EASTERN UNIVERSITY, SRI LANKA

Faculty of Commerce and Management

Final Year /First Semester Examination in Bachelor of Business Administration

2017/18 (January 2020)

Proper/Repeat

MGT 4013 Strategic Management

Answer all five (5) questions **Time: 03 hours (Pages 1-7)**

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

Pepsico's Strategy

US based PepsiCo one of the largest packaged food companies in the world, announced a dismal financial performance. Although the company's revenues had increased marginally (4%) from the net income had witnessed a major decline (28.45%) from in the same period. Analysts pointed at PepsiCo's lack of focus on its core operations as one of the major reasons for its poor financial performance. In its efforts to sharpen focus on its core beverage (Pepsi-Cola), and snack food businesses (Frito-Lay), PepsiCo underwent a major restructuring by spinning-off its restaurant businesses as an independent publicly traded company. The spin-off was completed. Subsequently PepsiCo acquired Tropicana, the world leader in the marketing and production of branded juices, in its efforts to strengthen its position in the non-carbonated beverages segment. Despite its restructuring efforts, analysts felt that PepsiCo still had a lot of distance to cover to catch up with its about a century old archrival, Coke. PepsiCo accounted for 31.4% of the US soft-drinks market as compared to Coca-Cola's 44.5%. In the same year, Coca Cola generated 63% of its sales as compared to PepsiCo's 31% from its overseas operations.

In its attempt to catch up with Coke, PepsiCo took several initiatives. One of the major initiatives undertaken to focus on its core businesses was hiving-off its bottling operations into a separate new company called Pepsi Bottling Group (PBG), later PepsiCo sold its 65% equity stake in PBG to the public and raised $2.3 bn in cash. PepsiCo's restructuring efforts paid off handsomely as its operating profits rose from $2.584 bn to $3.225 bn. The company made further attempts to strengthen its market position in the noncarbonated beverages segment. This was achieved through the acquisitions of South Beach Beverage Company (SBBC), and Quaker Oats, a leading food and

drinks company. PepsiCo was formed in 1965 by the merger of Pepsi-Cola and Frito-Lay (
of snack chips in the world). The company's popular drink, Pepsi-Cola had been invented in

In a bid to generate faster growth for the company, PepsiCo diversified into the restaurant bu through a series of takeovers. It purchased Pizza Hut in 1977, Taco Bell in 1978 and Ke Fried Chicken in 1986. Soon, PepsiCo emerged as a world leader in the restaurant bu PepsiCo was reorganized and decentralized by combining its beverage operations under Pe Worldwide Beverages and snack food operations under PepsiCo Worldwide Foods. In PepsiCo purchased 7-Up International, the third largest franchise soft drink outside the US. In the company reorganized along geographic lines - East, West, South and Central regions with its own president and senior management staff. Over the years, PepsiCo took several st bring its three restaurant chains together into a single division so that they could grow rapidl company brought all operations under a single senior manager and combined many back operations like payroll, accounts payable and data processing, purchasing real estate, constr and information technology. The company also took up aggressive re-franchising to in financial returns and restaurant operations. With revenues of $17.80 bn,, PepsiCo was among the top 25 of the Fortune 500 companies. PepsiCo's sales had crossed $30.42 bn, ar 480,000 employees, Pepsi had become the third largest employer in the world after Wal-M GM. Roger Enrico (Enrico) became the CEO of PepsiCo in 1996. Immediately after PepsiCo's performance deteriorated as it faced intense competition from Coca-Cola in b domestic and overseas markets. Pepsi Cola's market share lagged behind Coca Cola maximum margin in over two decades. According to Beverage Digest, an industry new Coca-Cola's Sprite brand had replaced Diet Pepsi as the fourth-largest selling soft drink in while Diet Pepsi had dropped to seventh... The Restructuring & Acquisition PepsiCo ann plans, to restructure its business. As a first step, the company decided to spin-off its res business as an independent publicly traded company. PepsiCo also decided to sell-off i distribution company. Justifying his decision to spin-off the restaurant business, Enrico s when the company acquired the restaurant business in the 1970s, the company had many to do so. PepsiCo had enough cash, quality people, and the ability to build restaurant brands PepsiCo bought them, the brands like Pizza Hut and Taco Bell were very small business company allocated its resources to them and soon became the leader in the restaurant b According to the executives of PepsiCo, the restaurant business had sufficient cash and personnel working for it. However, the restaurant culture and processes did not align with Pe organizational culture. Another reason for the spin-off was the management's efforts to make PepsiCo a focused packaged foods company, to compete with its archrival Coca-Cola.in continuation of its restructuring efforts, PepsiCo decided to separate its bottling operations from the company. PepsiCo's Pepsi-Cola business included two units - a bottling company and a concentrate company. The bottling operations, which were called Pepsi Bottling Group (PBG) after the spin-off, consisted of certain North American, Canadian, Russian, and other selected overseas bottling operations. With sales of more than $7 bn, PBG was the world's largest Pepsi Cola bottler accounting for more than half of Pepsi Cola's North American volume. The concentrate company focused on product innovations and marketing Pepsi Cola's brands. It manufactured and sold beverage concentrate syrup to PBG and other Pepsi-Cola bottlers. The company also supported PBG and other bottlers in advertising, marketing, sales, and promotion programs. Analysts felt that PepsiCo's decision to spin-off its bottling operations would help the company compete more effectively in the beverage business and serve its retail customers better. PepsiCo was also expected to improve margins on its beverage operations, as bottling operations were less profitable than the supplying of beverage concentrate. Through the spin-off of the restaurant business and bottling operations, PepsiCo aimed to bring consistency in financial performance and improve market performance.

Questions:

I. What does the case tell you about the nature of strategic decision making at a large complex organization like Pepsico?

(04 Marks)

II. What trends in the external environment favoured the pursuit of the Pepsico's strategiest?

(04 Marks)

III. Which recommendations would you have for Pepsico to outperform its competitors in the future?

(04 Marks)

IV. Why do you think it is so hard not only to gain but also to sustain a competitive advantage?

(04 Marks)

(Total 16 Marks)

Q2) I. What are the main **characteristics** of **Strategic Decisions** and describe briefly the **steps** involved in the Strategic Management **process**?

(06 Marks)

II. In what ways are **business** and **military strategy** alike and different? And describe the actions of **implementing strategy**. (06 M

III. What are the steps in the **five feedback model** that a strategist has to go in evaluati success of their **implemented strategies**?

(06 M

IV. In what way do you think that the **backward integration** and **forward integration** be beneficial for an organization?

(04 M

(Total-22 M

Q3) **I.** **Porter's Model** helps with the structural analysis of the environment. How does this determine the profits of the Industry in relation with those five factors?

(06 M

II. The competitors can be analysed using the **"four corner's analysis"**, briefly gi interpretation on this analysis?

(05 M

III. **The BCG (Growth-Share) Matrix** is old but has stood the test of time. How sign and practicably usable is it today, in the light of vast developments in management too help assess market conditions? (05 M

IV. Explain the guidelines use for **proper control** (03 M

V. The strategy can be explain as **5Ps** according to **Minzberg,** briefly describe those 5Ps

(03 M

(Total-22 M

Q4) **I.** Elaborate on **four challenges** of analyzing internal environment and explain the contri of **value chain analysis** in understanding firm's activities for attaining cost or value in the process of transforming inputs into outputs.

(06 M

II. What is the contribution of **SPACE matrix** in making a strategy choice and what are the criteria used for evaluating strategic options.

(06 Marks)

III. What are the **factors** that should be taken in formulating the **Strategic Direction** and distinguish **vision statements** from **mission statements** in terms of composition and importance (05 Marks)

IV. What are the advantages and risks associate with **low cost leader strategy**. (04 Marks)

V. Describe briefly the three **levels of strategy**.

(03 Marks)

(Total-22 Marks)

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Note: Fill in the blanks with appropriate answers in this question paper and attach it with the answer script. All the blanks carry one mark each.

5) a) .... can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives

b) The *strategic-management process* consists of three stages: .... and ....

c) .... approach to competitive advantage advocates that external (industry) factors are more important than internal factors in a firm achieving competitive advantage.

d) .... Matrix allows strategists to summarize and evaluate economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive information

e) The process of performing an .... closely parallels the process of performing an external audit.

f) .... approach to competitive advantage contends that internal resources are more important for a firm than external factors in achieving and sustaining competitive advantage.

g) .... involves gaining ownership or increased control

distributors or retailers.

h) A .... strategy seeks to increase market share for pre

products or services in present markets through greater marketing efforts.

i) .... involves introducing present products or services into

geographic areas.

j) There are two general types of *diversification* *strate*

......................................and ....

k) Selling all of a company's assets, in parts, for their tangible worth is c

....

l) According to Porter, strategies allow organizations to gain competitive advantage

three different bases: cost leadership, ..., and fo

m) A .... occurs when two organizations of

equal size unite to form one enterprise and an ....

when a large organization purchases (acquires) a smaller firm, or vice versa.

n) The .... matrix graphically portrays differences among divi

in terms of Business Strength and industry attractiveness

(18 M