

EASTERN UNIVERSITY, SRI LANKA

Faculty of Commerce and Management

Final Year / First Semester Examination in Bachelor of Business

Administration – 2012/2013 (February / March 2015)

(Proper/Repeat)

MGT 4013 Strategic Management

Answer all five (5) questions

Time: 03 hours

Q1) Answer the questions given below by clearly understanding the case given.

Planning for the Chevy Volt

General Motors is a company in deep trouble. As car sales in North America collapsed in 2008, GM, which had already lost money in 2007, plunged deeply into the red. With losses estimated at \$14 billion, the company was forced to go cap in hand to the government to beg for public funds to help it stave off bankruptcy. Fearing the economic consequences of a collapse of GM, the government agreed to loan funds to GM, but it insisted that the company have a clear plan charting its way back to profitability. Ironically, such a plan was already in place at GM. At the heart of it was a potentially huge gamble on a new type of car: the Chevy Volt.

The Chevy Volt, which was introduced in 2010, is a compact, four-door electric car with a reserve gasoline-powered engine. The primary power source is a large lithium ion battery (lithium ion batteries are typically found in small electric appliances such as cell phones). The battery can be charged by plugging it into a wall socket for 6 hours; when fully charged, it will fuel the car for 40 miles, which is less than most people's daily commute. After that, a gasoline engine kicks in, providing both drive power and recharging the lithium ion battery. GM estimated fuel economy will be over 100 miles per gallon, and charging the car overnight from a power outlet would cost about 80% less than filling it with gas at \$3 per gallon. The car will have a starting cost of around \$41,000; however, because it uses a battery-powered technology, buyers will be able to take \$7,500 tax credit. The Volt was the brainchild of two men, Bob Lutz, GM's vice-chairman, and Larry Burns, the head of Research & Development and strategic planning at GM. Although Lutz in particular had always championed large gas-hungry muscle cars, GM's planning told them that the market would probably move away from the SUVs that had been a profitable staple at GM for most of the 1990s. A number of trends were coming together to make this scenario likely.

First, oil prices, and by extension, gas prices, were increasing sharply. Although driving an SUV that gets 12 miles to the gallon might make economic sense when gas was priced at \$1 a gallon, it did not for most people when gas was \$4 per gallon. GM's planning suggested that due to growing demand in developed nations, including China and India, and limited new supplies, the days of cheap oil were over. Second, global warming was

becoming an increasing concern, and it seemed possible that tighter regulations designed to limit carbon emissions would be introduced in the future. As a major source of greenhouse gases, such as carbon dioxide, automobiles powered by internal combustion engines could hardly escape this trend. Third, the cost of manufacturing lithium ion batteries was falling, and new technology was promising to make them more powerful. Finally, GM's major competitor, Toyota, with its bestselling hybrid, the Prius, demonstrated that there was demand for fuel-efficient cars that utilized new battery technology (the Prius, however, uses a conventional fuel cell as opposed to a lithium ion battery).

Despite their analysis, when Lutz and Burns first proposed making the Volt in 2003, senior managers at GM beat them down. For one thing, GM had already invested billions in developing fuel cells, and many in the company did not want to suddenly switch gears and focus on lithium ion batteries instead. Besides, said the critics, technologically it would be difficult to produce a large lithium ion battery. Others were skeptical given that GM already had one failure with an electric car, the ill-fated EV1 introduced in the late 1990s. Powered by a fuel cell, the EV1 had not sold well (according to many because the company had not put its weight behind it). By 2006, however, the tide had started to turn. Not only were oil prices surging, as predicted by the strategic planning group, but a small Silicon Valley start-up, Tesla Motors, had announced that it would be bringing a lithium ion sports car to market. Lutz's reaction was, "if a start-up can do it, GM can do it." So Lutz and Burns formed a skunk works within GM and quickly put together a Chevy Volt concept car, which they unveiled at the 2007 Detroit auto show. The concept car gained a lot of positive feedback, and Lutz used this to argue within the company that GM needed to commit to the project. Moreover, he argued, Toyota was gaining major momentum from its Prius, both in terms of sales and the halo effect associated with making a premium car. This time Lutz and Burns were able to persuade other senior managers to back the project, and it was officially launched in early 2007 with an aggressive goal of mass introduction in 2010.

Questions

- a. What does the Chevy Volt case tell you about the nature of strategic decision making at a large complex organization like GM? (03 Marks)
- b. What trends in the external environment favoured the pursuit of the Chevy Volt project? (03 Marks)
- c. What obstructions to pursuing this project do you think existed within GM? (04 Marks)
- d. The plan for the Chevy Volt seems to be based partly on the assumption that oil prices would remain high, and yet, in late 2008, oil prices collapsed in the wake of a global economic slowdown.
 1. What does this tell you about the nature of strategic plans?
 2. What do falling oil prices mean for the potential success of the Chevy Volt? (05 Marks)

- e. What will it take for the Chevy Volt to be a successful car? In light of your analysis, how risky do you think this venture is for GM? What are the costs of failure? What are the costs of not pursuing the project?

(05 Marks)

(Total 20 Marks)

- Q2) a. What is the difference between an **intended** and an **emergent strategy**?

(04 Marks)

- b. Explain why a **mission statement** should not include **strategies and objectives**.

(05 Marks)

- c. What are the four **steps** of the **strategic management process**? And briefly explain the importance of each step.

(06 Marks)

- d. In what ways are the strategic management of **business** and **military strategy** alike? In what ways are they different?

(03 Marks)

(Total 18 Marks)

- Q3) a. What are the purpose served by **EFE** and **IFE matrix**? Construct an **EFE** and **IFE Matrix** for the Faculty of Commerce and Management.

(06 Marks)

- b. What are the techniques that could be applied to identify the **acceptability** of strategies and briefly explain those with examples?

(05 Marks)

- c. Given the information in the following table, develop a **BCG Matrix** and an **IE Matrix**, and state the strategies that could be applied for the division 1, 2, and 3.

Divisions	1	2	3
Profits	\$10	\$15	\$25
Sales	\$100	\$50	\$100
Relative Market Share	0.2	0.5	0.8
Industry Growth Rate	+20	+10	-10
IFE Total Weighted Scores	1.6	3.1	2.2
EFE Total Weighted Scores	2.5	1.8	3.3

(07 Marks)

(Total 18 Marks)

Q4) a. **Strategic group mapping** is a valuable tool for understanding the similarities, differences, strengths, and weaknesses inherent in the market positions of companies (What market positions do industry rivals occupy, who is strategically positioned and who is not?). Illustrate on this statement by taking an industry of your choice and clearly explaining the procedures that have to be followed on strategic group mapping.

(07 Marks)

b. In an analytical perspective how could you differentiate the different competitive **business strategies** and state that whether it is possible for an organization to simultaneously pursue focus, differentiation, and cost leadership.

(07 Marks)

c. Describe the **directional strategies** under corporate level and state the importance of parenting strategy with **parenting-fit matrix**.

(08 Marks)

(Total 22 Marks)

Q5) a. How are the **SPACE Matrix**, **BCG Matrix** and **Grand Strategy Matrix** similar? How are they different?

(05 Marks)

b. Explain the contribution of **administrative tasks** in **implementing the strategy** chosen and state the importance of strategy implementation.

(07 Marks)

c. How could an organization **evaluate** the success of strategies implemented in a **systematic way** brief on the process of it?

(05 Marks)

d. What is the importance of assessing the **value chain** and **value system** of an organization and its industry? Describe how the value chain is connected with value system.

(05 Marks)

(Total 22 Marks)