

KB 5 – Business Strategy

Suggested Answers and Marking Guide

SECTION 1

Question 01

1.

Relevant learning outcome/s:

1.2.1 Explain the primary and supporting activities involved with creating value to business (introduction to value chain).

- **Inbound Logistics:** all activities relating to RM handling and warehousing. E.g. storage of plastic fibers and chemicals, maintaining records of warehouse, etc.
- **Operations:** all activities associated with converting input into output. E.g. machine operating, testing, quality control, etc.
- **Outbound Logistics:** activities dealing with warehousing and distributing finished goods to customers. E.g. storage of finished goods, keeping records of warehouse, handling physical distribution, etc.
- **Marketing and Sales:** activities dealing with advertising, promotion pricing and channel relations.
- **Services:** activities to provide assistance to buyers such as installation, repairing, maintenance, etc.

Marking Guide

1 mark each for explaining the five primary activities relating to the value chain of ABC Company Ltd.

Total 5 marks

2.

Relevant learning outcome/s:

1.2.1 Explain the primary and supporting activities involved with creating value to business (introduction to value chain).

1.4.1 Analyse the role of resources and competencies in developing competitive advantages (threshold resources vs. unique resources, and threshold competencies vs. core competencies).

- ABC Company Ltd. can improve practices of general management, accounting, finance, strategic planning, etc. In particular, they can develop a strategic plan for introducing their products to new markets and increasing the sales volume

in the existing markets. This will help add value to the marketing and sales of primary activities.

- The Company can formalize their HR practices to increase labour productivity and employee commitment to the organization. This will help to increase the efficiency level of the Company's operations. Employees will be committed to provide better services to customers as well.
- With the help of a well-organized and systematic procurement process the values of inbound logistics will increase.
- By adopting advanced technology the Company can improve the value generation from operations. Further, an ERP system can be introduced to increase the efficiency of the overall value creation process of the Company.
- Further, R & D will help to identify new product designs and new production techniques, etc. These will directly help the operations and marketing activities of the Company.

Candidates should properly analyze how ABC Company Ltd. can improve the value of Company offerings through secondary activities. Good answers should specifically highlight the above areas.

Marking Guide

Total 5 marks to candidates who sufficiently cover the above points.

Question 02

1.

Relevant learning outcome/s:

1.3.1 Prioritise organisational stakeholders in terms of their impact on business
(stakeholder mapping, based on the Power/Interest matrix)

Employees, customers (U.S. firms), industry pressure groups, government, unions (labour leaders).

Marking Guide

Total 2 marks for listing the stakeholders above.

2.

Relevant learning outcome/s:

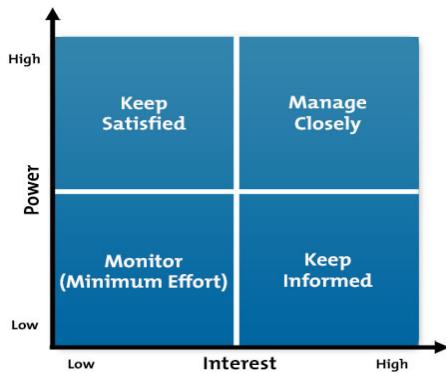
1.3.1 Prioritise organisational stakeholders in terms of their impact on business (stakeholder mapping, based on the Power/Interest matrix)

A stakeholder is any person or organization, who can be positively or negatively impacted by, or cause an impact on, the actions of an organization.

There are two main types of stakeholders.

- Primary stakeholders: are those ultimately affected, either positively or negatively, by an organization's actions.
- Secondary stakeholders: are the 'intermediaries', that is, persons or organizations who are indirectly affected by an organization's actions.

Stakeholders can be mapped using the Power/Interest matrix.



Stakeholder mapping will help an organization to identify the individuals or groups that are likely to affect or be affected by the actions of the organization. Under stakeholder mapping, the company could assess the influence of each stakeholder as well as the impact of the intended actions on them. A stakeholder's position on the grid shows the level of interest of each stakeholder in the organization and the level of power/influence they can exert over the organization. Hence, carefully mapping stakeholders on this grid will help the organization to manage shareholder expectations effectively.

It is important to do stakeholder mapping so that the organization could:

- Understand stakeholders' interests and try to align or manage the same.
- Develop mechanisms to influence other stakeholders.
- Identify potential risks.
- Understand the key people to be informed about actions and develop proper communication plans.

- Understand the negative stakeholders as well as their adverse effects on the projects or actions.

Marking Guide

1 mark- Briefly explaining the concept of 'stakeholder'
 3 marks - Briefly explaining the concept of 'stakeholder mapping'
 4 marks - Discussing the importance of 'stakeholder mapping'.

Total 8 marks

Question 03

1.

Relevant learning outcome/s:

2.2.1 Analyse the balance between customer satisfaction level and inventory management policies.

The higher inventory could be a result of batch production and the likely items to be in the inventory would be tables, chairs and book shelves.

Marking Guide

1 mark for batch production
 1 mark for listing the items.

Total 2 marks

2.

Relevant learning outcome/s:

3.2.1 Discuss the conceptual understanding of the process of product design in a typical manufacturing organization, along with different production methods available for manufacturing (job, batch, chain production, lean manufacturing).

Transportation, Inventory, Motion, Waiting, Over-Production, Over-processing, Defects/Rework +.

Marking Guide

3 marks for five wastes.

3.

Relevant learning outcome/s:

- 3.2.1 Discuss the conceptual understanding of the process of product design in a typical manufacturing organization, along with different production methods available for manufacturing (job, batch, chain production, lean manufacturing).

Lean manufacturing was developed by the Japanese automotive industry with a lead from Toyota, utilising the Toyota Production System (TPS), following the challenge to re-build the Japanese economy after World War II. Lean is a philosophy that seeks to eliminate waste in all aspects of a firm's production activities: human relations, vendor relations, technology, and the management of materials and inventory.

Lean considers an end-to-end value stream that delivers competitive advantage and seeks fast and flexible flow. In order to create flow, lean methodology suggests to maintain a minimum level of inventory in the process. It suggests using "Just In Time" manufacturing rather than "Just In Case" manufacturing.

Under ideal conditions a company operating at JIT manufacturing system would purchase only enough materials each day to meet the immediate demand. Moreover, the company would have no goods still in process at the end of the day, and all goods completed during the day would have been shipped immediately to customers. As this sequence suggests, "just-in-time" means that raw materials are received just in time to go into production, manufacturing parts are completed just in time to be assembled into products, and products are completed just in time to be shipped to customers. This way JIT Holdings would be able to reduce inventory using lean manufacturing.

Marking Guide

- 1 mark for introduction to lean manufacturing
- 1 mark for minimizing waste/inventory
- 1 mark for applying JIT
- 2 marks for explanation.

Total 5 marks

Question 04

1.

Relevant learning outcome/s:

5.5.1 Analyse the staff training methods and strategies of employee development, Return on Investment (ROI) and human resource development.

The main training methods are:

- On-the-job training

This is one-on-one training located at the job site, where someone who knows how to do a task shows another how to perform it. In antiquity, the kind of work that people did was mainly unskilled or semi-skilled work that did not require specialized knowledge.

- Off-the-job training

Off-the-job training on the other hand is training conducted by employing learning methods and techniques such as lectures, case studies, role play, simulation, etc. These sessions are often conducted away from the working environment.

Marking Guide

2 marks for explaining on-the-job training while highlighting the above points.

2 marks for explaining off-the-job training while highlighting the above points.

Total 4 marks

2.

Relevant learning outcome/s:

5.5.1 Analyse the staff training methods and strategies of employee development, Return on Investment (ROI) and human resource development.

5.1.1 Discuss the contribution of Human Resource Management (HRM) to value creation in businesses.

In today's business world, employees are considered to be the most important asset of an organization. Organizations spend a lot of money on training their employees and most of this goes unmeasured. As Peter Drucker once highlighted, what gets measured gets done. If the results of the training could not be measured, it would be difficult for an organization to measure the effectiveness of the training carried out. Hence ROI of training could provide a useful tool to measure the effectiveness of training.

Measuring the ROI of training would also support management to convince the management that the time allocated for training of their employees will provide them with positive results and would not be a waste of time.

During budget allocations if we have results of ROI measured, it will also support in identifying training programs which generate a higher level of return and hence allocate more resources for trainings with a higher level of ROI.

ROI will also bring more focus on delivering business results rather than making employees feel that they have been valued by sending them to a training program. The trainers will also be more objective once they know the organization is measuring the ROI and will put more effort into their trainings.

ROI can also be used to negotiate training rates and link a part of the training fees to ROI generated after the training, based on a pre-agreed method.

This way an organization can ensure that they would get the best return for the money invested in training.

Marking Guide

2 marks for briefly explaining the meaning of ROI in training.

4 marks for discussing why it is important.

Total 6 marks

Question 05

1.

Relevant learning outcome/s:

7.4.1 Compare and contrast alternative business level strategies for each SBU (including generic strategies, strategy clock, blue ocean and red ocean, and competitive strategies based on market position).

Toy Star seems to be adopting a product differentiation strategy. The firm has a unique resource of licenses which cannot be copied by others. They have also created a perceived uniqueness by offering a product that is believed to be of high quality and durability.

Marking Guide

1 mark each for the following points:

- Identifying differentiation strategy
- Identifying the unique resource
- Identifying the creation of perceived uniqueness.

Total 3 marks

2.

Relevant learning outcome/s:

7.4.1 Compare and contrast alternative business level strategies for each SBU (including generic strategies, strategy clock, blue ocean and red ocean, and competitive strategies based on market position).

Porter's Five Forces analysis is a framework for industry analysis and business strategy development. The Five Forces model supports an organization in understanding the forces that determine the competitive intensity and therefore the attractiveness of an industry. Attractiveness in this context refers to the overall industry profitability.

The five forces as described by Porter are:

- **Existing competitive rivalry.** The existing market rivalry in the emerging markets targeted by Toy Star seems to be high. As the operating price points are lower and the market is fragmented, this might impact the firm's short-term profitability.
- **Threat of new entrants.** As the emerging markets are very lucrative to many international brands, the threat of new entrants could be high. However, if Toy Star moves first they would have the first mover advantage from an international toy brand perspective and could gain more knowledge and experience before others start moving.
- **Bargaining power of suppliers.** As Toy Star uses a specially selected supply chain to produce their toys, the bargaining power of suppliers could be relatively high. It would not be easy for Toy Star to move from supplier to supplier given the specialized nature of their supply chain.
- **Bargaining power of customers.** Bargaining power of customers could be relatively high as there are many toy suppliers in the market. However, given the licensing rights Toy Star holds, in that segment of the market Toy Star would hold a higher bargaining power and be a price maker rather than a price taker.

- **Threat of substitute products or services.** There could be many substitute children's toy products in emerging markets. However, it would be difficult to find substitutes for the licensed products. Toy Star will have to emphasize on their perceived values of quality and durability in creating proper differentiation to make substitutes less relevant.

Marking Guide

2 marks for briefly discussing the concept of Porters' Five Forces model.

5 marks for brief application of the model under the respective components.

(Full 5 marks will be given for any 3 correct applications).

SECTION 2

Question 06

1.

Relevant learning outcome/s:

- 4.2.1 Demonstrate the importance for an organization of having an STP process.
- 4.2.2 Apply STP in marketing programs.

Young ladies segment

- a. More interest in chocolate but health conscious and concerned about body shape.
- b. Adopting western culture.
- c. As the female employment rate in the country is increasing, most young females are working and their purchasing power is relatively high compared to the past.
- d. Greater tendency to use social media and less interest in traditional media such as TV, newspapers, etc.

Young gents segment

- a. Less interest in chocolate; becoming more health conscious.
- b. Adopting western culture.
- c. Greater tendency to shop at modern trade outlets.
- d. Greater tendency to use social media and less interest in traditional media such as TV, newspapers, etc.

Old aged segment

- a. Less interest in chocolate; becoming more health conscious.
- b. Values national culture.
- c. Shopping at both modern and general trade outlets.
- d. Less purchasing power.
- e. More use of conventional media.

Children segment

- a. More interest in chocolate; not health conscious'
- b. Parents make purchasing decisions.
- c. Purchasing ability depends on economic conditions of the parents.
- d. More vulnerable to product promotions.

Candidates should recognize young ladies, young gents, old aged segment and children segment as the possible segments for the new chocolate products. Thereafter, two behavioral characteristics of each segment should be summarized to assess the most appropriate market.

Marking Guide

5 marks should be given to candidates who have identified at least two of the above characteristics of each segment.

2.

Relevant learning outcome/s:

4.3.1 Discuss product management and brand management applications (product levels, product mix decisions, product line decisions and branding decisions).

Candidates should recognize and explain how the six levels of brand meaning mentioned below connect to the proposed brand.

- Attributes – quality, low fat and sugar, etc.
- Benefits – taste, refreshment, not harmful to health, etc.
- Values – the producer's values e.g. reliable and experienced producer in the food industry.
- Culture – the producer's culture e.g. creativity or efficiency.
- Personality - projection of personality e.g. fun or austere.
- User – can suggest the type of consumer who buys it e.g. young ladies from the middle and upper social classes.

Marking Guide

5 marks should be given to candidates who have identified all six levels of branding and connected them to the given product.

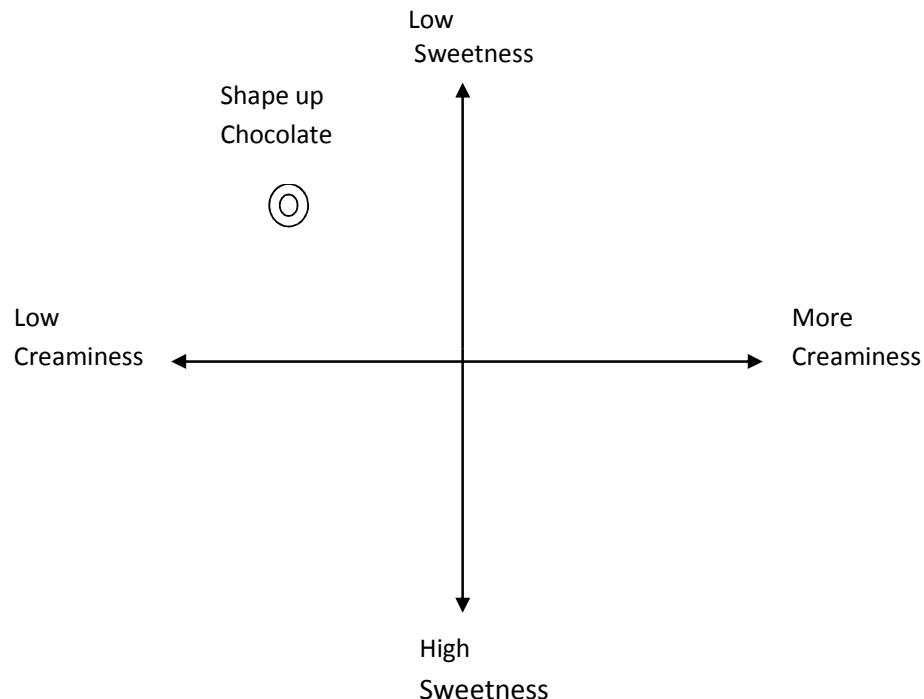
3.

Relevant learning outcome/s:

4.2.2 Apply STP in marketing programs.

Candidates should discuss the meaning of a positioning map. For example, a positioning map is a two dimensional diagram which helps to decide the best way of positioning the organization's products based on different features or attributes of the product. Further, it will help a company to classify existing products in different position categories. Most marketers adopt positioning maps to help in their decision making, to assess the current position of their products relative to competitive brands and decide on the best way of positioning their new products.

Candidates should produce at least one hypothetical positioning map using two appropriate dimensions for positioning the new brand, and should develop an appropriate theme to emphasize the proposed positioning strategy.



Marking Guide

2 marks for explaining the meaning of a positioning map and 3 marks for producing an appropriate positioning map.

4.

Relevant learning outcome/s:

- 4.6.1 Compare and contrast the main elements of promotional mix and promotional strategies for developing competitiveness in the market (promotional mix: advertising, sales promotion, public relations, personal selling, events and experience; promotional strategies: push, pull and profile).
- 4.7.1 Analyse the marketing strategies at different phases of the "Product Life Cycle (PLC)".

Marketing strategies in the introduction stage of the PLC

Candidates should specify the main marketing objective in the introduction stage as creating product awareness and encouraging trial purchasing. Marketing mix variables can be proposed accordingly. In this process students should align with the positioning strategy suggested in Question 03 above.

E.g.

- Design the product in order to provide its core benefits e.g. low fat and sugar. Further, as the proposed segment is the 'Young female segment', designing attractive packages is important.
- Adopting market skimming or penetration strategies. However, skimming is better due to the innovative nature of the product and its target of the upper segment of society.
- Distribute among modern trade outlets and selective distribution among general trade outlets. E.g. pharmacies.
- Advertising should be designed to create awareness among early adopters and dealers and use sales promotion to encourage trial purchasing (heavy advertising and promotion).

Marking Guide

5 marks for answers which reflect strategic directions based on the proposed positioning strategies.

5.

Relevant learning outcome/s:

7.4.1 Compare and contrast alternative business level strategies for each SBU (including generic strategies, strategy clock, blue ocean and red ocean, and competitive strategies based on market position).

Possibilities of adopting 03 generic strategies.

Candidates should briefly explain 03 generic strategies.

E.g.

Cost leadership strategy - The strategy an organization follows when it wants to be the lowest-cost producer in its industry.

Differentiation strategy - A business strategy in which a company tries to gain a competitive advantage by providing a unique product or service, or providing a unique brand of customer service.

Focus strategy - A marketing strategy in which a company concentrates its resources on entering or expanding in a narrow market or industry segment.

According to the characteristics of the proposed product, there is no possibility of obtaining economies of scale by producing large volume. Further, differentiation can be based on the health benefits of the product. However, as the health conscious segment is still growing, market size is relatively low. Furthermore, the health conscious 'Young female segment' is also relatively low. Therefore, the most appropriate strategy is the **Focus strategy**.

Marking Guide

5 marks for answers which cover all the above aspects.

Question 07

1.

Relevant learning outcome/s:

- 6.3.1 Discuss the e-business process and its value to businesses.
- 2.1.1 Demonstrate the different elements of supply chain management and their respective contributions to creating competitive advantage.

Advantages of selling on the internet:

1. Sales can be increased and sales cost reduced.
2. Reach narrow market segments that are geographically scattered.
3. Avoid the margins made by intermediate sellers.
4. Can create a virtual community and maintain direct contact with customers.
5. Easy to advertise and lower promotional cost.
6. Can get direct feedback from the final consumer rather than relying on secondary data.

Marking Guide

1.25 marks for each advantage up to a maximum of any 4 correct points.

Total 5 marks

2.

Relevant learning outcome/s:

- | |
|--|
| <p>6.1.1 Discuss the role of technology in creating competitive advantages for organizations.</p> <p>2.1.1 Demonstrate the different elements of supply chain management and their respective contributions to creating competitive advantage.</p> |
|--|

B2B operations can use information technology in many ways to increase business effectiveness and conduct business in a more efficient way, reducing the overall supply chain cost. Some of the information technology options available to B2B organizations are:

1. Electronic data interchange.

Computer-to-computer exchange of documents in a standard format. Electronic data interchange can:

- a. Improve customer service
- b. Reduce paperwork
- c. Increase productivity
- d. Improve billing and cost efficiency.

2. Internet portals.

Suppliers and customers can now be connected through internet portals making information sharing between businesses much more efficient and effective.

3. Bar codes.

Bar codes contain identification information about products as they flow through the supply chain including product description, item number, source and destination, cost, order number, etc.

4. Radio Frequency Identification Devices (RFID).

RFID can be used by businesses to track shipments and identify stock locations in a store.

These information technologies will help a B2B operation to achieve:

- 1. Savings due to lower transaction costs
- 2. Shorter supply chain response time
- 3. Greater visibility and transparency
- 4. Collection and analysis of data which would enable supply chain performance management
- 5. Improved service levels across the supply chain.

Marking Guide

8 marks for discussing the four technology options.

2 marks for discussing any 2 advantages accruing due to use of IT in supplier dealings.

Total 10 marks

3.

Relevant learning outcome/s:

2.5.1 Evaluate different supply chain performance management systems (including the "SCORE Model" and "Balanced Scorecard").

The Balanced Scorecard model of supply chain performance management measures supply chain performance under 4 main areas:

1. Financial perspective
2. Customer perspective
3. Business process perspective
4. Innovation and learning perspective.

When measuring supply chain performance using the balanced scorecard model for Cell Inc. the following performance measures may be used.

1. Financial perspective:
Inventory days maintained for suppliers
Profit margin
Cash tied in supply chain.
2. Customer perspective:
Product quality level
Timeliness of supply
Flexibility on demand.
3. Business Process perspective:
Reduction of processing time for orders
Unit cost reductions
Response flexibility.
4. Innovation and learning perspective:
Number of product innovations
Number of options/substitutes offered
Knowledge sharing and collaboration.

Marking Guide

For listing at least two respective performance measures under the appropriate balanced scorecard perspective - 2.5 marks x 4 =10 marks.