insists on retaining for itself the benefit of learning function. On the other hand, Calcutta Enterprises is prepared to allow for all cost increase and higher profit margin of 15% on cost but wants to have the advantage of cost saving taking into account 80% learning effect.
You are required to determine the manufacturer's price and determine the buyer's price.
(7)

(c) A company has 4 Zones and 4 Marketing Managers available for Assignment. The zones are not equal in sales potentials. It is estimated that a typical marketing Manager operating in each zone would bring in the following Annual sales –

Zones	**East**	**West**	**North**	**South**
₹	2,40,000	1,92,000	1,44,000	1,20,000

The four Marketing managers are also different in ability. It is estimated that working under the same conditions, their yearly sales would be proportionately as under:

Manager	**M**	**N**	**O**	**P**
Proportion	8	7	5	4

If the criterion is Maximum Expected Total sales, find the optimum Assignment and the Maximum sales. **(9)**