



Society of Certified Management Accountants of Sri Lanka

Professional I Stage September 2007 Examination

Examination Date : 23rd September 2007

Number of Pages : 04

Examination Time : 9.30a.m.- 12.30p.m.

Number of Questions : 07

Instructions to candidates:

1. Time allowed is **three (3) Hours**
2. Answer **all** questions in **Section A** and **any four(4)** questions in **Section B**
3. Answers should be entirely in the **English Language**

Subject	Subject Code
Strategic Business Management	(SBM)

SECTION A

Answer all Questions

Question No. 01(28 Marks)

Read the case given below and answer the questions indicated at the end

DIVERSIFICATION THROUGH FORWARD INTEGRATION IN THE CAR INDUSTRY

“Companies may see benefits in diversifying by means of forward integration.”

A global downturn in automobile sales led manufacturers to rationalize their operations by decreasing production, brands, jobs and capacity. However, they also geared up to exploit new opportunities to earn revenue and decrease costs by diversifying into downstream activities. Margins from such downstream activities such as selling vehicle financing, leasing and insurance, providing parts, servicing and repair are higher than those of vehicle sales. But there are other advantages too.

Ford has been attempting to redefine itself as ‘the world’s leading Consumer Company for automotive products and services’, rather than solely as a manufacturer of vehicles. In addition to Ford’s traditional business units, the company has been seeking higher returns from their downstream activities, which include Ford Credit, Hertz, direct sales and e-business initiatives. The most pertinent features of these ventures are that the companies can collate information on customer preferences, which can be fed to the manufacturing plants. In fact, one of Ford’s motives for its 1999 acquisition of KwikFit was to access its database of customers.

In an attempt to lift their service, repair and maintenance businesses to a more prominent role, both **General Motors** (Europe) through its Vauxhall MasterFit operations and Ford through its RapidFit division have launched initiatives to enable their franchised dealers to win back some of the servicing and repair business for older cars. There has also been an increasing trend of manufacturers buying formerly independent dealerships in their own brands, with some manufacturers taking large equity stakes in the super-dealers.

As cars become more sophisticated, the accompanying technology has also become more advanced. Manufacturers have been exploring new business opportunities such as in-car Internet and telematics systems. The most promising technologies are those being explored in navigation systems, safety and security controls, and mobile multimedia functions. This could become the interface for customer contact; for example, **General Motor's OnStar** multimedia business offers voice-activated services, emergency assistance, stolen vehicle tracking and e-mail.

The focus is on accessing customers and selling directly to them, rather than centering on the car as a one-time sale. Manufacturers want to develop customer relationship strategies whereby the purchaser of the vehicle is retained in a long-term relationship with the manufacturer for the duration of ownership. The manufacturers also want to establish links with the used vehicle's future owners, ensuring that they capture more of the life cycle of the product. In this way, they can leverage their customer base to cross-sell and promote other products and services, such as repair, mortgages and credit.

You are required to:

- (a) Clearly explain whether the type of diversification mentioned in the case is downstream or upstream, related or unrelated? **(3 Marks)**
 - (b) Indicate by way of an illustrative diagram, related diversification options available to manufacturers **(3 Marks)**
 - (c) Explain clearly the following terms
 - (i) Diversification
 - (ii) Unrelated Diversification
 - (iii) Related Diversification
 - (iv) Vertical Integration
 - (v) Backward Integration
 - (vi) Forward Integration
 - (vii) Horizontal Integration **(7 Marks)**
 - (d) Provide a classification identifying various areas of integration, different car manufacturers have used such as Vertical (Backward and forward) and Horizontal **(7 Marks)**
 - (e) Explain giving reasons what other areas of integration car manufacturers could have considered? **(4 Marks)**
 - (f) Based on the data available from the case or using your own knowledge and experience, indicate the resources and competencies of a typical car manufacturer **(4 Marks)**
- (Total 28 Marks)**
End of section A

SECTION B

Answer **four (4)** Questions

Question No. 02 (18 Marks)

Strategic decisions are made at a number of levels in an organization.

- (a) Compare and contrast each of the **three** following levels of strategy:
- (i) Corporate-level strategies
 - (ii) Business-level strategies
 - (iii) Operational-level strategies
- (9 Marks)**
- (b) Outline how the strategic planner can try to ensure that the different levels of strategy are integrated.
- (9 Marks)**
(Total 18 Marks)

Question No. 03 (18 Marks)

- (a) “Although the elements of corporate strategy are broadly the same, irrespective of the type of organization or its context, the range and nature of strategic issues does to some extent differ according to organization type and context”.

Discuss this statement with respect to each of the following

- (i) Corporate strategy in small businesses **(3 Marks)**
 - (ii) Corporate strategy in public sector organizations **(3 Marks)**
 - (iii) Corporate strategy in voluntary and not for profit organizations **(3 Marks)**
 - (iv) Corporate strategy in professional service organizations **(3 Marks)**
 - (v) Corporate strategy in multi national organizations **(3Marks)**
- (b) Outline and discuss key characteristics of corporate strategic decisions **(3 Marks)**
- (Total 18 Marks)**

Question No. 04 (18 Marks)

In most markets, these days, competitive rivalry is intense.

- (a) Why do companies often actively seek to reduce the degree of competitive rivalry in the markets in which they operate? **(6 Marks)**
- (b) Discuss **four** possible distinct strategies an organization can use, to try to reduce competitive rivalry in a market. **(12 Marks)**
- (Total 18 Marks)**

Question No. 05 (18 Marks)

Joint developments and strategic alliances between organizations have become increasingly popular since the early 1980s.

- (a) Discuss why companies form strategic alliances. **(6 Marks)**
- (b) Discuss the main types of strategic alliance. **(6 Marks)**
- (c) Identify and briefly describe **five** key factors influencing the success of strategic alliances. **(6 Marks)**
- (Total 18 Marks)**

Question No. 06 (18 Marks)

Michael Porter developed the notion of 'generic' strategies in the context of approaches to achieving sustainable competitive advantage.

Using examples, outline and discuss **each** of the following strategies for achieving a sustainable competitive advantage:

- (a) Low cost **(6 Marks)**
- (b) Differentiation **(6 Marks)**
- (c) Focus **(6 Marks)**

(Total 18 Marks)

Question No. 07 (18 Marks)

Explain clearly, using examples, how each of the following are used in the context of strategic planning and decision making.

- (a) Strategic Mission, its Content, Scope and Purpose **(8 Marks)**
- (b) Strategic Vision **(2 Marks)**
- (c) Goals and Objectives **(8 Marks)**

(Total 18 Marks)

End of Section B

End of Question Paper
