UNIVERSITY OF PETROLEUM & ENERGY STUDIES
DEHRADUN
End Semester Examination –April, 2018

Name of the Program: MA Energy Economics **Semester – IV**
Subject Name: Advance Strategic Analysis **Max. Marks : 100**
Subject Code : MECE801 **Duration : 3 Hrs**

Section A (40 marks)

Choose the correct answer **(1* 20 =20 Marks)**
(Attempt all questions in this section, all carry equal marks)

1. For both individuals and businesses, successful strategies are characterized by:
a. Unrelenting commitment to ambitious goals
b. Clear goals, deep understanding the competitive environment, careful resource appraisal, and effective implementation
c. Meticulous planning
d. The possession of superior abilities and resources which are then deployed to build competitive advantage.

2. What is the minimum efficient scale (MES) of production?
a) The point on an average cost curve where the cost per unit begins to decline more rapidly
b) The minimum point on a U-shaped average cost curve
c) The minimum level of production at a plant for it to be considered profitable
d) The level of production for a small sized plant
e) The threshold at which capacity is constraining for a firm's production

3. What do the vertical boundaries of a firm refer to?
a) The activities the firm itself performs versus purchases from independent firms
b) The level of expertise of the firm's workforce
c) The breadth of products a firm produces
d) The production output level for a firm
e) The chain of production processes from raw materials to finished good

4. The primary distinction between corporate strategy and business strategy is:
a. Corporate strategy is the responsibility of the CEO, business strategy is formulated by the heads of business units
b. Corporate strategy is concerned with where the firm competes; business strategy with how it competes
c. Corporate strategy is concerned with establishing competitive advantage; business strategy with strategy implementation in individual businesses
d. Corporate strategy is concerned with the long-term performance of the firm; business strategy with resource deployment.

5. Which of the following processes is most representative of a less integrated firm on the "buy" end of the make-or-buy continuum?
a) Arm's length market transactions
b) Long-term contracts
c) Strategic alliances and joint ventures
d) Parent/subsidiary relationships
e) Parent/subsidiary relationships

6. The essence of strategy is:
a. Making choices
b. Doing things differently
c. Where and how to compete
d. All of the above

7. Business strategy defines:
a. the way a firm competes in a particular industry or market
b. the way a firm establishes a competitive advantage over its rivals within a specific industry or market
c. Both of the above
d. Neither of the above

8. The basic premise of industry analysis is that:
a. Perfect competition and monopoly are theoretical models, in practice most industries are oligopolies
b. The level of profitability within an industry is determined by the systematic influence of the industry structure which determines the intensity of competition in the industry
c. Firm strategies and their interactions are the key determinants of the industry environment
d. The basic forces of technology and consumer demand are the fundamental forces that shape industry structure

9 What term describes when a firm is using the least-cost production process?
a) Agency efficiency
b) Technical efficiency
c) Lean compliant
d) Economizing
e) Six sigma compliant

10. Which of the following is not a characteristic of substitute products X and Y?
a) They have the same or similar product performance characteristics
b) They have the same or similar occasions for use
c) They are sold in the same geographic market
d) Customers are indifferent between X and Y
e) A price increase of X while keeping the Y's price constant leads to a drop in purchases of X and an increase in purchases of Y

11. Economies of scale are a barrier to entry because:

a. New entrants do not know where they are positioned on their learning curve
b. New entrants do not know the economies they can generate in the future and therefore cannot precisely determine their selling price
c. New entrants face a risk of retaliation from the incumbents which could occur immediately on a large scale and start a price war as a deterrent of their entry
d. New entrants face the cost and risk of creating large-scale capacity to start with or a severe cost disadvantage if they enter on a smaller scale

12. The difference between substitute and complementary products may be summarized as follows:
a. Substitutes reduce the value of a product, whereas complements increase value
b. Complements reduce the value of a product, whereas substitutes increase value
c. Complements cannot be used together, whereas substitutes can
d. Complements increase the average price of any of them, whereas substitutes do the opposite

13. What term describes a framework used in strategy based on resource heterogeneity which posits that for a competitive advantage to be sustainable, it must be underpinned by resource capabilities that are scarce and imperfectly mobile?
a) Persistence of profitability for the firm
b) Capability-based theory of the firm
c) Regression to the mean
d) Resource-based theory of the firm
e) Five-forces framework

14. What's the difference between a resource and a capability?
a. A resource is a productive asset of the firm whereas a capability refers to what the firm can do
b. A resource is an immobile asset whereas a capability is a dynamic concept
c. A resource is a weak source of competitive advantage whereas a capability is a strong one
d. It is very difficult to elucidate

15. Which of the following is not an exit barrier for firms in an industry?
a) Sunk costs
b) Labor agreements or commitments to purchase raw materials
c) Obligations to input suppliers
d) Excess capacity
e) Government restrictions

16. What situation occurs if an incumbent firm with increasing marginal costs or limited capacity sets a price just below the entrants' marginal costs even though the incumbent may be unable to meet all market demand (or possibly may have to sacrifice its profits to do so)?
a) Contestable limit pricing
b) Strategic limit pricing
c) Predatory pricing
d) Quality pricing
e) Capacity expansion

17. The “agency problem” refers to:
a. The inability of shareholders to exercise control over the managers of the companies they own
b. The difficulties companies face in controlling their advertising agencies
c. The misalignment of goals between a principal and his/her agent
d. The excessive compensation received by the CEOs of public corporations.

18. Competitive advantage can be defined as:
a. A firm’s ability to establish market leadership
b. A firm’s ability to grow faster than its competitors
c. A firm’s potential to earn a rate of profit that is persistently higher than its rivals
d. A firm’s potential for launching innovative new products.

19. Isolating mechanisms are:
a. Barriers to the erosion of interfirm profit differentials
b. Mechanisms that impede the equilibration of rents between industries
c. A synonym for “barriers to mobility”
d. Sources of disequilibrium that cause the profitability of different firms in an industry to diverge over time

20. What term describes the price at which a consumer is indifferent between buying a product and going without it?
a) Value creation
b) Competitive advantage
c) Consumer surplus
d) Maximum willingness-to-pay
e) Value chain

Examine the veracity (True and False) of the statement (1*20=20)

Write True/False of the given statements

21. A firm is a *monopsonist* if it faces little or no competition in one of its input markets.

22. The essence of strategic competition is differentiation.

23. 0.2 Range of Herfindahls index indicates oligopoly as market structure.

24. Generally, the stronger the competitive forces, the higher the profit potential of an industry.

25. Competitors are the firms whose strategic choices indirectly affect one another.

26. Small but significant non transitory (SSNIP) increase in price is ued to identify competitors.

27. The degree to which products substitute for each other cannot be measured by the cross-price elasticity of demand.

28. *N*-firm concentration ratio is invariant to changes in the sizes of the largest firms.

29. Competitive advantage is to create a wide wedge between willingness to pay and supplier opportunity cost.

30. An attractive industry is one that is characterized by high entry barriers, suppliers and buyers with strong bargaining power, low threats from substitute products, and low rivalry among firms.

31. With few exceptions, prices tend to be higher in concentrated markets.

32. Entry is the beginning of production and sales by a new firm in a market, and exit occurs when a firm ceases to produce in a market.

33. Postentry profits will not vary according to demand and cost conditions, as well as the nature of *Postentry competition*.

34. Structural entry barriers are better than strategic entry barriers.

35. Entry is accommodated if structural barriers are so high.

36. The three main types of strategic entry barriers are: Control of essential resources, Economies of scale and scope and Marketing advantages of incumbency.

37. A change in ownership that does not entail stopping production is called exit.

38. *Predatory pricing* occurs when a large incumbent sets a low price to drive smaller rivals from the market.

39. When reaction functions are upward sloping, the firm's actions are strategic substitute.

40. Folk theorem says that if firms expect to interact indefinitely and have sufficiently low discount rates, then any price between the monopoly price and marginal cost can be sustained as an equilibrium.

Section B

Answer any one question in not more than 250 words (1*15=15 marks)

1 "Integrated firms are more efficient than independent firms if the central office is more efficient than the courts." Explain this statement. To what extent do you agree?

Or

Explain why the make-or-buy decision is moot when contracts are complete.

2. Economies of scale are usually associated with the spreading of fixed costs, such as when a manufacturer builds a factory. But the spreading of fixed costs is also important for economies of scale associated with marketing, R&D, and purchasing. Explain.

Or

A firm can outperform its rivals through cost leadership or benefit leadership, but not through price leadership. Explain.

Section-C

Read the caselet **"Power is Money"** and answer the following questions (45 Marks)

1. Explain the power relationships in this supply chain by carrying out industry structure analysis through five forces analysis. (15 marks)
2. How might these power relationships predict the winners and losers in terms of ongoing profitability? (15 marks)
3. "Industry structure is the result of decisions managers take" and hyper-competition is self- inflicted wound in a lot of cases" explain these two statements in light of this case. (15 marks)

Power is money

In the 1960s, a change took place in the sporting apparel and footwear markets. Until then, by far the most important consumer had been the amateur and professional athlete who wore the shorts, tops, tracksuits, special shoes, and other paraphernalia necessary for his/her particular sport. Of this group, the largest segment comprised the millions of amateur sports enthusiasts throughout the world. Direct promotions to these consumers and promotion via endorsement by top athletes made a performance enhancing proposition (i.e. "wear our kit and be a winner"). Then, in the "swinging sixties", pop groups like The Rolling Stones began to wear "trainers" (i.e. running shoes) as a counter – cultural symbol of youthful rebellion. And so sports apparel by firms such as Reebok, Nike, and Adidas became fashion as well as sports brands.

The wholesale global sportswear industry is worth more than US$60bn per year and nearly US$150 bn at retail. The top three brand companies, Nike, Adidas and Reebok, share 40% of the branded market (29% of the total). While these firms retain the core competitive functions of marketing and design, manufacturing is outsourced to the lowest cost sources in a long global supply chain (figure 3-1.1).

For instance, Nike (market leader, with 20% of the branded market) has over 700 suppliers worldwide.

The targeted sportswear consumer, particularly the teenage and young adult segment, is fashion sensitive, is fashion sensitive and relatively price insensitive. Wearing what is "in" is more important than wearing what you have until it is worn out. High – profile sports teams are aware of this dynamic and regularly change the design of their (branded) playing shirts (their "strips") to profit from loyal fans who "must have" the latest shirt with the name and number of their favorite player added at extra cost. Sporting teams, however pale into retailing insignificance compared with giant consumer distributors like US-based Wal-Mart or France's Carrefour. While 80% of the athletic footwear sales and 75% of sportswear are sold under brands, retailers understand that even fashion-conscious, price insensitive customer will, if given the choice, pay the lower of two prices for their chosen brand items. So being able to offer that lower price is a key competitive weapon. As they thrust and parry with price reductions, the retailers constantly put pressure on their suppliers for compensating cost reduction so that retail margins are maintained.

While retailers set the customer price, the brand company infuses the product with its value. Creating image-based value means that marketing is the major cost as both saturation media coverage and celebrity endorsements are expensive. In making over US$1bn profit in 2004, Nike expensed nearly as much on marketing. Yet, while nothing is spared on value-creation in design and marketing, things are entirely different at the production end. Here the watchwords are "efficiency" and "cost reduction". These watchwords are passwords foe the agents, trading companies, and manufacturers seeking access to "manufacture and supply" orders.

Some of these intermediaries themselves are large multinationals but, like the myriad smaller companies and the even smaller subcontractors that supply them, are dependents for their corporate lives on winning the orders of Reebok, Adidas, etc. As well as pressure on product cost, this level of the supply chain must manage complex forecasting, inventory, and logistics algorithms as retailers respond to variable consumer demand by giving shorter lead times for more frequent but smaller orders. Hence, these suppliers bear most of the risk and costs of inventory management as well as the challenges of continuous cost reduction.

Flexible low-cost manufacturing in a labor-intensive product demands flexible, low-cost workers. Hence, the supply chain ends in countries like China, Cambodia, or Indonesia, the comparative advantage of which lies in an abundant supply of low-cost (I.e. poor) workers. On July 1, 2005 the official minimum wages for full-time worker in Shanghai, one of China's most dynamic and modern cities, rose for the thirteen time since 1993 to 690yuan (US$83) per month (*Shanghai Daily, June 4, 2005*)

Figure 3-1.1 The sports apparel Supply Chain