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UNIVERSITY OF PETROLEUM & ENERGY STUDIES
DEHRADUN
End Semester Examination –May, 2020

Name of the Program: MA Energy Economics **Semester – IV**
Subject Name: Advance Strategic Analysis **Max. Marks : 100**
Subject Code : STGM8003 **Duration : 3 Hrs**

<u>Section A (30 marks)</u>

Choose the correct answer **(1.5*2 = 30 Marks)**
(Attempt all questions in this section, all carry equal marks) **(all are CO1)**

1. Analyzing key success factors leads one to ask the following two questions:

a. What do customers want which we could supply and what should the firm do to survive competition?

b. What do customers want and what type of operational changes should a firm implement to survive competition?

c. Which of the five forces of competition most threaten a firm's survival and how could the firm deal with them?

d. What should managers do to a information collected from the market and the firm's operational units?

2. 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

3. The value of game theory to the field of management is in:

a. Bringing greater rigor to the analysis of competition

b. Extending the theory of competition behavior to embrace cooperative behavior

c. Extending the analysis of competitive behavior to the realms of politics, diplomacy, and social behavior

d. Framing strategic decisions, predicting the outcome of competitive situations, and identify optimal strategic choices.

4. Barriers to mobility are:

a. barriers that protect a segment from firms established in other segments of the same industry

b. barriers that protect a segment from firms established in other industries

c. obstacles to changing a firm's strategy over time, once it becomes obsolete or inadequate for the changing environment

d. barriers that prevent globalization and developing a firm's business abroad

5. 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

6. One implication of the resource-based perspective is that:

a. Firms tend to adopt similar or close strategies

b. Firms focus on being different from their competitors

c. Firms focus on building a stronger portfolio of capabilities than their rivals

d. Firms focus on reducing their vulnerability by correcting their weaknesses

7. Intangible resources tend to be more valuable than tangible resources because:

a. They are easier to acquire

b. They are cheaper to acquire

c. They are more likely to provide sustainable competitive advantage

d. All of the above

8. According to Henry Mintzberg, organizational structure can be defined as:

a. The ways in which labor is divided into distinct tasks, and coordination is achieved among these tasks

b. The ways in which tasks are divided among divisions, and managerial coordination achieved from the highest level of the organization

c. A set of resources and capabilities organized around divisions and departments

d. The achievement of coordination and cooperation between organizational tasks

9. A fundamental challenge of managing a large firm is to achieve an optimal trade-off between:

a. Cooperation and division of unqualified labor

b. Division of labor and efficiency

c. Division of labour, specialisation, co-ordination and co-operation

d. Cooperation, coordination and profit

10. 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.

11. Roles and directives, mutual adjustment, and routines are:

a. Mechanisms for overcoming goal misalignment among organizational members

b. Means for controlling employees in an organization

c. Means for people to build a hierarchy within the firm

d. Mechanisms for achieving required levels of coordination between workers

12. Firms organized around functional structures tend to experience problems when:

a. Top managers must envision their succession

b. The range of products expands

c. The business environment becomes more turbulent

d. A global strategy is pursued.

13. 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.

14. 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

15. Which of the following is not an isolating mechanism?

a. Private ownership of a company which means that it is not obliged to publish its financial statements

b. Competitive advantage which is based upon the interaction of a number of different resources and capabilities

c. Competitive advantage based upon exploiting pricing anomalies ○

d. Competitive advantage that is based upon resources that is difficult to transfer and slow to replicate.

Section B

Answer any two questions in not more than 250 words (2*10=20 marks)

1. "The only way to succeed in a market with homogeneous products is to produce more efficiently than most other firms." Comment. Does this imply that efficiency is less important in oligopoly and monopoly markets? (CO 2&3)
2. "Financial measures the not the best methods for strategy formulation and execution". Discuss Balance scorecard in the light of above statement. (CO 2&3)
3. Industries with high barriers to entry often have high barriers to exit. Explain. (CO 2)
4. Comment on the following: All of wisdom contained in the five-forces framework is reflected in the economic identity: Profit = (Price- Average Cost) * Quantity (CO 2)

Section-C

Read the case **"Power is Money"** and answer the following questions **(50 Marks)**

1. What is the status of rivalry among competitors in sporting apparel and footwear market? (CO 2& 3) **15 Marks**
2. What changes barrier to entry and threat of substitute has been seen in sporting apparel and footwear market? (CO 2 &3) **10 Marks**
3. How bargaining power of buyers and suppliers has changed in sporting apparel and footwear market? (CO 3&4) **10 Marks**
4. Explain the power relationship in thus supply chain (by using five forces model) and how they might predict the winners and losers in terms of ongoing profitability. (CO 3 & 4) **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