EASTERN UNIVERSITY, SRI LANKA

Faculty of Commerce and Management

Final Year/First Semester Examination in Business Administration - 2008/2009

Proper / Repeat (Sep. 2009)

MGT 4114 Strategic Management

Answer all five (5) questions **Time: 03 hours**

Q1) Read the following case study and answer the questions given below.

Attacking a dominant competitor: a joint venture strategy by Nestle and General Mills

Kellogg (US) dominates the world's ready-to-eat breakfast cereal market. In 1989, Nestle (Switzerland) and General Mills (US) agreed a joint venture to attack the market. The objectives of the new company were to achieve by the year 2010 global sales of US$ 2 billion and, within this figure, to take a 20 per cent share of the European market.

Background

In 1997, Kellogg was the breakfast cereal market leader in the US with around 32 per cent share in a market worth US$ 9 billion at retail selling prices. By 2002, the company was no longer market leader. Its great rival, General Mills (GM), has finally taken over with a share of 33 per cent while Kellogg's share dropped to 30 per cent. GM had achieved this important strategic breakthrough by a series of product launches over a 15-year period in a market that was growing around 2 per cent p.a. However, by 2004, Kellogg had regained market leadership again by one percentage share point. This reversal was the outcome of some clever marketing by Kellogg coupled with GM being distracted by the consequences of its acquisition of another American food company, Pillsbury, in 2003.

Outside the US, the global market was worth around US$ 8-10 billion and growing in some countries by up to 10 per cent p.a. However, this was from a base of much smaller consumption per head than in the US. Nevertheless, Kellogg still had over 40 per cent market share of the non-US market. It had gained this through a vigorous strategy of international market launches for over 40 years in many markets. Up to 1990, no other company had a significant share internationally, but them along came the new partnership.

Development of Cereal Partners

After several abortive attempts to develop internationally by itself, General Mills (GM) approached Nestle about a joint venture in 1989. (A joint venture is a separate company, with each parent holding an equal share and contributing according to its resources and skills; the joint venture then has its own management and can develop its own strategy within limits set by the parents.) Nestle had also been attempting to launch its own breakfast cereal range without much success. Both companies were attracted by the high value added in this branded, heavily advertised consumer market.

GM's proposal to Nestle was to develop a new 50/50 joint company. GM would contribute its products, technology and manufacturing expertise - for example, it made 'Golden Grahams' and 'Cheerios' in the US. Nestle would give its brand name, several underutilized factories and its major strengths in global marketing and distribution – for example, it made 'Nestle' cream products. Both parties found the deal so attractive that they agreed it in only three weeks. The joint venture was called Cereal Partners (CP) and operated outside North America, where GM remained independent.

Over the next twelve years, CP was launched in 70 countries around the world. Products such as 'Golden Grahams', 'Cheerios' and 'Fibre 1' appeared on grocery supermarket shelves. CP used a mixture of launch strategies, depending on the market circumstances: acquisitions were used in the UK and Poland, new product launches in the rest of Europe, South and Central America and South Africa, and existing Nestle cereal products were taken over in South-East Asia. To keep

Kellogg guessing about its next market moves and to satisfy local taste variations, CP also varied the product range launched in each country. By contrast with Kellogg, CP also agreed to make cereal for supermarket chains, which they would sell as their own brands.

By 2004, CP had reached its targets of US$ 1 billion profitable sales and 20 per cent of European markets, Kellogg was responding aggressively, especially in the US, where it had regained market leadership. CP was beginning to think that its innovative strategies would repeat US experience: it was beginning to attack a dominant competitor, Kellogg, worldwide.

Questions:

a. What were the competitive advantages Kellogg and General Mills had to attack each other to gain market share in the Cereal Industry?

(07 Marks)

b. In what ways, the Joint Venture between Nestle and General Mills had contributed towards success and justify your answer with facts.

(07 Marks)

c. What would have been the possible strategy/ies that General Mills could have pursued, if not for Joint Venture?

(07 Marks)

d. Perform a SWOT for the Cereal Partner (CP) in order to identify the survival of this joint venture in future. **(07 Marks)**

(Total Marks 28)

Q2) a. Explain the importance of **five forces** in determining the industry profitability.

(06 Marks)

b. Categorize the **resources** in an organization and briefly explain with a help of a diagram how these resources could be turn into **strategic competitiveness.**

(06 Marks)

c. Briefly explain the differences between **GE matrix** and **BCG matrix** in the product portfolio?

(06 Marks)

(Total Marks 18)

Q3) a. Make a contrast between the ***Johnson and Scholes' Criteria***, and ***Rumelt's Criteria*** used at the decision stage of strategic choice.

(06 Marks)

b. What are the **corporate strategies** that are available for **growth, stability** and **retrenchment** for an organization?

(06 Marks)

c. "Each *responsibility center* has its own budget and is evaluated on its use of budgeted resources." Describe the ways, in which a corporation's control system measures its resources, and services or products.

(06 Marks)

(Total Marks 18)

Q4) a. List out the generic five **competitive strategies** and briefly explain the differences among these strategies taking into consideration the two dimensions of **scope** and **basis of competitive advantage.**

(06 Marks)

b. **Interest** and **power** are major contributors in **mapping the stakeholders.** Explain this by taking into consideration the Eastern University.

(06 Marks)

c. Describe the three components of building an organization, **capable of proficient strategy execution.**

(06 Marks)

(Total Marks 18)

Q5) **a.** "Reengineering is the radical redesign of business processes to achieve major gains in cost, service, or time. It is not in itself a type of structure, but it is an effective way to implement a turnaround strategy." Elaborate on this statement with the aid of reengineering principles for the implementation.

(06 Marks)

b. What are the steps that have been involved in developing a ***Strategic Position and Action Evaluation Matrix***?

(06 Marks)

c. Distinguish between '**value chain**' and '**value chain system**' and specify the importance of these concepts.

(06 Marks)

(Total Marks 18)