

<b>Name:</b>	
<b>Enrolment No:</b>	

**UNIVERSITY OF PETROLEUM AND ENERGY STUDIES**  
**End Semester Examination, December 2018**

<b>Course: Business Policy and Strategy</b>	<b>CC: BBCG107</b>
<b>Semester: V</b>	
<b>Programme: BBA Media Management</b>	
<b>Time: 03 hrs.</b>	<b>Max. Marks: 100</b>
<b>Instructions:</b>	

**SECTION A**

S. No.	Choose the correct answer. Each question carries 1 Mark	Marks	CO
Q 1	<ol style="list-style-type: none"> <li>1. Small firms seldom go beyond what stage of strategy?               <ol style="list-style-type: none"> <li>A) contract manufacturing</li> <li>B) turnkey projects</li> <li>C) joint ventures</li> <li>D) exporting</li> </ol> </li> <li>2. Vertical integration may be beneficial when               <ol style="list-style-type: none"> <li>A) flexibility is reduced, providing a more stationary position in the competitive environment.</li> <li>B) the minimum efficient scales of two corporations are different.</li> <li>C) lower transaction costs and improved coordination are vital and achievable through vertical integration.</li> <li>D) various segregated specializations will be combined.</li> </ol> </li> <li>3. An advantage of a divisional type of organizational structure is               <ol style="list-style-type: none"> <li>A) an enhanced ability to respond quickly to changes in the external environment.</li> <li>B) efficient use of managerial and technical talent.</li> <li>C) high degree of emphasis on long term performance.</li> <li>D) uniformity in image and quality across divisions.</li> </ol> </li> <li>4. Which kind of risk taking entails that a company borrows heavily or commits a large portion of its resources in order to grow?               <ol style="list-style-type: none"> <li>A) business risk taking</li> <li>B) technological risk taking</li> <li>C) personal risk taking</li> <li>D) financial risk taking</li> </ol> </li> <li>5. A narrow market focus is to a differentiation-based strategy as a               <ol style="list-style-type: none"> <li>A) growth market is to a differentiation-based strategy.</li> <li>B) growth market is to a cost-based strategy.</li> <li>C) technological innovation is to a cost-based strategy.</li> <li>D) broadly-defined target market is to a cost leadership strategy.</li> </ol> </li> <li>6. Which of the following statements about ethical organizations is not true?               <ol style="list-style-type: none"> <li>A) ethical values shape the search for opportunities.</li> <li>B) organizational ethics define what a company is and what it stands for.</li> <li>C) the potential benefits of an ethical organization are few but direct.</li> <li>D) ethics provide a common frame of reference that serves as a unifying force.</li> </ol> </li> <li>7. Denoted in the Boston Consulting Group Portfolio management technique, a</li> </ol>	<b>1X 10 =10</b>	<b>CO1 ,2</b>

	<p>"cash cow, refers to a business that has</p> <ul style="list-style-type: none"> <li>A) relatively low market share and low market growth.</li> <li>B) low market growth and relatively high market share.</li> <li>C) relatively low market share and high market growth.</li> <li>D) high market growth and relatively high market share.</li> </ul> <p>8. As a rule, discussions of the relationship between strategy and structure Strongly connote that</p> <ul style="list-style-type: none"> <li>A) strategy follows structure.</li> <li>B) strategy can effectively be formulated without considering structural elements.</li> <li>C) structure typically has a very small influence on a firm's strategy.</li> <li>D) structure follows strategy</li> </ul> <p>9. Primary value chain activities that involve the effective layout of receiving dock operations (inbound logistics) and support value chain activities that include expertise in process engineering (technology development) characterize what generic strategy?</p> <ul style="list-style-type: none"> <li>A) differentiation</li> <li>B) overall cost leadership</li> <li>C) differentiation focus</li> <li>D) stuck-in-the-middle</li> </ul> <p>10. Which of the following is false regarding how a differentiation strategy can help a firm to improve its competitive position vis à vis Porter's five forces?</p> <ul style="list-style-type: none"> <li>A) by increasing a firm's margins, it avoids the need for a low cost position</li> <li>B) it helps a firm to deal with supplier power and reduces buyer power since buyers lack comparable alternatives</li> <li>C) supplier power is increased because suppliers will be able to charge higher prices for their inputs</li> <li>D) firms will enjoy high customer loyalty, thus experiencing less threat from substitutes than its competitors</li> </ul>		
Q2	<p><b>Examine the veracity of statement (True or False) (1X 10 =10 Marks)</b></p> <ol style="list-style-type: none"> <li>1. Strategic management acknowledges the trade-offs between efficiency and effectiveness.</li> <li>2. When global strategies require that each division be responsible for overall efficiency and performance, a worldwide product division structure is disregarded.</li> <li>3. The power of suppliers will be enhanced if they are able to maintain a credible threat of forward integration.</li> <li>4. Intense rivalry in domestic markets does not typically force firms to look outside their national boundaries for new markets.</li> <li>5. Launch of Wax Polish by Shoemaking company is example of Concentric Diversification</li> <li>6. Technological innovations can create entirely new industries and alter the boundaries of industries.</li> <li>7. Competitors can be deterred entry into an industry through the advantages created by information systems.</li> <li>8. A firm's intangible resources refer to its capability to deploy tangible resources</li> </ol>	<p><b>1X10=10</b></p>	<p><b>CO1</b> <b>,2</b></p>

	<p>over time and leverage the resources effectively.</p> <p>9. An advantage of high differentiation is that even if many competitors follow the same strategy, differentiation is still present for all.</p> <p>10. Restructuring necessitates the corporate office to find either firms in industries on the threshold of significant, positive change or poorly performing firms with unrealized potential.</p>		
<b>SECTION B</b>			
Q 3	<p style="text-align: center;"><b>Write short notes on any four (limit of 200 words )</b></p> <ol style="list-style-type: none"> <li>1. First Mover Advantage Vs Later mover advantage</li> <li>2. Offensive tactics</li> <li>3. Contraction. Consolidation and captive</li> <li>4. Integration continuum</li> <li>5. Behavioural substitution and pareto rule</li> </ol>	<b>5X4=20</b>	<b>CO2 ,3</b>
<b>SECTION-C. Attempt any two</b>			
Q 4	Identify the most common reactive and proactive reasons why companies go into international business. Also suggest various modes of international operations	<b>15</b>	<b>CO2</b>
Q 5	Enumerate and enunciate the problems and solutions in the implementation of strategy	<b>15</b>	<b>CO3</b>
Q 6	Structure follows strategy. Comment on the statement while pointing towards the probable structural changes effected as aftermath of selection of strategy.	<b>15</b>	<b>CO3</b>
<b>SECTION-D</b>			
	<p style="text-align: center;"><b>Case Study Analysis</b></p> <p>In January 2011, Giel Bessels, one of the three founders of PentaTone Music BV (PentaTone), sat at his desk, pondering the future. PentaTone, a small classical music record label specializing in state-of-the-art Super Audio Compact Disc (SACD) recordings, had weathered the storms of a volatile market for classical recordings and had survived a range of setbacks in the first decade of its existence. PentaTone now had a fair-sized catalogue of recordings but continued to face an uncertain future. In particular, the market for new classical recordings continued to contract, as did the number of “high-street” retailers selling these products. Contrary to Bessels’s expectations 10 years earlier, which had been based on the superiority of SACD over the compact disc (CD) format, SACD had failed to achieve widespread adoption, or even visibility, as an audio format. Bessels knew that PentaTone needed to find ways to educate consumers about the dramatic quality improvements offered by SACD, but he was having trouble identifying specific strategies for doing so. Bessels also wondered whether it was worth revisiting his plans to enter the Chinese market; his previous efforts had been unavailing. All the while, Bessels and his co-founders were acutely aware that time was not on their side. The three entrepreneurs were all in their 60s and, although their commitment to PentaTone remained undimmed, they knew</p>		

that they could not keep on running their business indefinitely. As Bessels sat at his desk, he wondered what the future would bring — and what, if anything, he could do to influence it.

#### SACD – A BRIEF HISTORY

The Super Audio Compact Disc (SACD) is a high-resolution, read-only optical disc that is of identical physical proportions to a standard compact disc (CD). Like the CD, which was launched in 1983, the SACD format was pioneered by Sony and Philips. The SACD was introduced in 1999 as the intended replacement for the CD. Because SACDs offered a superior technical format, at only little extra cost compared with CDs, many in the audio world expected the SACD to sweep all formats that had preceded it. But, and not for the first time in the history of consumer electronics products, events did not turn out that way.

Standard CDs store stereo-only content on a single layer of a disc, using a technology called pulse code modulation (PCM). PCM digitizes music by sampling sound waves at 44.1 kilohertz (kHz) at 16-bit precision, which gives CDs a dynamic range of 96 decibels (dB) and a frequency response of 20 hertz (Hz) to 20 kHz. In contrast, SACDs record and store both stereo and “multichannel” content (e.g., the “5.1” used in many home theatre systems) on two layers of a disc, using a technology called direct stream digital (DSD). DSD digitizes music by sampling sound waves at 2.8224 MHz in a one-bit bitstream, enabling a remarkable dynamic range of 120 dB and a wider frequency response range of 20 Hz to 50 kHz. As a result, SACDs provide a more accurate representation of the original musical waveform than CDs. Yet the real gains come from the SACD’s multichannel capability, which enables the multichannel playback to yield a startling improvement in the realism of a concert performance compared with stereo, even when played on modestly priced audio reproduction equipment. Most SACDs are “hybrids,” meaning that the CD layer can be played on conventional CD players. The CD layer contains a downsampled 44.1 kHz/16-bit PCM version of the original recording. The real audio quality gains, however, are achieved on the second layer, where both stereo DSD and multichannel DSD versions are stored using high-density, copy-protected encoding. Dedicated SACD players are needed to access this layer, although (unbeknown to many of their owners) many Blu-ray and DVD players currently in consumers’ homes and available on the market also have SACD capability built into them. Despite these benefits, SACD did not take off when it was launched in 1999. At least three reasons account for its failure to achieve mass adoption:

1. Both Philips and Sony, in their own ways, were at that time separating their hardware (i.e., the players) and software (i.e., the discs) operations, hampering their ability to simultaneously launch products with content. Hence, consumers were not educated by a co-ordinated launch of SACD players with content.
2. In 1999, the major record labels were mainly focused on popular music, which accounted for 80 to 90 per cent of their sales. Reproduction quality was generally considered less crucial for pop music, and music downloads from the Internet had just emerged, threatening the record companies’ ability to capture returns from new recordings. The limited investment in and availability of new titles resulted in patchy adoption of the new format.
3. A rival format, the now-defunct DVD-Audio, was released at the same time as SACDs. The music recording and media industries did not know which format would win out and consequently hedged their bets, withholding support for either format until the situation resolved itself. Consumers remained uninformed and confused, which

further slowed adoption of the SACD format. Although SACDs clearly failed to achieve mass-market adoption or even widespread recognition, in some areas (especially specialized high-end classical recordings), the SACD continued to flourish as an audiophile's niche product. New classical recordings and older rock and jazz releases continued to be released on SACD. Thus, at the time of writing, nearly 7,000 SACD recordings were available. Some 60 per cent of these releases were of classical music. In addition, new SACD players continued to be made, including in-car players and SACD-compatible DVD and Blu-Ray players.

Dynamic range is the difference between the quietest and loudest volume in a piece of music. It is measured in decibels (abbreviated to dB), which is a logarithmic unit that captures levels of sound pressure. Frequency response is the range of audio output, expressed as a sound frequency range. It is measured in Hertz (abbreviated to Hz), which is the International System of Units' (Système International, or SI) unit of frequency, defined as the number of cycles per second of a periodic phenomenon.

### **Pentatone – The Founders, The Founding Event And The Structure**

At the end of 1999, Philips closed its classical music division, laying off more than 50 people. Among the casualties were Giel Bessels, Dirk van Dijk and Job Maarse, who, being in their early 50s in 1999, faced limited employment opportunities. The three men shared an enthusiasm about the new SACD format and were excited about the prospects of starting their own classical music label. In the words of van Dijk, "wefelt, and continue to feel, that the SACD format is simply too good not to succeed." The three partners brought to their start-up decades of industry experience and extensive networks established from their Philips days. They saw a business opportunity for PentaTone predicated, in part, on a "replacement motive" for buying music. Thus, they had observed booming classical music sales in the 1980s as consumers replaced en masse their old vinyl and tape cassette albums with CDs. They hoped the same would occur again for SACD, despite the initial uncertainty about whether the new format would achieve widespread acceptance. With high expectations, Bessels, van Dijk and Maarse launched PentaTone in 2001. The three founders worked well together, liked each other and brought complementary skills to the partnership. Giel Bessels became commercial manager, where he could leverage his corporate and legal experience. His job was to negotiate contracts with artists and distributors and organize the company's marketing and promotion efforts. Dirk van Dijk was responsible for product management, administration, logistics and information systems. Job Maarse was the artistic director, responsible for artist and repertoire (A&R). In this role, Maarse scouted for talent, selected recordings to make and artists to use, and served as the producer of PentaTone's recordings.

PentaTone was established as an equal three-way partnership with one external shareholder, Polyhymnia International (Polyhymnia). Polyhymnia, which was spun out of Philips when it closed its label in 1999, was a high-quality recording studio fully committed to DSD multichannel recordings on SACD. At the company's inception, it was decided that each shareholder would receive a 25 per cent share of any profits of the venture. The three founders comprised the totality of PentaTone's payroll, a situation that persists to this day.

The First Ten Years Bessels, van Dijk and Maarse soon discovered that their venture faced an uphill struggle. The failure of SACD to take off meant that the "replacement motive" effect they had been banking on never materialized. This problem was compounded by declining overall market demand for classical music recordings, as a

result of the large stock of recordings already owned by collectors, the more or less fixed size of the classical music repertoire and slow growth in the number of new classical music listeners. By 2002, the three founders were forced to raise extra capital by selling a limited ownership stake to three outside investors.

From the outset, PentaTone adopted a twin-track strategy with respect to its product offering. PentaTone's releases included a combination of new recordings and remastered Philips quadraphonic (RQR) recording from the 1970s (to exploit the multichannel capabilities of SACD). The company's aim was to build a catalogue as quickly as possible without sacrificing the commitment to the highest quality possible. However, early on, PentaTone encountered difficulties in convincing distributors to take their limited catalogue. Being a small and largely unknown start-up, PentaTone lacked credibility with large distributors who, managing a large portfolio of often well-established labels, did not see the attraction of PentaTone's offering. One prominent U.S. distributor that had agreed to work with PentaTone in 2002 terminated the agreement in 2004. Distribution in the United States remained a critical issue until the mid-2000s, especially as the decline of the bricks-and-mortar retail sector was picking up pace, strikingly exemplified by the collapse of the large high-street chain Tower Records in 2006. By the middle of the decade, business began looking up for PentaTone. A young, and as yet undiscovered, star violinist called Julia Fischer, signed a contract to record a handful of albums with the young company. The eight recordings that ensued became major successes, both commercially and critically, propelling both PentaTone and Fischer into the limelight. However, this success came at a price: Fischer's visibility caught the attention of deep-pocketed incumbent labels, who quickly lured away PentaTone's star performer with a lavish contract.

PentaTone was still recovering from the loss of Julia Fischer when the 2008 financial and economic crisis struck PentaTone hard: the company's finances plunged from a modest profit to loss. PentaTone was especially exposed because its small catalogue meant that it had a limited income stream from which to fund new recordings. Undeterred, but needing extra funds to build their catalogue and sign new talent, Bessels, van Dijk and Maarse approached several private shareholders for a second round of external financing. They succeeded in bringing another shareholder on board. The funds generated enabled PentaTone to continue remastering old RQR recordings and recording new discs. By the start of 2011, PentaTone were releasing 25 SACDs per year, roughly equally split between old and new content. In terms of the number of new releases, PentaTone had now overtaken the former market leader in the classical CD market, Deutsche Grammophon. By January 2011, PentaTone's catalogue stood at 203 titles. Although no formal statistics were available, Bessels, van Dijk and Maarse believed that PentaTone's slice of the market pie had grown — in large part due to their unstinting commitment to quality.

### **The Economics of PentaTone**

On the cost side, a minimum order of 2,000 to 3,000 discs incurred a manufacturing cost ranging between €1.10 and €1.40 per disc.<sup>3</sup>

These costs paled in comparison, however, to recording costs, which were by far the largest single cost item, especially for PentaTone, because the quality the company demanded did not come cheap. Recording costs depended on the repertoire, but were estimated to be in the range of €20,000 to €25,000. On the plus side, PentaTone had been innovative in reducing its operational costs, having pioneered, in 2008, a move away from the industry standard practice whereby the label paid musicians upfront session fees. PentaTone had convinced a new generation of

performers to do without a session fee and to accept instead remuneration based entirely on royalties. Musicians were broadly willing to accept this arrangement as fewer recordings were being now made despite their ability to increase musicians' exposure and thereby enhance their earnings power in the concert hall.

Given the volatility and uncertainty of the market, even the founders had difficulty predicting the company's revenues in any year, though they cautiously reckoned that an annual release of 25 discs resulted in approximately 100,000 to 120,000 copies being sold per annum. Top solo recordings outsold symphonic works by a factor of between two and four, depending on the repertoire. New recordings were estimated to pay back their operating costs after one year. As a rough rule of thumb, PentaTone's distributors paid the company €6 to €8 per disc. Retailers paid the distributors €12 to €14 per disc and sold the discs to customers at €20 to €24. PentaTone also hosted a website from which discs could be ordered directly ([www.pentatonemusic.com](http://www.pentatonemusic.com)): discs ordered through the website cost between €16 and €21.50 each and were shipped from a supplier in Belgium.

From the outset, PentaTone's three founders agreed to take a modest salary, which amounted to less than they had earned as Philips executives. This arrangement enabled the founders to re-invest any profits into new recordings in order to grow the business. By January 2011, PentaTone was delivering a small profit that was being reinvested in the company.

### **Opportunities and Challenges**

After a decade of hard work, PentaTone had, by January 2011, built an impressive catalogue without compromising its impressive reputation for top-quality recordings and artistic performances. The company had a lean team with no employees and had developed a novel, cost-effective way of producing new records. Furthermore, PentaTone had developed a roster of young stars, giving a certain amount of "futureproofness" to its catalogue. In contrast, the classical music label "majors" were not developing new talent and were over-reliant, Bessels felt, on established household names, such as Karajan, Bernstein, Lang Lang and Pavarotti, whose popularity could not be guaranteed to last.

Another opportunity intrigued the PentaTone team. A few years ago, Bessels had tried to expand PentaTone's operations into China. He had approached the state-owned official distributor, but had quickly discovered that this distributor believed that marketing and promotion was the job of the label, not the import company. However, when Bessels approached local companies with a commercial deal to push PentaTone's products to Chinese consumers, he found that none of them stuck to their mandate. Instead, these companies switched their attention opportunistically to other deals if they promised higher returns. Disappointed with this situation, PentaTone made a Chinese-language version of one of its recordings featuring a Chinese pianist. However, the Chinese mass media were not interested in the activities of a small foreign company producing a specialized import, and this effort foundered. It did not help that lowcost "gray imports" from Hong Kong undercut the modest initial sales PentaTone did manage to secure. Nevertheless, the Chinese market seemed tantalizingly attractive. Because a growing class of wealthy Chinese were interested in classical music, Bessels felt that China presented a golden opportunity for PentaTone. He wished he could find the elusive key to unlocking the market.

PentaTone's founders were convinced that their focus on ultra-high-quality recordings was the source of their competitive advantage. However, they remain troubled by existential threats to their business, especially the continuing shrinkage of the recorded

	<p>classical music market, a problem compounded by the ongoing disappearance of high street retailers, which had been a valuable source of “impulse buying.” Bessels recognized that a major challenge was to educate the discerning consumer about the extraordinary leap in quality that multichannel SACD provided over stereo CD (and even more so over MP3). Images and verbal descriptions were simply unable to convey the sometimes extraordinary improvement in realism, clarity and engagement in music reproduction offered by multi-channel SACD. Lacking the time and resources to mount one-on-one audio demos to potential new customers, Bessels pondered other possible solutions. He wondered whether PentaTone might passively benefit from the continued adoption of multichannel media via home theaters. For example, could the growth in purchases of Blu-Ray players and discs eventually increase consumer interest in having multichannel high-resolution audio in the home?</p> <p>Could there be scope for a high-resolution Blu-ray audio offering in the future? Or would a passive approach of waiting for multichannel media to become more firmly established take too long to lift sales?</p> <p>Bessels wondered whether PentaTone could explore other, more proactive, ways of reaching out to new audiences, such as by making innovative use of social media.</p> <p>Bessels, van Dijk and Maarse also recognized an underlying vulnerability of the venture because of their own mortality. They were all in their early 60s and although their enthusiasm and commitment to PentaTone remained undimmed, they were coming to realize that they could not go on forever. Some kind of exit option beckoned, but what form might that take?</p>		
Q7	Is PentaTone a successful start-up? Comment while conducting PESTLE	<b>10</b>	<b>CO3</b>
Q8.	What are the strengths, weaknesses, opportunities and threats facing PentaTone? (minutes)	<b>10</b>	<b>CO4</b>
Q9.	What should PentaTone do next, and why? Comment on strategic options available	<b>10</b>	<b>CO5</b>