



**Final Year/First Semester Examination in Bachelor of Business Administration –  
2013/2014 (December 2015/January 2016)**

**(Proper/Repeat)**

**MGT 4013 Strategic Management**

**Time: 03 hours**

**Answer all five (5) questions**

1) Read the case study and answer the questions given below.

**The Rise and Fall of Circuit City: From Good to Great to Gone**

IN THE 1990s, Circuit City was the largest and most successful consumer-electronics retailer in the United States. Indeed, Circuit City was so successful it was included as one of only 11 companies featured in Jim Collins' bestseller Good to Great. To qualify for this August group of high performers, a company had to attain "extraordinary results, averaging cumulative stock returns 6.9 times the general market in the 15 years following their transition points." Indeed, Circuit City was the best-performing company on Collins' good-to-great list, outperforming the stock market 18.5 times during the 1982–1997 period. How did Circuit City become so successful? The company was able to build and refine a set of core competencies that enabled it to create a higher economic value than its competitors. In particular, Circuit City created world-class competencies in efficient and effective logistics expertise. It deployed sophisticated point-of-sale and inventory-tracking technology, supported by IT investments that enabled the firm to connect the flow of information among geographically dispersed stores. This expertise in turn allowed detailed tracking of customer preferences and enabled Circuit City to respond quickly to changing trends. The company also relied on highly motivated, well trained sales personnel to provide superior service and thus build and maintain customer loyalty. These core competencies enabled Circuit City to implement a "4S business model"—service, selection, savings, and satisfaction—that it applied to big-ticket consumer electronics with an unmatched degree of consistency throughout the United States. Perhaps even more important during the company's high-performance run, many capable competitors were unable

to replicate Circuit City's core competencies. Further underscoring Circuit City's superior performance is the fact, as Jim Collins described it, that "if you had to choose between \$1 invested in Circuit City or \$1 invested in General Electric on the day that the legendary Jack Welch took over GE in 1981 and held [that investment] to January 1, 2000, you would have been better off with Circuit City [a factor of] six times." In the fall of 2008, however, Circuit City filed for bankruptcy. So what happened? Circuit City's core competencies lost value because the firm neglected to upgrade and protect them. As a consequence, it was outflanked by Best Buy and online retailers such as Amazon. Moreover, Circuit City's top management team was also distracted by pursuing noncore activities such as the creation of CarMax, a retail chain for used cars, a foray into providing an alternative to video rental through its proprietary DivX DVD player, and an attempted merger with Blockbuster (which filed for bankruptcy in 2010). Perhaps the biggest blunder that Circuit City's top management committed was to lay off 3,000 of the firm's highest-paid sales personnel. The layoff was intended to become more cost-competitive with Best Buy and, in particular, the burgeoning online retailers. The problem was that the highest-paid salespeople were also the most experienced and loyal ones, most able to provide superior customer service. It appears that laying off key human capital—given its valuable, rare, and difficult-to-imitate nature—was a supreme strategic mistake! Not only did Circuit City destroy part of its core competency, it also allowed its main competitor—Best Buy—to poach Circuit City's top salespeople. With that transfer of personnel to Best Buy went the transfer of the most important tacit knowledge underlying some of Circuit City's core competencies, which in turn not only eroded Circuit City's advantage but also allowed Best Buy to upgrade its core competencies. In particular, Best Buy went on to develop its innovative "customer-centricity" model, based on the skills that allowed its store employees to identify and more effectively serve specific customer segments. Highlighting the dynamic nature of the competitive process, however, Best Buy now faces its own challenges competing with online retailers such as Amazon.

Employees at Circuit City stores and even at the headquarters in Richmond, Virginia, were shocked and devastated when the firm actually ceased operations in March 2009. More than a year after closing, former headquarters workers noted that the firm had a good, hard-working, and friendly atmosphere. They believed to the end that, in the worst case, another firm would buy Circuit City and perhaps reduce its size but not permanently close the business.



Questions:

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- a) Why was Circuit City so successful as to be featured in Good to Great? What was its strategic position during its successful period? How did it contribute to competitive advantage?  
(07 Marks)
- b) Why did Circuit City lose its competitive advantage? What was Circuit City's strategic position during the time of its competitive disadvantage?  
(06 Marks)
- c) What could Circuit City's management have done differently?  
(06 Marks)
- d) What is the future of Best Buy as the leader in bigbox electronics retailing as it faces tough competition with Amazon and other online retailers? What core competencies in big-box retailing are critical not only to survive but also to gain and sustain a competitive advantage?  
(07 Marks)

(Total 26 Marks)

- a) Define **competitive advantage**, **sustainable competitive advantage**, **competitive disadvantage**, and **competitive parity**.  
(05 Marks)
- b) Describe the roles of **vision**, **mission**, and **objectives** in the strategic management process.  
(07 Marks)
- c) Describe the roles of **corporate**, **business**, and **functional** managers in strategy formulation and implementation.  
(06 Marks)

(Total 18 Marks)

- Q3) a) Generate a **strategic group model** to reveal performance differences between clusters of firms in the same industry (Strategic Group Mapping for industry of your choice). (05)
- b) How do the **five competitive forces in Porter's model** affect the average profitability of an industry? In what way might weak forces increase industry profits, and in what way do strong forces reduce industry profits? (06)
- c) Describe the role of **VRIO framework** to assess the competitive implications of a firm's resources. (04)
- d) Differentiate among a firm's **resources, capabilities, core competencies, and activities**. (05)
- (Total 20)
- Q4) a) Assess the benefits and risks of **cost-leadership** and **differentiation** business strategies. (06)
- b) Define **corporate strategy** and describe the three dimensions along which it is assessed. (06)
- c) Apply agency theory to explain why and how companies use **governance mechanisms** to align the interests of principals and agents. (06)
- (Total 18)
- Q5) a) "Role and purpose of **organization structure** is to support and facilitate good strategy **execution!**" Explain the tasks that are carried out to match the organization structure to strategy. (07)
- b) In what ways **GE matrix** could be considered as an extension and superior to **BCG matrix**? (05)
- c) Explain the **five step model** for strategy evaluation and specify the importance of each step in the process of control. (06)
- (Total 18)