

FINAL EXAMINATION

December 2016

CHN-P-15(BSCM)
Syllabus 2012

Subject: Business Strategy and Strategic Cost Management

Time Allowed: 3 Hours

Full Marks: 100

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

Answer Question No. 1 in Section A, which is compulsory, carrying 20 marks.

Further, answer any 5 (five) Questions from Section B, each carrying 16 marks.

SECTION – A (20 marks)

1. (a) State whether the following statements are **True** or **False**. Give reasoning for your answers. No credit will be given for answers without reasoning. If the statement is False, give the correct statement. $1 \times 5 = 5$
- (i) SWOT Analysis is the most renowned tool for audit and analysis of the overall strategic position of the business and its environment.
 - (ii) Strategic Drift is defined as a subtle and unnecessary shift from an intended course or direction to another one-to-one that is usually undesirable, atleast in a long-term perspective.
 - (iii) The acronym 'PEST' stands for Planning, Economic, Strategic and technical factors of the external macro-environment.
 - (iv) A 'Market Signal' is an action by a competitor, which gives direct or indirect indications of its goals, intent, motive or internal situation.
 - (v) 'Liquidation' is a corporate strategy to increase sales volume from new products and new markets.

- (b) Match the statement under Column I with the appropriate statement under Column II: $1 \times 5 = 5$

Column I	Column II
(A) Strategic Benchmarking	(1) Involves analysing outside organizations that are known to be best in class.
(B) Competitive Benchmarking	(2) Focuses on improving specific critical processes and operations.
(C) Process Benchmarking	(3) Business look to benchmark with partners drawn from different business sectors or areas of activity to find ways of improving similar functions or work processes.
(D) Functional Benchmarking	(4) This type of analysis is often undertaken through trade associations or third parties to protect confidentiality.
(E) External Benchmarking	(5) Where business need to improve overall performance by examining long-term strategies and general approaches that have enabled high performers to succeed.

- (c) Define the following terms in just one or two sentences: $1 \times 5 = 5$
- (i) Enterprise Resource Planning (ERP)
 - (ii) Business Process Outsourcing (BPO)
 - (iii) Transfer Price
 - (iv) Cost Reduction
 - (v) The Principal Budget Factor

Please Turn Over

- (d) In each of the statements given below, only one of the four alternatives is correct. Indicate the correct answer: 1×5=5
- (i) One amongst the following is not included in the Porter's Forces Model. Point out that alternative:
 - (A) Power of Suppliers
 - (B) Barriers to Entry
 - (C) SWOT Analysis
 - (D) Threat of Substitutes
 - (ii) A value engineering exercise does not include:
 - (A) Orientation Phase
 - (B) Job Plan
 - (C) Information Phase
 - (D) Creative Phase
 - (iii) The assignment problem can be solved by any of the following methods except one. Point out that alternative:
 - (A) Hungarian Method
 - (B) Simplex Method
 - (C) Simulation Method
 - (D) Transportation Method
 - (iv) In practice, Process Control Systems can be characterized as one or more of the following forms, excepting one. Point out that alternative:
 - (A) Discrete
 - (B) Batch
 - (C) Algorithmic
 - (D) Continuous
 - (v) Requisites for a successful Budgetary Control System includes the following excepting one incorrect alternative. Point out that alternative:
 - (A) Determination of the objectives
 - (B) Proper delegation
 - (C) Good leadership
 - (D) Flexibility

SECTION – B (80 marks)

Answer any 5 (five) questions from this section. Each question carries 16 marks.

2. (a) What do you mean by the term 'Business Intelligence'? State its main functions. Why it is necessary? 2+2+2=6
- (b) Define 'Logical Incrementalism'. Describe the major steps (or characteristics) involved when it is used for strategy development. 2+8=10
3. (a) List the merits and demerits of Benchmarking. 3+5=8
- (b) Write a brief note on 'Retrenchment Strategy'. When 'Retrenchment Strategy' is ideally adopted? 4+4=8
4. (a) What are the reasons for criticizing the use of B C G Matrix? 8
- (b) What is 'Collaboration'? List the different types of competitive collaboration. Why collaborate? 2+4+2=8

5. (a) A company is planning a new product. Market Research Information suggests that the product should sell 10000 units at ₹ 21.00/unit. The company seeks to make a mark-up of 40% product cost. It is estimated that the life-time costs of the product will be as given below:

- (i) Design and development costs ₹ 50,000
- (ii) Manufacturing costs ₹ 10/unit
- (iii) End of life costs ₹ 20,000

The company estimates that if it were to spend an additional ₹ 15,000 on design, manufacturing costs/unit could be reduced.

Required:

- (I) What is the target cost of the product? 2
 - (II) What is the original life-cycle cost/unit and is the product worth making on that basis? 1+1
 - (III) If the additional amount were spent on design, what is the maximum manufacturing cost/unit that could be tolerated if the company is to earn its required mark-up? 4
- (b) The data on the running costs/year and the resale price of Equipment A, whose purchase price is ₹ 2,00,000 are as follows:

Year	1	2	3	4	5	6	7
Running cost (₹)	30,000	38,000	46,000	58,000	72,000	90,000	1,10,000
Resale value (₹)	1,00,000	50,000	25,000	12,000	8,000	8,000	8,000

- (i) What is the optimum period of replacement? 2
 - (ii) When Equipment A is 2 years old, Equipment B, which is a new model for the same usage is available. The optimum period for replacement is 4 years with an average cost of ₹ 72,000. Should Equipment A be changed with Equipment B? If so, when? 4+2
6. (a) Four Products A, B, C and D have ₹ 5, ₹ 7, ₹ 3 and ₹ 9 profitability respectively. First type of material (limited supply of 800 kgs.) is required by A, B, C and D at 4 kgs., 3 kgs., 8 kgs. and 2 kgs. respectively per unit. Second type of material has a limited supply of 300 kgs. and is required by A, B, C and D at 1 kg., 2 kgs., 0 kg. and 1 kg. respectively per unit. Supply of other type of materials consumed is not limited. Machine hrs. available are 500 hrs. and the requirements are 8, 5, 0, 4 hours for A, B, C and D each per unit. Labour hrs. are limited to 900 hrs. and the requirements are 3, 2, 1 and 5 hours for A, B, C and D respectively. How should the firm approach so as to maximize its profitability? Formulate this as a LPP. You are not required to solve the LPP. 8
- (b) After observing heavy congestion of customers over a period of time in a petrol station, Mr. Pinto has decided to set up a petrol pump facility on his own in a nearby site. He has compiled statistics relating to the potential customer arrival pattern and on service pattern as given below. He has also decided to evaluate the operations by using the Monte-carlo simulation technique.

Arrivals		Services	
Inter-arrival time (minutes)	Probability	Inter-arrival time (minutes)	Probability
2	0.22	4	0.28
4	0.30	6	0.40
6	0.24	8	0.22
8	0.14	10	0.10
10	0.10		

Please Turn Over

Assume:

- (i) The clock starts at 8.00 hours.
- (ii) Only one pump is set up.
- (iii) The following 12 Random Numbers are to be used to depict the customer arrival pattern:
78, 26, 94, 08, 46, 63, 18, 35, 59, 12, 97 and 82.
- (iv) The following 12 Random Numbers are to be used to depict the service pattern:
44, 21, 73, 96, 63, 35, 57, 31, 84, 24, 05 and 37.

You are required to find out the

- (i) Probability at the pump being idle and
- (ii) Average time spent by a customer waiting in queue.

4+4=8

7. (a) What is Product Life Costing? State its characteristics and benefits? 2+(2+2)=6
- (b) A company has developed a special purpose Electronic Security Device and once introduced in the market, the same is expected to have a life-cycle of 3 years from the time of its introduction in the market before the device becomes obsolete due to technological advancement of other competitive products.

You have been asked by the company to prepare a Product Life-Cycle Budget.

	Year 1	Year 2	Year 3
No. of units to be manufactured and sold	50,000	2,00,000	1,50,000
Price per device (₹)	500	400	350
R & D and Design Cost (₹)	9,00,000	1,00,000	Nil
Production Cost:			
Variable Cost per device (₹)	200	159	150
Fixed Cost (₹)	70,00,000	70,00,000	70,00,000
Marketing Cost:			
Variable Cost per device (₹)	100	70	60
Fixed Cost (₹)	30,00,000	25,00,000	25,00,000
Distribution Cost:			
Variable Cost per device (₹)	50	50	50
Fixed Cost (₹)	10,00,000	10,00,000	10,00,000

- (i) Prepare the Budgeted Life-Cycle Operating Profit. 5
 - (ii) It has been further indicated that if a discount of 10% is given to customer, the unit to be sold per year will increase by 5%. Would you recommend the introduction of such discount? 4+1=5
8. (a) What is 'Value Engineering'? List some of the common reasons for poor value. 2+6=8
 - (b) State briefly the role of Computer in solving OR Problems. 8