Paper – 15: Business Strategy & Strategic Cost Management

Time Allowed: 3 Hours **Full Marks: 100**

Whenever necessary, suitable assumptions should be made and indicate in answer by the candidates.

Working Notes should be part of your answer

(Section A)
Question No. 1 & 2 are compulsory. Answer any two questions from the rest.

1. (a) HP and Microsoft global strategic alliance is one of the longest standing alliances of its kind in the industry, with more than 25 years of combined market place leadership focused on helping, customers and channel patterns around the world to improve productivity through the use of innovative technologies. Branded the HP and Microsoft Frontline Partnership, the companies share technology, engineering and marketing resources to create and promote solutions based on industry-standard computing platforms that help solve some of the most challenging IT problems. HP and Microsoft have jointly engineered solutions that deploy smoothly, seamlessly and delivered competitive advantage. Over the time, the alliance has expanded from its earliest roots focused on the desktop PC to include innovations in the data center and emerging technologies for businesses of all sizes. The alliance also has expanded to provide opportunities for out more than 32,000 joint resellers and ecosystem partners.

(i) Define strategic alliance. Identify three basic types of strategic alliances.
(ii) What are the advantages of the HP and Microsoft global strategic alliance?

[(1.5 + 1.5 x 3) + 4]

(b) Critics of Nike often complain that it's shoes cost almost nothing to make, yet cost the consumer so much. Identify the strategic marketing planning steps which provide value that add to Nike 's offering and result in the high price of Nike's shoes. **[5]**

2. From peak sales of over 27,000 units in the January-March 2012 quarter to under 4,000 in the three months to December 2013, Tata Motors' Nano hasn't quite lived up to the hype and expectations built up since its launch in mid-2009. To combat with the situation now it launched Nano Twist, a 'smart city car' costing just under Rs. 2.36 lakhs.
Answer the following questions :

(a) What is strategic decision? What are its characteristics?
(b) Strategic decisions are complex in nature – explain.
(c) Explain how this strategic decision will help Tata Motors to repositioning themselves in the market . **[5+5+5]**

3. (a) What is business strategy ? What is Strategy? Why it is done (Strategy)? **[2+2+2]**

(b) State briefly the purpose of a SWOT analysis. **[4]**

4. (a) Explain why it is important for organizations to analyze and understand the external environment. **[6]**

(b) What is the relationship between 'strategic competitiveness' and 'returns on investment'? **[4]**

5. (a) Write the benefits that can be derived from "unrelated diversification'. What are the two ways that an unrelated diversification strategy can create value? **[2 + 2]**

(b) What advantages does the GE matrix model have over the BCG matrix? **[6]**

Section B

Question No. 6 is Compulsory. Answer any two questions from the rest.

6. Domestic political trouble in the country of an overseas supplier is causing concern in your company because it is not known when further supplies of raw material 'x' will be received. The current stock held of this particular raw material is 17,000 kgs., which costs ₹1,36,000.

Based on raw material 'x', your company makes five different products and expected demand for each of these, for the next three months, is given below together with relevant information.

Product Code	Kilogram of raw material 'x'/units of finished product (kg.)	Direct labour hours/unit of finished product (Hrs.)	Selling price/unit (₹)	Expected demand over three months (units)
701	0.7	1.0	26	8,000
702	0.5	0.8	28	7,200
821	1.4	1.5	34	9,000
822	1.3	1.1	38	12,000
937	1.5	1.4	40	10,000

The direct wages rate/hour is ₹5 and production overhead is based on direct wages cost. The variable overhead absorption rate being 40% and the fixed overhead absorption rate being 60%. Variable selling costs, including sales commission are 15% of selling price.
Budget fixed selling and administration costs are ₹3,00,000 per annum. Assume that the fixed production overhead incurred will equal the absorbed figure.

You are required to:
(i) Show what quantity of the raw material on hand ought to be allocated to which products in order to maximize profits for the forthcoming three months.
(ii) Present a brief statement showing contribution and profit for the forthcoming three months, if your suggestion in (i) is adopted. **[5+5]**

7. (a) What is the theory of constraints? **[4]**

(b) Apollo Company prepares its budgeted output and sales at its maximum capacity of 20,000 units for 2013. However, due to efficiency improvements, Apollo was able to sell 22,000 units for the year. Other data for 2013 follows as:

Budgeted fixed overhead costs	₹5,00,000
Budgeted selling price	100
Budgeted variable cost per unit	40

(i) Calculate the budgeted profit per unit, the operating income based on the budgeted profit per unit, and the flexible-budget operating income. **[2+2+2]**

(ii) Compute sales-volume variance and production-volume variance. What do each of these variance measures? **[2+2+2]**

(c) Why is Lean Accounting Needed? **[4]**

8. **(a)** SV Ltd. manufactures two products A and B. The product A is a low-volume item and its sales are only 5,000 units per annum. The product B is a high-volume item and its sales are 20,000 units per annum. Both products require two direct labour-hours for completion. The company works 50,000 direct labour-hours each year as given below:

	Hours
Praduct A: 5,000 units x 2 hours	10,000
Product B: 20,000 units x 2 hours	40,000
	50,000

Details costs for materials and labour for each product (per unit) are given below:

	Product	
	A	B
Direct Materials	₹25	₹15
Direct labour (at ₹ per hour)	10	10

The company's total manufacturing overhead costs are ₹ 75,000 per annum. The company has analysed its operations and has determined that five activities act as cost drivers in the incurrence of overhead costs. Data relating to the five activities are given below:

Number of events or transactions

Activity	Traceable costs	Total	Product A	Product B
Machine set-ups	₹ 2,30,000	5,000	3,000	2,000
Quality inspections	1,60,000	8,000	5,000	3,000
Production orders	81,000	600	200	400
Machine-hours worked	3,14,000	40,000	12,000	28,000
Material receipts	90,000	750	150	600
Total	8,75,000			

You are required to compute per unit cost for each product using:

(i) Direct Labour Hour Rate Method for absorption of overhead costs.

(ii) Activity-based Costing Technique for absorption of overhead costs. Comment on your results. **[3+5+2]**

(b) What is the concept of learning curve and state how relevant is the same in managing costing? **[1+3]**

(c) Titan Engineering is operating at 70% capacity and presents the following information:

Break-even point ₹200 core
P/V ratio 40%
Margin of safety ₹50 core.

Titan's management has decided to increase production to 95% capacity level with the following modifications:

- **(i)** The selling price will be reduced by 8%
- **(ii)** The variable cost will be reduced by 5% on sales
- **(iii)** The fixed cost will increase by ₹20 crore, including depreciation on additions but excluding interest on additional capital.
- **(iv)** Additional capital of ₹50 crore will be needed for capital expenditure and working capital.

Required:

- **(a)** Indicate the sales figures, with the working, that will needed to earn ₹10 crore over and above the present profit and also meet 20% interest on the additional capital. **[3]**
- **(b)** What will be the revised
  - **(i)** Break-even point
  - **(ii)** P/V ratio
  - **(iii)** Margin of safety? **[1+1+1]**

9. (a) Find the forecast for various years using Mean, Naïve, Linear Trend, Non-Linear Trend forecast from the following data.

Year	2008	2009	2010	2011	2012	2013
Sales (₹ in Crores)	24.50	25.90	27.60	30.10	34.80	41.50

[2.5×4]

(b) A Company trading in Motor Vehicle Spares wishes to determine the level of stock it should carry for the items in its range. Demand is not certain and replenishment of stock takes 3 days. For item X, the information is given

Demand (unit per day)	1	2	3	4	5
Probability	0.10	0.20	0.30	0.30	0.10

Each time an order is placed, the company incurs an ordering cost of ₹20 per order. The Company also incurs a carrying cost of ₹2.50 per unit per day. The inventory carrying cost is calculated on the basis of average stock.

The Manager of the Company wishes to compare two options for his inventory decision-

- **A.** Order 12 units, when the inventory at the beginning of the day plus orders outstanding is less than 12 units.
- **B.** Order 10 units, when the inventory at the beginning of the day plus orders outstanding is less than 1o units.

Currently (on 1st day) the Company has a stock of 17 units. The Random numbers to be used is- 08, 91, 25, 18, 40, 27, 85, 75, 32, 52, using first number for day 1. Make a simulation run for 10 days, recommended which option the Manager should choose. **[8+2]**