kasneb

CS PART III SECTION 6

STRATEGIC MANAGEMENT

THURSDAY: 29 November 2018. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at end of the question.

QUESTION ONE

SHOPFRONT SUPERMARKETS LTD. (SSL)

Shopfront Supermarket Ltd. (SSL) is one of the pioneer retail chains in the country. SSL was established in 1971 by Manup Patel. At its peak, SSL had over 90 outlets in all the major towns in the country. SSL's success strategy was based on targeting the low income and middle income groups, a factor that dictated the location of its retail outlets.

In the late 1990s, the company recruited a new managing director who promised its shareholders that the retail chain would not continue being called the poor man's supermarket and whose vision was to take the chain to the high end market. However, this strategy was faced with a number of challenges including lack of suitable real estate in upmarket locations and shortage of financial resources.

During one of SSL's strategy board meeting, the new managing director informed board members that he had consulted some of the real estate companies in the country and had secured three strategic plots which were available for sale near state house. The company needed only to buy and develop them. A number of directors were however not convinced on the viability of the idea of buying land to build. They argued that such investment would tie up capital for a long period of time which might not augur well for a fast moving goods retailer. The managing director further informed the members of the Board that he had been able to negotiate a number of short-term loan facilities from a financial institution to finance the expansion. After much deliberations characterised by disagreements, the proposals were adopted and the necessary agreements signed.

During the same period, other large scale international retailers were getting some foothold into the local market. They looked for already existing retail space for letting and were able to establish their presence immediately while SSL was still constructing its facilities.

By the time SSL's new upmarket location was ready for occupation, four foreign retailers were already established in the local market and competition was fierce. SSL was also facing competition from on-line retailers who offered convenience shopping platforms for its target markets, the middle class and high end. SSL started facing cash flow problems which resulted in difficulties while servicing its short-term facilities with banks and other financial creditors. Its suppliers could go for months without being paid. Some of the suppliers took SSL to court to enforce payment.

To make matters worse, due to prolonged political unrest in the country, SSL faced low turnover in many of its low income outlets. The company also experienced a glut of retail space in the newly built shopping malls. To make use of the underutilised capacity, the company introduced a franchise system with the Shopfront brand name. The strategy seemed to work since the brand name was well known in the market.

In the meantime, the financial woes of SSL increased due to a rise in interest rates given that most of its loan facilities had floating rate terms. Some of the creditors of the company were able to obtain judgement against SSL making the company sell some of its prime properties in order to discharge liabilities. Suppliers were also demanding cash payments for deliveries. Employees in some outlets were also withdrawing their services and picketing. They were demanding payment of salary arrears.

To ensure business continuity, SSL sought a strategic partner to invest capital to shore up the financially strapped retail chain. As part of the deal, SSL sold its loss making outlets and ceded top management positions to the strategic investor. As a result of the strategic partnership and consolidation, 876 of SSL's employees were retrenched.

Required:

(a) Evaluate five PESTEL factors which might have impacted on Shopfront Supermarkets Ltd. (SSL) when executing their strategy. (10 marks)

(b) Discuss five advantages of franchising as a business strategy for SSL. (5 marks)

(c) Using the Ansoff Matrix, illustrate four options that were available to SSL in expansion of sales and profits. (10 marks)

(d) To reduce costs and control supply, SSL is considering backward integration business strategy.

Required:
Explain five disadvantages of this strategy to SSL. (5 marks)

(e) List five stakeholders of SSL and highlight each stakeholder's interests. (10 marks)
(Total: 40 marks)

QUESTION TWO

(a) Outsourcing to offshore locations is a strategy based on the theory of comparative advantage.

In the context of the above statement, analyse five reasons why the strategy could be employed by multinational corporations (MNC's). (5 marks)

(b) Evaluate the process of effective implementation of strategy. (10 marks)
(Total: 15 marks)

QUESTION THREE

(a) In the context of learning organisations, explain the difference between "tacit knowledge" and "explicit knowledge". (2 marks)

(b) Not all business units in an organisation are strategic business units (SBU's).

Required:
With reference to the above statement, examine the criteria used to determine whether a business unit qualifies as a strategic business unit (SBU). (5 marks)

(c) TOWS matrix is a tool used to develop strategic options from an external – internal analysis of an organisation's environment.

Required:
With the aid of a diagram, discuss four strategic options an organisation could pursue from TOWS analysis. (8 marks)
(Total: 15 marks)

QUESTION FOUR

(a) Explain four roles of organisation culture in strategic management. (4 marks)

(b) In the context of strategic management process, analyse six areas of review of an organisation's internal environment. (6 marks)

(c) Assess five characteristics of strategic decisions. (5 marks)
(Total: 15 marks)

QUESTION FIVE

(a) In the context of strategic tools and techniques, explain the term "gap analysis". (1 mark)

(b) Summarise four benefits which could be derived by an organisation from gap analysis. (4 marks)

(c) Discuss five limitations of Porter's five forces of competitive position analysis model. (10 marks)
(Total: 15 marks)

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