

# FINAL EXAMINATION

December 2015

P-15(BSCM)

Syllabus 2012

## Business Strategy And Strategic Cost Management

Time Allowed: 3 Hours

Full Marks: 100

*The figures in the margin on the right hand side indicate full marks.*

### SECTION A (50 marks)

#### (Business Strategy)

Question Nos. 1 and 2 are compulsory and each carrying 10 marks.

*Answer any two questions from the rest in this section, each carrying 15 marks.*

1. Aashirvaad Ghee will make its debut in the January, 2016 as ITC plans to enter into the dairy segment. Extending the product range of its biggest non-cigarette brand, the company is looking to replicate the success it achieved in the unrecognized segment with the Aashirvaad brand. Being a household name, Aashirvaad has tremendous brand equity among households and housewives, so ITC has decided to launch ghee product under the Aashirvaad umbrella, which also provides spices and other food products. Aashirvaad is a ₹ 2,600 crore brand and controls 74% share of the country's packaged Atta market, which ITC entered in 2002, a year after getting into packaged food with ready-to-eat products. Dairy related product categories in India are in various stages of development. Now, ITC plans to extend its product portfolio to ICE-CREAM, BUTTER, CHEESE, CURD, MILK-BASED DRINKS and READY-TO-MIX items. India being the largest producer and consumer of dairy products is expected to see 15 to 16% growth with its expansion in the value added products. ITC sets to launch its first dairy product 'Aashirvaad Ghee'. ITC seeks to capitalize Aashirvaad brand name, who's spices and Atta are well known in domestic market. At the root of all, strategy lies with the ability to make good choices.

In the above perspective:

- (i) What are the major subjective factors to be considered by the corporate planner to take a good strategic choice decision?
- (ii) Does the entry of ITC in Indian dairy market fulfil the key attributes of its high quality strategic choice?
- 3+(1+1½×4)
2. For more than ten years, Ananda Stores Ltd. was successfully running a number of retail stores for selling cosmetic and skincare products. Since last year sales were stagnating and now after a year it has started declining. The GM of the company made enquiries from store-in-charge of various locations of the stores. All of them reported that ladies, particularly, the younger generation, were found to be highly discriminating about choice of products. Demand for certain branded items widely fluctuated due to movie artists' performances shown on the TV. The GM decided to have an environmental analysis to be carried out with a focus on changes in social and cultural factors among urban ladies. On that basis he even thought of recommending to the Board of Directors a complete change in the product lines.
- (i) Do you think that the GM is right in his approach regarding environmental scanning?
- (ii) Write the necessity of environmental analysis and its appraisal.

6+4

Please Turn Over

3. (a) There are increasing number of Indian companies implementing the SMART methodology for goal setting. State in brief the different meanings of goals in SMART.
- (b) What is meant by the term 'gap analysis'? What are the alternative courses of actions to be followed by a manager under 'gap analysis'?
- (c) American Apparel is a fashion retailer and manufacturer that advertises itself as a vertically integrated industrial company. The brand is based in Downtown, Los Angeles, where from a single building they control the dyeing, finishing, sewing, cutting, marketing and distribution of the company's product. The shoots and distributes its own advertisements, often uses its own employees as subjects. It also owns and operates each of its retail location as opposed to franchising. According to the management, the integration strategy allows the company to design, cut, distribute and sell an item globally in the span of a month.
- (i) Which type of 'integration strategy' is being followed by the company?
- (ii) Give reasons for adopting such strategy in support of your answer. 5+(2+3)+(1+4)
4. (a) What is meant by 'functional strategic leadership' in a business organization?
- (b) State the objectives of 'strategic leadership'?
- (c) "Organizational Political Climate is influenced by certain key powers".—Elucidate the statement?
- (d) Write four applications of 'game theory' in the analysis of business decision. 3+4+4+4
5. (a) Write the essential conditions in which the 'cost leadership business strategy' and 'differentiation business strategy' of Porter's Generic Business Level Strategy are used in business.
- (b) Mention four possible areas where 'differentiation business strategy' is applicable.
- (c) What types of risks are involved in 'focus business strategy'?
- (d) "In the maturity stage of Product Life Cycle (PLC), the market becomes saturated, price competition is intensified, and the rate of sales growth slows down." Suggest strategic choices in such a stage of the PLC. (3+3)+2+2+5

**SECTION B (50 marks)**

**(Strategic Cost Management)**

Question Nos. 6 and 7 are compulsory, and carrying 10 marks.

Answer any two questions from the rest in this section, each carrying 15 marks.

6. Bharti Airtel is continue to cut discounts and free offers on call rates, besides looking at raising base call rates in the coming days. "The company's consistent strategy is to cut discounted minutes on almost every opportunity, as we continue to focus on raising net realization. The company will defer touching the headline tariffs (rates) but at the same point there may be some opportunity to raise these", said Gopal Vittal, its MD and CEO (India and South Asia). Bharti, the country's largest telecom operator, with 205 million subscribers in India, has been

raising rates for both voice and data services in wireless and wire line services under certain schemes by fibers. Vittal said the current levels of voice pricing were not sustainable with the raising costs of inputs-diesel, network, spectrum charges, fiber and roll-out expenses. "If I look at a secular basis over the next couple of years, there is no other option but for voice realization to go up", he added. Voice realization per minute has improved to 37p as compared to 35p four quarters earlier. Other telecom operators had also reduced discounts over the past three quarters, keeping the base rates unchanged. Reliance Communications, however, raised headline tariffs for prepaid customers by 20%.

As Management Accountant, working at Bharti Airtel, you have to develop suitable pricing strategies for the services provided by the company.

- (i) What steps you are to follow to develop a suitable pricing strategy of Bharti Airtel?
- (ii) State the main approaches you will adopt for setting a basic price for the company's products or services? 5+5

7. (a) What is meant by the term Activity Based-Cost Management (ABM)?
- (b) How the ABC information in business strategic decision is used in ABM system?
- (c) Mention four applications of ABM in business. 5+3+2

8. (a) What are the main uses of knowledge of 'learning curve' in business?
- (b) Mention the names of three industries where learning curve can be applied.
- (c) What is meant by the term 'industry value chain'?
- (d) State two limitations of 'value chain analysis' in business. 5+3+3+4

9. (a) What is meant by the term 'Continuous Process Improvement (CPI)'?
- (b) Write in brief the different phases which are followed in CPI process under the System Approach.
- (c) The budgeted fixed overhead for the year 2015 amounted to ₹ 14,400. It is anticipated that 288 days would be worked during the year. During the month of February, 2015 only 20 days were worked. Find out Calendar Variance.

- (d) From the following data you are required to compute:

(i) Labour Rate Variance; (ii) Efficiency Variance; (iii) Idle Time Variance; and (iv) Total Variance.

Standard time per unit	2.5 hours
Actual hours worked	2,000 hours
Standard rate of pay	₹ 2 per hour
25% of the actual hours have been lost as idle time	
Actual output	1,000 units
Actual wages	₹ 4,500

2+5+2+1½×4

10. (a) What are the criteria to be maintained by the companies which want to get maximum benefit from 'target costing'?

(b) The activities involved in a PERT project are detailed in the following table:

Job (i-j)	DURATION TIME (DAYS)		
	most optimistic time	most likely time	most pessimistic time
1-2	3	6	15
2-3	6	12	30
3-5	5	11	17
7-8	4	19	28
5-8	1	4	7
6-7	3	9	27
4-5	3	6	15
1-6	2	5	14
2-4	2	5	8

- Draw a network diagram.
- Find the critical path, expected time for completion of the project and project variance after estimating the earliest and latest event times for all nodes.
- Find the probability of completing the project before 31 days.
- What is the chance of project duration exceeding to 46 days?
- What will be the effect on the current critical path if the most likely time of activity 3-5 gets revised to 14 instead of 11 days (given in the table)?

[Given that the probability of standard normal curve between:

(a)  $Z = 0$  and  $Z = 2$  is 0.4772, and

(b)  $Z = 0$  and  $Z = -0.1$  is 0.3413

4+ [2+(1×3)+2+2+2]