EASTERN UNIVERSITY, SRI LANKA

Faculty of Commerce and Management

Final Year/First Semester Examination in Bachelor of Business Administration –2009/2010 (December 2010)

MGT 4114 Strategic Management

Answer all five (5) questions Time: 03 hours

Q1) Read the following case carefully and answer the questions that follow :

ASIAN PATNTS (INDIA) LIMITED

The barrier is over, and the time has come for the leader to go forth into greener pastures. Even as the paints industry is emerging from the shadow of recession, the Rs. 560 crore Asian Paints (India) Limited (APIL), is mixing new shades to emerge with winning colours. Says managing director Atul Choksey: "With proper planning and a comprehensive approach to issues, we intend to keep pace with the growth of the industry".

APIL is actually targeting a growth rate that is higher than the 9 to 10 per cent that the industry has been averaging recently. In the year to March 2004, the company notched up a gross sales turnover of Rs. 559.96 crore (net sales : Rs. 401.96 crore), a growth of 10.8 per cent over the previous year. Net profit also registered a healthy growth of 31.5 percent to Rs. 25.61 crore. The results have tidied up the company's balance sheet, which had begun to look a bit ragged.

APIL's approach is multipronged: expansion of its product range and introduction of value added, niche products in the industrial paints area; line extensions of existing products to target lower income market segments both in rural and urban areas; expansions of production capacity and continuous modernization to keep pace with the growing demand; and diversification in to the unrelated but synergistic area of ceramics.

All these strategies are part of what the company's top management terms "harnessing our full potential", or the challenges that lie ahead. They are also aimed at retaining leadership in a recession-free industry over the next few years. APIL is the leader in the entire industry, comprising both organised as well as unorganised players, with a market share of about 19 per cent. The company is confident of the fact that its share of industry sales is twice as much as that of its nearest competitor, Goodlass Nerolac. APIL also dwarfs the others in size, its net sales nearly twice that of Goodlass Nerolac, well over twice that of third-placed Berger Paints, and nearly four times that of fourth-placed Jenson and Nicholson (see Exhibit-I).

It is only wary of the expanding unorganised sector which seems to be eating up the share of firms in the organised sector. Nevertheless, given the multiplicity of shades it is capable of, APIL reckons it can look forward to a compound growth in its market share.

Exhibit I

(Figures in Rs. crore for 2003 - 2004)

Company	Net sale	Net Profit	Net Profit/Sales(%)
Asian Paints	401.96	25.62	6.36
Goodlass Nerolac	205.88	8.05	3.91
Berger Paints	174.95	3.24	1.85
Jenson & Nicholson	110.33	1.97	1.72
Garware Paints*	106	2.57	2.33
Shalimar Paints**	102.59	1.60	1.56
Bombay Paints**	37.81	0.03	0.08

* 18 months to September 2003

**12 months to March 2003

But though the good times are back, the company is not content to sit back and relax. The last three years, during which the paints industry went through a trough, saw APIL taking a beating (though it remained the market leader all through), with its paints division, showing a negative growth of 3.5 per cent in terms of volume.

With the rupee having been progressively devalued during the years 1999-2002, and with high rates of inflation also uncontrolled over this period, excise duties and other levies too exerted upward pressure on paint prices, and this served to depress demand. An additional complication, reinforcing this trend, was created by the difference in the selling prices of paints made by the organised and unorganised sectors.

The first signs of recovery came with the Union Budget of 2003 which cut exercise and custom duties, Excise duties were reduced to 30 per cent and customs duties were cut from 85 to 65 per cent- This provided a relief to the industry by facilitating a rolling back of prices, and it began to grow at about 2 per cent a year. Simultaneously, the automobile industry, which is a major user industry for paints, also began to emerge from the two-year recession.

A gradual recovery of the industry brought along a new threat for the seven major players from the organised segment. Uneven prices during the recession years had the unorganised competitors grabbing at a significant portion of the market.

Budget concessions brought relief to the organised sector, but its constituents also found themselves having to compete with an unorganised sector that had grown to become a significant threat, even as the prospect of competition from imports began to worry the organised sector.

APIL'S largest new venture will be a diversification into ceramics, though the project is still at the planning stage. The decision to enter a new field is fuelled by the management's perception that the ceramics industry has tremendous potential for growth.

Even though the company has no experience in the production and technology aspects of ceramic tiles manufacture, it has opted for ceramics because the marketing will involve utilisation of its existing distribution network for paints. The rationale is that since paints and ceramics are both building materials, APIL'S existing customer base (which can serve as a ready-made market) will be targeted for its ceramics products. "With our extensive distribution network and stocking points, we can reach even the remote markets. So marketing ceramics is not likely to be a problem," says Choksey. The plan is to penetrate the market as quickly as possible, and grab a substantial chunk of industry sales. The company will initially start with ceramic tiles, but these are no plan to restrict itself to any specific market segment.

The project involves a Rs. 70 crore initial investment in the first phase, which involves installation of a capacity of 23,000 tonnes per year. This will be followed in a couple of years by the second phase, which will see an increase in the capacity to 50,000 tonnes. The new project is scheduled for completion by the end of 2011, and it will, in all probability, be located in Gujarat. This is because any location in that state will have the advantage of proximity to the raw material supplying areas in Gujarat and Rajasthan. APIL is currently negotiating with foreign collaborators for the technology, which will have to be imported. The technology will also have to be adapted to Indian conditions.

While putting a few eggs in a new basket to ensure that fluctuating fortunes in the paint industry do not have the effect of hurting the company's bottom line yet again. Over the past year, a variety of new brands have been added to its product range. The company has made an attempt to extend its marketing and distribution beyond the country's major towns, to which its activities were hitherto confined.

'Utsav', an economically priced brand, was launched last year and is targeted at small households with limited budgets. This project concentrated mainly on consumers in Tamil Nadu, Maharashtra and Gujarat, thus widening the accessibility of its products to all consumer levels. Other new products also include powder paints to be used for both auto and non-auto appliances. There are other products like wood furnishings (Touch-wood) that takes care of refinishings on furniture.

To strengthen its industrial product base, APIL has collaborated with PPG industries, an American firm, and thus enjoys the use of cathode electro deposition primer (CED). The company has concluded a tie-up with Nippon Paints for original equipment paint products and with Sigma Coatings of Holland for corrosion coatings. The technology that has been brought home as a result of these ventures is modified at the company's plant at Bhandup, so as to make it suitable for the Indian climate.

With a better product range on offer now, APIL is just waiting for a greater awareness of industrial paint applications to develop in the Indian market; the presumption is that the demand for this particular product is still latent. For its decorative paints, the company has gone in for differential pricing to encourage all segments of the market.

The company is intent on a continuous modernization and up-gradation of its technology and its assets, so as to keep in tune with the changing requirements of the marketplace. In addition, it is also working on plans to increase production capacity in the next few years.

Besides the activity on the domestic front, APIL is increasing its overseas presence as well. One of the few Indian companies with overseas subsidiaries in the South-Pacific region, APIL is now setting up a new subsidiary in Australia. Its existing ventures abroad too have reported healthy results : Asian Paints (South Pacific) has registered a 12 per cent growth, Asian Paints (Tonga) grew at a rate of five per cent, Asian Paints (Solomon Islands) at over 10 per cent and Asian Paints (Nepal) at over 18 per cent.

With a new subsidiary at Vanuatu (New Hebrides) and a joint venture unit in Townsville (Australia), APIL has established at least a foothold in the international markets.

When asked about the threats facing the company, Choksey chuckles and says he prefers to call them challenges. "We need to meet the demands of this growing organisation- of our workforce, our technology and our assets. A major point to be tackled is to be able to meet the growing demand for our product and to create a greater awareness for our newer products," he says. Over the first few months of the current financial year, sales volume has been growing at a rate of 14 per cent, well above the industry average. With the recession firmly behind it and government levies no longer inflating its prices, the paint industry seems to be on an uptrend. But the APIL management has its work cut out for it : it will not merely have to gear up to meet the burgeoning demand, but will also have to work hard at retaining and then increasing its market share.

Questions :

(a) What corporate goal has the company adopted for the next few years and with what strategies does the company propose to realize the above goal?

(07 Marks)

(b) What threats is the company facing or/and might face in future? What has it done and/or what could it further do to safeguard itself from threat(s)?

(08 Marks)

(c) Evaluate the new strategies of Asian Paints (India) Limited, particularly its proposed venture into ceramics.

(06 Marks)

(d) What action plans has the company proposed to strengthen its product base?

(07 Marks)

(Total 28 Marks)

Q2) (a) What are the **characteristics** of an effectively worded **vision statement** and what are the common **shortcomings** in company vision statement?

(06 Marks)

(b) Briefly explain the **determinants of nation's advantage** that was explained through **Porter's Diamond Model**.

(07 Marks)

(c) What are the **barriers** the existing companies within the Industry can put forward as a threat for new **entrants**?

(05 Marks)

(Total 18 Marks)

Q3) (a) Briefly give a description on the main contributions of the ten **schools** of **Strategic Management thought model** that was specified by Mintzberg,

(07 Marks)

(b) Distinguish between **Stability strategies** and **retrenchment strategies,** and briefly describe the strategies that falls into those categories

(06 Marks)

(c) What are the basis on which the **firms' resources** are categorized and what are the **four criteria** applied for qualifying those for competitive advantage?

(05 Marks)

(Total 18 Marks)

Q4) (a) What are the bases on which the **acceptability of the strategy** can be judged at the strategic choice stage.

(06 Marks)

(b) Briefly explain the role played by **"Value Chain"** in attaining competitive advantage by any organization.

(06 Marks)

(c) "***Key performance measures should include nonfinancial as well as financial measures***", support this statement with the **'Balanced scorecard'** proposed by Kaplan and Norton .

(06 Marks)

(Total 18 Marks)

Q5) (a) What are the main elements in **staffing the organization** which is a very important component in **building a capable organization** at the strategy implementation?

(06 Marks)

(b) "If actual results fall outside the desired tolerance range, action must be taken to correct the deviation, before that some important aspects have to be considered". Briefly explain those aspects with the reasons why they have to be considered.

(06 Marks)

(c) Distinguish between **Cost leadership** and **Differentiation** on Scope and Basis of Competitive advantage.

(06 Marks)

(Total 18 Marks)