

EASTERN UNIVERSITY, SRI LANKA

Faculty of Commerce and Management

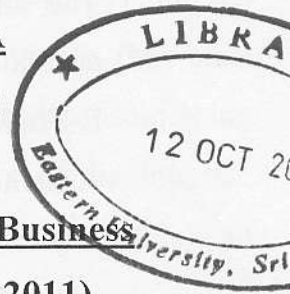
External Degrees

Part – III (4th Year) Examination in Bachelor of Business

Administration - 2007/08 (February/March – 2011)

Proper/Repeat

EXB 403 Strategic Management



Answer all five (5) questions

Time: 03 hours

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

Questions:

E-TRADE USES THE INTERNET TO GAIN A LOW-COST ADVANTAGE

In many industries, new entrants have taken advantage of the opportunities opened up by the Internet to overcome barriers to entry and compete successfully against market leaders. Consider the situation of E-Trade, the online brokerage company. For many years, large, established brokerages like Merrill Lynch had dominated the industry and used their protected positions to charge high brokerage fees. E-Trade managers bought and developed software and hardware that allowed their customers to make their own trades and to do so at a price as low as \$19.95.

The low-cost competition story in the brokerage industry did not stop here. By 1999, E-Trade itself came under pressure from a new generation of online brokerage houses such as Suretrade, Ameritrade, and DLJ, which began offering customers trades for only \$9.95 and even \$7.95, undercutting E-Trade's prices by 100 percent. How could E-Trade, which had made its reputation by being the low-cost leader in the industry, compete against companies boasting that they were the new cost leaders?

The answer for E-Trade was to enhance its differentiated appeal to its customers by offering a higher quality of service and a broader product line. E-Trade introduced a new software package that made it even easier for customers to use the Internet to trade shares. Very importantly the new software was more reliable in that customers were able to make their trades when they wanted. Previously, E-Trade, like other brokerage companies, had experienced many problems when too many customers made trades at once; often the overloaded system simply crashed, and customers were unable to buy or sell shares. In addition, E-Trade's new package offered customers more financial research tools and gave them access to more information about specific companies to aid in their investment decisions. E-Trade also offered customers increased access to real-time stock quotes so that they could take advantage of second-to-second changes in stock prices to make money. Finally, it offered customers the opportunity to invest in initial public offerings of shares from new companies, where both potential risks and returns are high.

In 1999, E-Trade decided to merge with an online bank, Tele-bank, in order to offer its customers a road range of online banking services such as bill paying online and thus become a one-stop online shopping site for all of a customer's financial needs. It also took over a variety of other insurance and financial service companies to offer its customers a broad financial service product line.

The realization that it could not just be a low-cost company but also had to create a differentiation advantage in the quickly evolving online financial services industry has paid off for E-Trade. Its customers did not switch to the new low-cost leaders because customers perceived that for the \$19.95 price, they were receiving extra value for money in terms of service and reliability. E-Trade's customer accounts have increased steadily and its stock price rose as investors perceive that the company's competitive advantage is sustainable and that the company is likely to remain a

dominant player in the changed industry environment. Indeed, E-Trade has shown the other companies in the industry that to remain viable, they must all pursue a simultaneous low-cost and differentiation strategy-something that has become possible only because of the emergence of the Internet, which has created external economies that companies can exploit to increase their performance and competitive advantage.

Questions:

(a) What are the Strategic Issues that you can identify through this case study?

(07 Marks)

(b) Identify the factors from Internal and External that have an influence on E-Trade organization

(07Marks)

(c) How has E-Trade's business-level strategy changed over time?

(07 Marks)

(d) What is happening in the stock brokerage industry today? How has E-Trade been altering its business-level strategy to compete?

(07 Marks)

(Total 28 Marks)

Q2) (a) What are the major activities that have to be considered in implementing and executing a strategy?

(06 Marks)

(b) Describe the "Five-Step Feedback Model" and explain the three types of controls applied by organizations.

(07 Marks)

(c) Explain the Strategic Management process with assistance of a strategic management model

(05Marks)

(Total 18 Marks)

Q3) (a) According to Michael Porter what are the **factors** that determine the **bargaining power of buyers** and the **bargaining power of suppliers**?

(06 Marks)

(b) How do the **Value Chain** and the **Value System/Industry Value chain** contributes in the search for **strategic competitiveness**?

(06 Marks)

(c) What are the **corporate governance problems** and what have been the **mechanisms** that are used to resolve these problems?

(06 Marks)

(Total 18 Marks)

Q4) (a) Distinguish between **Growth strategies** and **Stability strategies** and briefly describe the strategies that falls into those categories.

(06 Marks)

(b) What are the **Business-Level strategies** that are available for the organization to choice with and how are those strategies different from each other?

(06 Marks)

(c) What is the impact of **Stakeholder analysis** and the **cultural context** on **strategic direction**

(06 Marks)

(Total 18 Marks)

Q5) (a) How can a **GE Matrix** be better than **BCG Matrix**? Justify your answer.

(07Marks)

(b) Describe the importance of **Suitability criteria** in evaluating the strategic options. Briefly describe the techniques that are used in this respect.

(06 Marks)

(c) What are the most important components that should be included when writing a **mission statement**? Why?

(05Marks)

(Total 18 Marks)
