PGDBM, 2016-18

Strategic Management

DM-403

Trimester – IV, End-Term Examination: September 2017

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: ____________

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** All other instructions on the reverse of Admit Card should be followed meticulously.

Section A (3X5 = 15 Marks)

Answer any three questions from the following:

Q.1 Describe briefly the terms 'strategic competitiveness', 'above average returns' and 'competitive advantage'. What is the relationship between strategic competitiveness and returns on investment?

Q.2 Describe different levels of diversification firms can pursue by using different corporate level strategies.

Q.3 Identify and describe the modes of entering international markets.

Q.4 Relationship between strategy and organizational structure is reciprocal. Comment.

Q.5 Define strategic leadership. How are top level executive considered as important organizational resources?

Section B (2X10 = 20 Marks)

Answer any two questions from the following:

Q.6 Define 'Vision' and 'Mission' statements. Discuss how clear vision and mission statements can benefit other strategic management activities.

Q.7 Differentiate between tangible and intangible resources. Are tangible resources linked more closely to the creation of competitive advantages than intangible resources or is the reverse true? Why?

Q.8 Define the three major dimensions of organizational structure: specialization, centralization, and formalization. How do these dimensions vary in organizations implementing the cost-leadership, and differentiation strategies?

Section C (7+8=15 Marks)

Read the following case study and answer both the questions that follow:

Case Study

Volkswagen's Acquisition of Skoda Auto: A Central European Success Story

The year 2006 was significant for the Skoda Auto Group (Skoda), an auto manufacturer based in the Czech Republic. That year the company crossed the 5, 00.000 units mark for the first time, an increase of 12.60% over 2005. Improved sales reflected positively on Skoda's financial performance as well, a revenue increase of 8.70% and an increase in net profits of 40.20% over 2005. Another significant event was launching of a new vehicle called Skoda Roomster, positioned as a leisure activity vehicle.

This was the fourth model after the Octavia, the Fabia and the Superb lines. Skoda was the Czech Republic's best known company. During the cold war, Skoda cars were derided in Western Europe for their unappealing looks and poor performance. However when Skoda became part of Volkswagen AG (VW) in 1991, its image was transformed. By late 1990s it came to be known for its high quality, sturdy cars and established itself as 'value for money' brand.

Skoda under VW

In the early 1990s, VW's sales in the US were less than 1, 00, 000 cars per year and was looking for new markets. It embarked on its multi-brand strategy at the same time to rationalize its brands. It had four distinct brands – Audi, VW, SEAT and Skoda, each having its own distinct brand identity. While SEAT and Skoda were VW's low-end brands Audi was it's high-end brand. VW, which had edged out French major Renault and Sweden's Volvo in acquiring the stake in Skoda, announced that it intended to use Skoda brand to gain access to Central and Easter European markets where it had strong presence. Acquiring Skoda was aimed at helping VW to attack Fiat as largest car manufacturer in Europe and improving it in the global market.

The Transformation of Skoda

When VW took over Skoda, the companies had little in common. VW was known for quality of its Engineering, while Skoda was mocked for its poor quality and un-reliability. The task at hand was to transform it into a customer-oriented, market focused organization.

Integration and HR issues

From the beginning, VW made an effort to keep Skoda's brand identity separate by focusing on its heritage as one of the oldest car makers in the world. Several initiatives including building a museum showcasing its past achievements were undertaken to create a sense of identification and pride in the workers at Skoda. The transition from a state-owned company to market-oriented one posed many challenges. VW realized that Skoda employees needed to change their work philosophy but avoided making drastic changes in HR practices. It chose to develop the skills and competencies of the employees of Skoda through coaching, joint project work and 'tandem management'.

In joint project work, the key tasks were handled by teams drawn from VW and Skoda employees. In tandem management, key positions at Skoda were shared by one carefully chosen manager from VW and another local manager for a limited period of three years, when it was the responsibility of VW manager to develop the local manager. Language was a major barrier in the VW-Skoda collaborative effort. VW set up a language centre near the Skoda factory to overcome the same. All the Czech employees had to learn to speak either German or English to improve their chances of career advancement in the company. Groups of managers and workers from Skoda were sent to VW plants to learn VW's production methods.. Although, some positions at Skoda were made redundant, VW chose not to lay off employees. Instead, they were given option of taking up jobs in some other VW units.

Production and Quality improvement

Since the Skoda's production systems had become out-dated, VW implemented 'Skoda Production System' that tracked parameters like quality, costs, team cooperation and absenteeism in the factory. Skoda also implemented VW's supplier grading system to improve the supply chain. Initially, when the system was implemented, only 1 per cent of Skoda's suppliers earned highest 'A' grade which improved to 71 per cent by the end of 1990s. Most of Skoda's major suppliers like Johnson Controls and Siemens etc. set up their own plants in the Octavia factory complex and were linked to central production control computer system to streamline processes and control costs. The Octavia plant originally designed to produce 300-350 cars per day was actually producing 500 cars per day by late 1990s.

New Product Development

The first car launched by Skoda after its acquisition by VW was 'Felicia' in 1994. It was small car, had modern appearance, active safety features and had both petrol and diesel versions. It played an important role in changing Skoda's image in Western Europe.. 'Felicia' was followed by 'Octavia' in

1996 which went on to become one of the Skoda's most successful cars later. It had latest design, safety technological and environmental protection features. Skoda introduced 'Fabia' in 1999 using VW's PQ24 platform. It became a great success in Europe.

Image Building

The launch of new and better quality was supported by an intensive image building exercise across Europe. New promotions aimed at making Skoda acceptable to customers and emphasizing on the positive aspects associated with brand Skoda were undertaken. Initially, VW concentrated on projecting Skoda as a company with rich history and heritage. The challenge was to change the image of the company perceived to be associated with poor quality. Adopting the same approach adopted earlier by VW to popularize 'Beetle' in the US in 1950/60s, Skoda came with a series of funny and self-deprecating advertisements in late 1990s. Later advertisements used taglines "It's a Skoda. Honest" and "Skoda. It might earn you more respect than you think". It also used some other aggressive direct marketing campaigns such as sending Skoda badges through post and invited potential customers to "live with it" for a while. It also used celebrity advertisements. It all resulted in significant transformation of Skoda's image.

Skoda in the new millennium

In the year 2000, VW took remaining 30% stake in Skoda when government of Czech decided to divest its stake. VW continued its efforts to improve Skoda's brand image in UK and other parts of Western Europe during the early 2000s. Skoda launched its most luxurious car, superb in 2002 which was targeted at the same market segment as BMW 5 series and the Mercedes-Benz E class. In the early 2000s, Skoda built a handover centre in Mlada Bolslav, where buyers could take delivery of their cars directly from the production line. Such a facility is available only for luxury cars like Audi and Mercedes Benz. VW used Skoda to enter emerging markets such as India in 2002 with launch of Octavia and also other markets in China and Russia. Skoda played an important role as a VW brand in China. The VW brand was well established in China where its main product was Polo. However, in early 2000s, its market share began to erode due to competition from General Motors, Toyota and Honda. VW announced that it planned to introduce multiple brands at different price points in China. In 2005, Skoda signed a cooperation agreement with Shanghai Volkswagen, VW's joint venture with Shanghai Automotive Industry Corp to produce cars in China. VW also used the Skoda to spearhead its entry into Russia by deciding to set up an assembly plant near Moscow in 2007. By 2006, Skoda had a presence in 90 countries around the world.

The Road ahead

By 2006, Skoda was a well-established mass market car brand. The main reason of its success was that it had the support of VW brand. About Skoda's future plans, it showcased a concept car called Joyeyster at 2006 Auto Salon in Paris. It had several unique design features; aeroplane style wind screen, changeable seat covers, 'infotainment' centre with navigation system and rear hatch door etc.
In the early 2000s, with traditional markets of America, Western and Eastern Europe saturating, most auto markets were looking at new markets to drive future growth. As per one analyst, "Skoda was the perfect template of an eastern European firm doing well". It was well poised to look for future growth.

Questions:

Q. 1 What was the rationale behind VW's acquisition of Skoda? What role was Skoda expected to be playing VW's brand portfolio? Has Skoda been successful in performing its role?

Q. 2 VW's acquisition of of Skoda is often cited as an example of a successful cross-border acquisition. Critically discuss the issues in the Skoda acquisition. How did VW develop the necessary competencies at Skoda?