PGDM, 2016-18
Strategic Management
DM-403
Trimester – IV, End-Term Examination: September 2017

Time allowed: 2 Hours-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.** In case of rough work please use answer sheet.

Note: There are 3 sections in this paper. Answer briefly and to the point.

Section A: Answer any 3 Questions (5 marks each)

Q.1 Provide a simple definition of Strategy and highlight its 2 major elements. Why are these critical to the development of Sustained advantage in a Competitive environment? What usually goes wrong in the Conceptualisation of Strategy by most firms?

Q.2 Explain the Universal Pricing Mechanism as applicable to a new product. Who can be considered important player categories in this framework. In your view do companies including much admired ones like Apple follow the logic that has been developed by this mechanism.

Q.3 Which of the various Environmental Analysis models discussed made the most sense. Briefly describe the chosen model and highlight its main features with a detailing of at least two of them.

Q.4 We are all familiar with the existence of Market segments in every industry. Do you agree that every industry will experience continuous increase in the number of segments, or can you present a simple model which will explain this reality for the benefit of all firms in every industry

Q.5 Do you think that Artificial Intelligence is at the threshold of machine dominance over humans as is made out by some Business and Scientific Intellectuals? Mention a few instances of recent events that back this claim. If you think this eventuality is far away if ever will take place, provide the basis for your contrarian view

Section B: Answer any 2 Questions (10 marks each)

Q.1 Very recently, we have witnessed upheaval in the top management of a leading Indian "software company. Do you think that this was due to personality differences between the founder/s and the top management team or this is just a symptom of a larger ailment. Whatever your view, use a strategic analysis of the industry to justify your claim.

Q.2 Do you think that the decision by Tata Steel to acquire Corus Steel was a sound and timely one and that the pricing as well as the financing of the acquisition was astute? If yes, what does the current scenario of heavy losses for the acquired company point to? Under what circumstances could the acquisition have been justified? Use your knowledge of Strategic growth decision to answer this well.

Q.3 What is the current state of the Indian Telecom Industry. If the view is that the industry is in deep trouble, what are the main reasons for it. Who in your view are the trouble making variables and the trouble making companies if any? What do you believe should be decisions taken to move the industry to a more stable state following the general principles of Strategic Management?

Section C (Compulsory Case Study, 15 marks)

THE TROUBLED CHILD OF A GREAT INVENTOR

For over a 100 years after its inception as Consolidated Edison the company started by Thomas Edison arguably the World's greatest inventor in the field of Electricity grew by leaps and bounds, setting up and running a myriad of efficient electricity generation behemoths that fed the seemingly insatiable appetite of not only the United States but most developed and emerging economies for energy to light and run home devices as well as power the machines and equipment that form the backbone of the modern industrialised world.

Over the decades that followed the end of its creator, General Electric as it subsequently became a household word, branched out into many new industries. These included, Plastics, consumer durables including Refrigerators, electrical devices including generators and motors as well as Compressors to power not only their refrigerators, but those of their major and minor competitors all over the world. Over time, this industrial juggernaut became a leader in Jet engines for aircraft, electric locomotives, and other fields related to Industrial Equipment using electro mechanical principles for their construction and use. To top it all, the firm started a captive financial services division from which all GE profit centres had to source their respective requirements, be it in the form of term lending, Working Capital or financial instruments like Bonds. This led to a heady growth period between the 1970s and the end of the 20th century(the year 2000). The company boasted the largest Market Capitalisation of $280 bn supposedly causing great admiration and envy in the world of business.

The person most associated with this stellar success was Jack Welch who was CEO of the group from 1981-2001, who bought and sold divisions of GE often and justified his decisions, on the basis of the "top 2" principle i.e. any division of the company should be retained if it was one of the top 2 players, and any company could be bought if it was in the top 2 with the variable being current market share.

However cracks in the impressive edifice were beginning to show during Welch's last years as CEO and while his hand picked successor Jeffrey Immelt was in the first few years of his reign as GE top dog. Group profits declined as well as profitability in many of the divisions. What was most troubling was that GE Capital(popularly known as GE Caps) was proving to be a hindrance to other divisions who were mandatorily required to take all their Financial requirements through and from this division at prices set by it, in contravention of sensible Transfer Pricing procedures. Profits declined and the trophy Market Cap itself plunged to as low as $ 120 bn from its earlier recorded high of $ 280 bn.

If General Electric (GE) hoped to buy itself out of trouble, it may have to think again. On October 8, 2004 the huge conglomerate announced the final terms of its purchase of the American Entertainment assets of Vivendi, a French media firm. On October 9th, it completed the purchase of Instrumentarium, a Finnish medical equipment maker. With the announcement on October 10th of its purchase of Amersham, a British life sciences and medical diagnostics company, GE had in three days showcased bold supposedly business transforming deals worth over $25 billion. As investors promptly cut their valuation of GE shares, however, it was not wholly clear whether Jeffrey Immelt the firm's boss was climbing out of a hole or digging himself deeper in.

Mr. Immelt has had a torrid time since taking over from Jack Welch GE's former boss. Waking from the dreamy 1990's, investors discovered that GE was not after all a smooth earnings machine that pumped out profit growth of 16-18% per year, but a collection of mature industrial assets bolted to a fast growing, opaque and highly leveraged finance business. Worse thanks to the effect on profits of a bubble in GE's power business and a seemingly over funded corporate pension fund, the firm's best days seemed to be well behind it. Last year GE failed to grow its profits at the promised double digit rate for the first time in ten years. Most likely it will fail to do so this year and the next.

Mr. Immelt has embarked on a campaign to persuade shareholders that GE with more than 200,000 employees and $130 billion in sales- can still perform like a growth company. The aim is to get the share price which according to Mr. Immelt is currently under valued back up again. Mr. Immelt's key idea is to buy new "high margin", "high growth" businesses. According to his fans the new purchases all fit the bill.

The magic of Mr. Welch's sleight of hand(conjurer's tricks), was to create the appearance of a high growth firm with low risks: a triple –A- rated company which churned out a stead and predictable stream of fast growing earnings. Now investors find these vaunted qualities suspicious, forcing Mr. Immelt to reverse some of of Mr. Welch's financial engineering tricks. GE no longer offers wonderfully precise predictions of what it will earn each year, for instance. Gone , too is the spin about "long cycle" and "short cycle" businesses which , by offsetting their different ups and downs, were supposed to create all that wonderful smoothness. Biotechnology and media assets may indeed offer the potential for faster growth than power turbines and aircraft engines. But investors also fear that they will increase GE's risks. Amersham clearly spends more money thinking about risky futures markets than GE has traditionally done. Notwithstanding a PR campaign to convince financial scribes(journalists) that it is a research powerhouse, poised for growth, GE spends just 2% of its sales each year on R&D. Amersham spends 10%. The Vivendi assets fit well on paper with NBC< GE's existing network broadcaster. As temperamental, creative types however, Vivendi's media moguls may not succumb happily to an invasion of GE number crunchers. NBC certainly did not. While the Vivendi deal has been reasonably priced the Amersham shares are expensive, prompting worries that pressure to get the GE share price up is clouding GE's judgement. Because the company is so large, Mr. Immelt will have to make big divestitures too if he really wants to change the complexion of GE's business. Of the 36 odd deals that GE has disclosed so far this year, however there have been just 4 small divestitures.

It is to be noted that the World's concern with the growing pollution levels and consequent impact on global climate change, there has been a universal emphasis on developing renewable energy with special focus on Solar Power. While seemingly very attractive, there are several problems and areas of relative performance and Cost inefficiencies that are plaguing this sector. While persons and companies with little of no experience in the Energy business including Musk of Tesla fame and Google have plunged into the field directly or indirectly, the stalwarts including GE and Siemens have been strangely reluctant to give priority to this area of enormous potential.

Many argue that Mr . Immelt has got his strategy all wrong. By forcing the company's mature cash rich businesses to fork out large sums for purchase of perceived high return new businesses with high risk profiles the company is headed in the wrong direction. There are others obviously who think differently but the verdict of the share markets seem to favour the former.

Q.1 The company had prided itself on becoming a "Conglomerate" with a huge diversity of businesses. With the exposure that you have been given in the course on Strategic Management, do an analysis which covers Business Vision, Competitive Advantage, Environmental Analysis and Growth & Expansion Strategy. **8 marks**

Q.2 Based on what has been shared with you in the Strategic Management Course, could you explain why this great Company has seemingly lost its way and missed out on enormous opportunities for growth with leadership in its primary, legitimate business and wasted its resources on sub optimal ventures. **7 marks**