MACHAKOS UNIVERSITY

University Examinations for 2017/2018 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS, ENTREPRENEURSHIP & MANAGEMENT SCIENCE

FIRST YEAR SECOND SEMESTER EXAMINATION FOR MASTER OF BUSINESS ADMINISTRATION

BBA 845: STRATEGIC MANAGEMENT

DATE: 11/12/2017 **TIME: 11.00-2.00 PM**

INSTRUCTIONS

i. Answer questions ONE and any other THREE questions. In total answer FOUR questions.
ii. Question ONE carries 30 marks in total while the rest of the questions accounts for 20 marks each.
iii. Use of relevant examples and real life cases is encouraged.

QUESTION ONE (COMPULSORY)(30 MARKS)

Read the following case scenario (Epilady) and attend to the questions that follow.

Epilady

In 1988, it looked as though the Krok sisters had it made. Within two years of founding EPI Products, Inc., they'd hit the $100 million sales mark on the strength of their original product alone. With the introduction of a new range of EPI products, they predicted they would triple that figure in 1989. Instead, they filed for bankruptcy. What went wrong? Industry analysts say the Kroks' catastrophic failure was due to a fatal lack of planning by these business world beginners.

Solomon Krok, a South African pharmaceutical company owner, bought United States marketing rights to an Israeli hair-removal product called 'Epilady'. Epilady works by somewhat uncomfortably pulling hairs out by their roots: this offers women who shave their legs an opportunity to throw away their razors - and to stop nicking themselves. Solomon gave the Epilady marketing rights and start-up money to three of his daughters. The sisters established EPI Products in California, with Arlene as President, Loren as head of East Coast operations, and Sharon as head of advertising.

In July 1987, the Kroks launched Epilady in some of the country's most prestigious department stores, including Bloomingdale's and Marshall Field. Things went better than they had imagined. Within five months, epilady was the top-selling department store item of any kind.

However, Remington Products, Inc., which is one of the nation's leading manufacturers of shaving products and which had originally turned down the opportunity to purchase the rights of Epilady. Soon posed a daunting challenge to the Kroks. It announced the impending introduction of Smooth & Silky, a product that would do the same job as Epilady but would be available in more stores for less money. So the Kroks came up with a plan. They would market a deluxe edition of the original Epilady, packaged with luxury accessories to be sold at top-dollar prices in high end department stores. Then, about six months later, they would start selling the original Epilady model, with no deluxe packaging or accessories, at sharply discounted prices in the same mass - market stores Remington had targeted. This way, they could maintain the high profit margins they garnered at the top stores while competing in the mass market with Remington.

Meanwhile, the Kroks decided it was time to start trading on the now familiar EPI name. They introduced EpiSauna, a facial sauna, and EpiPed, a foot whirlpool massager, as well as a brush with retractable bristles, a tooth whitener, and about 20 additional grooming products, all to be sold in high-end department stores. When the Kroks had first announced plans to move the original Epilady to the mass-market, many of the more exclusive store executives had been furious. They worried that the strategy would detract from Epilady's prestige and thereby slow sales in their stores. Despite these fears, EPI product sales at these department stores were strong during the 1988 Christmas season - traditionally the peak sales time for personal grooming appliances - and the executives backed down.

During 1989, Epilady seemed to be working faster and smoother for the Kroks than they or the industry analysts had ever anticipated. That year, EPI Products racked up $200 million in sales. However, in the spring of 1990, the Kroks' new company began to fall apart quickly. Profits from EPI product sales couldn't keep up with the pace at which the Kroks were spending money to keep their company expanding. By autumn, EPI Products, Inc., had filed for bankruptcy.

Industry analysts who had once marvelled at the Kroks' success began to conduct the EPI Products autopsy. Sales of second-generation products such as the EpiSauna had fallen off steeply after the initial rash. Analysts said the Kroks should have expected this; none was as original a concept - or considered by many women to be as necessary - as the Epilady. EPI Products was too new a company to expect that the Epi prefix alone could sell just any product, they said. Analysis also called the Kroks' advertising strategy unsophisticated and not worthy of a company of EPFs size. Rather than advertising all the EPI products together, some analysts said, the products should have been advertised separately, and the benefits of each product for potential customers should have been emphasised.

Also, the Kroks' original strategy to outwit Remington, which had been hailed by many as brilliant when it seemed to be working, was a drastic mistake, analysts concluded. Customers were bound to figure out that they could buy essentially the same product sold in top-drawer department stores for less money in mass-market stores. This both sliced into EPFs profit margins and cheapened its image.

By the end of 1990, the Kroks had hired professional managers to try pull EPI Products out of bankruptcy, but many analysts predicted that it was too late to turn the company around.

a) What are the key issues on EPI's competitive environment? (8 marks)
b) What drove the Kroks sisters to venture into EPI products? (6 marks)
c) What went wrong? (4 marks)
d) What could have been done to prevent this? (6 marks)
e) What is your advice on the way forward? (6 marks)

QUESTION TWO (20 MARKS)

You have been given responsibility to spearhead the strategic planning process of your organization. It is expected that you will drive the process in terms of providing guidance not only on strategy formulation but also how these strategies can be translated to realize expected outputs and outcomes.

Explain to the top management, process participants and other stakeholders, considerations and criteria that will ensure the best strategic options are chosen (20 marks)

QUESTION THREE (20 MARKS)

Using good and relevant examples, discuss how the following issues should be handled to ensure effective implementation of the selected strategies

a) Organization design (5 marks)
b) Culture (5 marks)
c) Resources (5 marks)
d) Leadership (5 marks)

QUESTION FOUR (20 MARKS)

Read the following case scenario (Microsoft Misfires in China) and attend to the questions that follow.

<u>Microsoft Misfires in China</u>

One box that solves two problems. That was Microsoft's hope for Venus, a \$240-\$360 gadget running windows CE software that turns Chinese TV sets into internet appliances. Venus would solve two problems by making it both easier and cheaper for Chinese consumers to access the web. Venus was the key to penetrating china, because it would make windows nearly ubiquitous in living rooms from Shenzhen Shangai.

Of the three main Chinese companies that signed up to sell Venus boxes, two have pulled from the market. Only legend computer is still selling the units in china –and it ships most of this supply to Southeast Asia. Why has Venus fizzled? Zhang blames both a lack of online content and the relatively high cost of internet access. But others say Microsoft misjudged the willingness of Chinese to buy what is essentially low-rent technology. And with PCs selling for as little as \$600, there isn't much reason to buy Venus.

The Venus project is not the only misfire in Microsoft's china strategy. Microsoft continues to battle software pirates, a poor image with Chinese authorities and consumers, and a growing threat from rivals offering inexpensive Linux-based service. Microsoft won't release its china revenues, but analysts say they are probably under $100 million this year-less than the company make in Hong Kong. "We are much smaller than we expected," says Microsoft General Manager Jack Gao.

Increasingly Microsoft must contend with companies offering Linux, the open-source operating system. The threat is perhaps more political than anything else. Beijing likes to set one foreign company against another-as it has done with Boeing and Airbus. By playing up the potential of Linux, the government may be telling Microsoft that it had better play by its rules.

But Microsoft faces no greater competitor than the thieves who have elevated software piracy to a finer art. Last year, overall sales of the computer hardware in china topped $18 billion. But software sales were measly $2.1 billion. In other countries, the ratio is closer to even. Blame the shortfall on the pirates. Because of all the counterfeiting, Microsoft sold only 2 million licensed copies of its software in china during the year ending in June.

Chinese aren't ready to give up on counterfeit versions of Windows either. "We have a lot of users," say Jack Gao ruefully. "But we don't have a lot of customers." With Beijing intent on developing a local software industry, he says, cracking down on the pirates is in china's interest, too. That will take time. For now, a more humble Microsoft will have to keep trying to win friends in the emerging market it values most

a) Identify and explain the strategies used by Microsoft in entering and managing its operations in China. (8 marks)
b) What could be attributed to the failure of Microsoft's strategies in China? (6 marks)
c) What should they have done? Provide and discuss your advice. (6 marks)

QUESTION FIVE (20 marks)

a) Monitoring and evaluation is a key phase in the strategic management process. Discuss the dangers organizations are likely to encounter if they ignored this phase. (6 marks)
b) Using appropriate examples discuss your understanding of the concept of Balanced Score Card (BSC). (4 marks)
c) Is the practice of this concept relevant to the Not-for-profit making organizations? Discuss your answer. (10 marks)