Business Strategy

ICFAI Center for Management Research

Road # 3, Banjara Hills, Hyderabad 500 034.

Ref. No. BSWB – 012K4 14

For any clarification regarding this book, the students may please write to ICMR giving the above reference number, and page number.

While every possible care has been taken in typesetting and printing this book, ICMR welcomes suggestions from students for improvement in future editions. Please use the Courseware Feedback Form available at www.icmrindia.org

Contents

Detailed Contents

Control Problems for the multinational firms – Multinational Strategic Planning – Multi-Domestic Industries and Global Industries: Multi-domestic Industries, Global Industries – Multinational Challenge: Location and Coordination of Functional Activities, Location and Coordination Issues, International Strategy Options – MNC Mission Statement: Components of the Corporate Mission Revisited – Summary.

Chapter 6: Internal Analysis of the Company: Value of Systematic Internal Assessment: Value Chain Analysis, Conducting a Value Chain Analysis – Strategy and Internal Analysis: The Analysis Process – Analyzing Departments and Functions: Production/Operations/Technical, Finance and Accounting, Marketing, Research and Development, Integrating the Functional Areas – Analyzing Management: Assessing Top Management, Using Results to Analyze Management, Stockholders and Directors – The Human Side of the Enterprise – Quantitative Approaches for Evaluating Internal Factors – Summary.

Chapter 7: Company Culture and Values: Meaning of Culture: Organizational Culture Defined – Culture and the Organization: Key Themes or Dominant Values Emphasized, Encourage Dissemination of Stories and Legends about Core Values, Institutionalization of Practices that Systematically Reinforce Desired Beliefs and Values, Adopt Very Common Themes in Their Own Unique Ways, Management of Organizational Culture in a Global Organization – Culture and Strategy Creation: Linkage to Mission, Maximize Synergy, Manage Around the Culture, Reformulate the Strategy or Culture – Culture and Organizational Structure – Culture and Style of Management – Culture and Power: Internal Sources, Sources for External Stakeholders, Methods of Assessing Power – Determinants of Culture – Aspects of Culture – Levels of Culture – Changing the Culture – Culture and Values – Culture and Value Systems – Cultural Influence on Organizational Life: Cooperation, Decision Making, Control, Communication, Commitment – Summary.

Chapter 8: Formulating Long Term Objectives and Strategy: Objectives Meaning – The need for Objectives: Objectives Provide Direction, Objectives Serve as Standards, Objectives Serve as Motivators – The nature of Objectives – Levels of Objectives: Strategic to Operating – The Hierarchy of Objectives – Grand Strategies: Growth Strategies, Retrenchment Strategies - Divestiture, Liquidation – Long-term Objectives and Strategy Sets: Profitability, Public Responsibility, Productivity, Competitive Position, Employee Development, Employee Relations, Technological Leadership – Summary.

Chapter 9: Strategic Analysis and Choice: Criteria for evaluating strategic alternatives: Criteria of Suitability, Criteria of Feasibility, Criteria of Acceptability – Strategic analysis at the corporate level: BCG Matrix, GE Nine Cell Planning Grid – Strategic analysis at business unit level: SWOT Analysis, Strengths, Weaknesses, Opportunities, Threats, Strategy Selection Matrix – Behavioral considerations affecting strategic choice: Role of Past Strategy, Attitude towards Risk, Competitive Reaction, Degree of firm's External Dependence, Values and Preferences – Contingency approach to strategic choice – Summary.

Part III: Strategy Implementation

Chapter 10: Operationalizing the Strategy: Identification of Annual Objectives: Qualities of Effective Annual Objectives, Linkage to Long-term Objectives, Integrated and Coordinated Objectives, Consistency in Annual Objectives, Benefits of Annual Objectives – Developing Functional Strategies: Differences between Grand and Functional Strategies, Functional Strategies – Development of Policies: The Purpose of Business Policies-Summary

Chapter 11: Strategy and Structure: Structural Considerations: Simple and Functional Organizational Structures, Divisional Organizational Structure, Strategic Business Units, Matrix Organization – The Role of Structure Linking Structure to

Strategy – Structure and Systems – Structure and Style of Management – The Role of General Mangers – Summary.

Chapter 12: Resources Management and Control: Corporate Resource Planning: Corporate Resource Planning and Organizational Growth – Functional Resource Planning: Functional Interrelationships, Efficiency and Effectiveness in Resource Allocation and Management – Policies, Procedures and Budgets: The Creation and Use of Policies, Principles of Good Policy, Procedures, Budgets – Allocating Resources : The Budgeting Process, Building Flexibility in a Budget, Zero-Base Budgeting (ZBB)– Issues of Measurement and Control Systems – Establishing Strategic Control: Premise Control, Implementation Control, Strategic Surveillance, Special Alert Control – Operational Control Systems: Budgets, Scheduling, Key Success Factors – Reward Systems – Crisis Management: Steps for Managing Crisis – Summary.

Part IV: Principles of Competitive Advantage

Chapter 13: The Value Chain and Competitive Scope: Identifying value activities: Primary Activities, Support Activities – Defining the value chain– The value chain and buyer value – Competitive scope and the value chain: Segment Scope, Vertical Scope, Geographic Scope, Industry Scope – Coalition and scope – Competitive scope and business definition – The value chain and industry structure – The value chain and organizational structure – Summary.

Chapter 14: The Value Chain and Generic Strategies: Value Chain and Cost Analysis: Defining the Value Chain for Cost Analysis, Assigning Costs and Assets, First Cut Analysis of Costs – Cost Behavior: Cost Drivers, Economies or Diseconomies of Scale, Learning and Spillovers, Pattern of Capacity Utilization – Linkages: Linkages within the Value Chain, Vertical Linkages, Interrelationships, Institutional Factors, The Cost of Purchased Inputs, Segment Cost Behavior, Cost Dynamics, Industry Real Growth, Differential Scale Sensitivity Cost Advantage: Determining the Relative Cost of Competitors, Gaining Cost Advantage, Implementation and Cost Advantage– Pitfalls in Cost Leadership Strategies: Exclusive Focus on the Cost of Manufacturing Activities, Ignoring Procurement, Overlooking Indirect or Small Activities, False Perception of Cost Drivers, Failure to Exploit Linkages, Contradictory Cost Reduction, Unwitting Cross Subsidy, Thinking Incrementally, Undermining Differentiation – Differentiation Strategies: Differentiation and Value Chain, Drivers of Uniqueness, Policy Choices, Linkages, Linkages within the Value Chain, Supplier Linkages, Channel Linkages – Buyer Value and Differentiation: Buyer Value, The Value Chain and Buyer Value, Lowering of Buyer Cost, Raising Buyer Performance, Buyer Perception of Value, Buyer Value and the Real Buyer, Buyer Purchase Criteria, Identifying Purchase Criteria – Summary.

PART V: Mergers, Acquisitions and Takeovers

Chapter 15: **Mergers:** History of Merger Movement – Corporate Restructuring: Forms of Corporate Restructuring, Expansion, Sell-offs, Corporate Control, Changes in Ownership Structure – Economic Rationale for Different Types of Mergers: Increased Market Power, Overcoming Entry Barriers, Cost of New Product Development, Increased Speed to Market, Lower Risk Compared to Developing New Products, Increased Diversification, Reshaping the Firm's Competitive Scope - The Role of Industry Life Cycle: – Reasons for International Mergers and Acquisitions: Growth, Technology, Government Policy, Differential Labor Costs, Productivity, Source of Raw Materials – Summary.

Chapter 16: Acquisitions and Divestitures: Motives for Divestitures: Efficiency Gains and Refocus, Information Effects, Wealth Transfers, Tax Reasons – Assembling the Divestiture Team – Preparing the Divestiture – Contents of the Offering Memorandum: Executive Summary, Buyer Procedure, Background, The

Market, Products / Services, Facilities and Fixed Assets, Systems and Operations, Organization, Management and Personnel, Key Financial Information, Valuing the Business – The Selling Process: Identifying Potential Buyers, Selecting the Selling Process, Business Reviews, Negotiating and Closing the Transaction – Financial Defensive Measures: Adjustments in Asset and Ownership Structure, Leveraged Recapitalizations, Golden Parachutes, Poison Puts – Anti-takeover Amendments – Poison Pill Defense – Targeted Share Repurchase and Standstill Agreements – Strategic Reactions by Targets – Summary.

Chapter 17: Joint Ventures and Leveraged Buy-Outs: Joint Ventures - Joint Ventures in Business Strategy: Joint Ventures and Complex Learning, International Joint Ventures - Rationale for Joint Ventures – Reasons for Failure of Joint Ventures – Leveraged Buy Out: Stages in an LBO – Summary.

Part VI: Additional Topics

Chapter 18: Managing Change: Meaning of Change – Force for Change: Technical Obsolescence and Technical Improvements, Political and Social Events, The Tendency for Large Organizations and Markets to Become Increasingly Global, Increases in the Size, Complexity and Specialization of Organizations, The Greater Strategic Awareness and Skills of Managers and Employees, The Current Dynamics of Change, Levels of Change – Types of Change: Re-engineering, Restructuring, Innovation – Change Process: Recognition of Need for Change, Building Awareness of Need to Change, Foster Debate, Create Consensus, Assign Responsibility, Allocate Resources - Resistance to Change: Lack of Awareness, Lack of Interest, Incompatibility with Cherished Values, Fear of Cannibalization, Fear of Personal Loss, Different Perception – Strategies for Implementation and Change: Top-Down Strategic Change, Quinn's Incremental Model, Organizational Development – Power: The Bases of Power, Uses of Power and Influence – Politics: Political Effectiveness, Machiavellianism - Effects of Power and Politics on Strategic Change – Summary.

Chapter 19: The Strategist: The Role of the Strategist: Leadership Qualities, Leadership Style, Ambitions and Values of Strategic Leader – Risk – Manager and Strategy: Interpersonal Roles, Informational Role – The General Manager and Strategy – The Board of Directors and Strategic Management: Trusteeship, Designing Organizational Structure, Formulation of Mission, Objectives and Policies, Selection of Top Executives, Feed Forward and Feedback, Legal Functions, Link between the Company and External Environment– The Chief Executive Officer and Strategic Management: Organization Builder, Organization Leader, Success Sharing by CEO, Executive Qualities, Personal Dimensions for Selection of CEO, Role of CEO in Strategic Management – Summary.

Chapter 20: Challenges for the 21st Century: Global Competitiveness in the New Millennium: Competitive Strengths of Major Industrialized Countries, What Should be done to Meet the Global Competitive Challenges, What Should Corporations Do, What Should Government Do – Considerations for Strategies in the 21st Century: Corporate Strategy, Ethics, Public Values and Social Responsibility, Global Challenges, Role of the Government, Ecological Challenges, Quality and Productivity, Workforce Diversity, Change, Empowerment – Emergence of a Knowledge Worker – Role of a Knowledge Worker – E-Commerce the Central Challenge – The CEO in the New Millennium: Corporate Governance, Approach to Information – Summary.

Part A: Multiple – Choice Questions

This section consists of multiple-choice questions that test the student's understanding of the basic concepts discussed in the textbook. Answering these questions will help students quickly recollect the theories they've learnt and apply these to real-life business situations.

Part A: Multiple – Choice Questions

1. At which organizational level, does the formulation of a multifunctional strategy for a single industry or product-market area take place?
   a. Corporate level
   b. Functional level
   c. Business level
   d. Board Level

2. In a multi-business firm, who sets the objectives and formulates the strategies that govern the business activities of the firm?
   a. Business level executives
   b. Multi-business level executives
   c. Both a and b
   d. Corporate level executives

3. ________ managers translate the corporate strategy of a firm into concrete objectives for their individual business.
   a. Business level
   b. Corporate level
   c. Multi-business level
   d. Functional level

4. Who plays an important role in the success of products and services and in increasing the market share of firms in their respective businesses?
   a. Functional level managers
   b. Corporate level managers
   c. Business level managers
   d. All the above

5. Which level of managers concentrate on doing 'the right things'?
   a. Corporate level managers
   b. Business level managers
   c. Both a and b
   d. Functional level managers

6. Defining the company mission, specifying objectives, developing strategies and setting policy guidelines are a part of the ____________ process.
   a. Environmental scanning
   b. Strategy formulation
   c. Strategy implementation
   d. Evaluation and control

7. Which of the following puts strategies and policies into action through programs, budgets and procedures?
   a. Environmental approach
   b. Strategic formulation
   c. Strategic implementation
   d. Evaluation and control

8. ____________ enable(s) a firm to identify a wide range of opportunities.
   a. Policies
   b. Objectives
   c. Strategic analysis
   d. Strategic analysis and choice

9. Which objective gives importance to productivity, technological leadership, employee relations, etc?
   a. Long-term objective
   b. Short-term objective
   c. Medium term objective
   d. Annual objective

10. Which strategy provides a means for achieving a company's annual objectives?
    a. Functional strategy
    b. Business strategy
    c. Operating strategy
    d. Strategic choice

11. Policies that provide guidelines for making operating processes consistent with the firm's strategic objectives are known as ______.
    a. Standard operating procedures
    b. Standardizing routine decision
    c. Institutionalizing the strategy
    d. Strategy formulation

12. Which element identifies the strategic factors that determine the future of a firm?
    a. Evaluation and control
    b. Environmental scanning
    c. Strategy formulation
    d. Strategy implementation

13. What measure would a company use to ensure that every employee takes decisions and actions that support its mission, objectives and strategies?
    a. Strategy implementation
    b. Policy
    c. Process
    d. Program

14. What describes the various activities to be carried out to complete a company's program?
    a. Procedures
    b. Policies
    c. Processes
    d. Budget

15. In a divisionalized organization, which strategy is used to determine the financial objectives of the firm?
    a. Corporate strategy
    b. Central corporate strategy
    c. Functional strategy
    d. Operational strategy

16. What bridges the gap between strategy formulation and implementation?
    a. Strategic planning
    b. Strategic management
    c. Decision-making
    d. Organizing

17. What describes the market, product and technological area of a business?
    a. Company's vision
    b. Company's mission
    c. Bumper-sticker strategy
    d. Strategic plan.

18. __________ show (s) the way to a desired future state that a company wants to attain.
    a. A plan.
    b. A mission statement
    c. Goals
    d. A bumper sticker

19. What provides a framework/ boundary for individual actions aimed at achieving corporate goals?
    a. The philosophy of a company
    b. The values of a company
    c. The philosophy and values of a company
    d. The image of a company

20. What are the economic goals that guide the strategic direction of every successful business organization?
    a. Survival, growth and profitability
    b. Growth, profitability and public image
    c. Goal, profit and public image
    d. Public image, growth and profit

21. Which factor indicates the nature and direction of the economy in which a firm operates?
    a. Economic environment
    b. Gross national product
    c. Competitive position
    d. Operating environment

22. How can a firm optimize its environmental opportunities?
    a. By assessing its market share
    b. By assessing the competitiveness in the industry
    c. By assessing the effectiveness of its sales distribution
    d. By assessing its competitors' position in the market

23. Which of the following helps a manager identify the opportunities and threats in the competitive industrial environment?
    a. Analyzing the competitive forces
    b. Market research
    c. Market analysis
    d. Sales analysis

24. Which of the following factors plays a significant role in providing superior quality products to customers, within a given timeframe?
    a. Technology
    b. Fast delivery
    c. Customer convenience
    d. Customer's choice

25. Which of the following is not a primary activity in a value chain?
    a. Operations
    b. General administration
    c. Outbound logistics
    d. Inbound logistics

26. Which of the following organizational structures maximizes the CEO's control over the organization?
    a. Functional organization
    b. Divisional organization
    c. Simple organization
    d. Strategic Business unit

27. What provides the basis for comparing the relative strengths of different businesses in terms of the strength of their position in each business's respective market?
    a. BCG matrix
    b. GE Nine Cell model
    c. 7S Framework
    d. Five Forces Model

28. Which one of the following represents the best long-run opportunity in a firm's portfolio?
    a. Cash cow
    b. Star
    c. Question mark
    d. Dog

29. Which business unit holds a large market share in a mature and slow-growing industry?
    a. Dog
    b. Cash cow
    c. Question mark
    d. Star

30. Long range planning concerned with developing a company's mission, objectives, strategies and policies is referred to as _______.
    a. Strategic analysis
    b. Strategy formulation
    c. Strategy implementation
    d. Strategy evaluation

31. Which strategy is most likely to help a company recoup its investment?
    a. Retrenchment strategy
    b. Turnaround strategy
    c. Liquidation strategy
    d. Divestiture strategy

32. What provides a powerful tool of strategy implementation when linked with operating strategies and long-term objectives?
    a. Objectives
    b. Strategies
    c. Policies
    d. All the above

33. Which of the following provides a basis for monitoring and controlling organizational performance?
    a. Daily reports
    b. Weekly reports
    c. Long-term objectives
    d. Annual objectives

34. Which of the following characteristics of the functional and grand strategies focus on what needs to be done to make a grand strategy work?
    a. Specificity
    b. Time horizon
    c. Participation in the development
    d. Exclusivity

35. In which of the following pricing approaches is pricing based on consumer demand?
    a. Functional approach
    b. Business approach
    c. Market approach
    d. Innovative approach

36. In which of the following resource allocation approaches, are priorities decided centrally, though all divisions and business units are allowed to formulate their own, preferred strategies?
    a. Centralized approach
    b. Decentralized approach
    c. Semi centralized approach
    d. Non centralized approach

37. A/an_________ helps people understand the behavior patterns that are expected of them in particular circumstances.
    a. Advisory policy
    b. Explicit policy
    c. Mandatory policy
    d. Implicit policy

38. What helps the management find out whether the strategic management processes of the company are appropriate, compatible and moving in the desired direction?
    a. Implementation control
    b. Special alert control
    c. Premise control
    d. Strategic control

39. What reflects the need to thoroughly reconsider a firm's basic strategy based on sudden unexpected events?
    a. Premise Control
    b. Implementation control
    c. Strategic surveillance
    d. Special alert control

40. What provides the basis for negotiating short-term resource requirements for implementing strategy at the operating level?
    a. Budget
    b. Compensation
    c. Incentives
    d. Promotion

41. ___________________ requires the establishment of performance standards.
    a. Budgeting
    b. Scheduling
    c. Operating Control System
    d. Product promotion

42. Value addition occurs during the four functions namely R&D, production, marketing, and sales and service. All these four functions are referred to as ___________.
    a. Value added activities
    b. Value addition functions
    c. Primary activities
    d. Secondary activities

43. Material management, human resource function, and infrastructure provide inputs to primary activities and add value for competitive advantage. The above activities are referred to as ________.
    a. Functional activities
    b. Secondary activities
    c. Support activities
    d. Backward integration activities

44. Vertical Linkage refers to_________.
    a. Interdependencies between a firms activities and the value chain of its suppliers and channels
    b. Interdependencies between two firms in the same industry
    c. Interdependencies between two hierarchical levels of the firm
    d. Interdependencies between two sister concerns

45. _______________ refers to the combined use of assets or inputs to create products which cannot be unambiguously and wholly attributed to any single input.
    a. Complementary assets
    b. Complementary production
    c. Supplementary production
    d. Supplementary assets

46. A combined undertaking or a partnership by two or more persons to create a single business having a separate entity is known as ___________.

a. Joint collaboration
b. Joint venture
c. Merger
d. Leveraged buyout

47. Which of the following characteristics is found in a joint venture?
a. Contribution of money, property, effort and skills by both the companies
b. Contribution of money, property, effort and skills by one company only
c. Control of management by one company
d. The number of partners is confined to two

48. A ________ is primarily financed by borrowing of all the stock or assets by a small group of investors.
a. Merger
b. Takeover
c. Leveraged buyout
d. Consolidation

49. Which of the following is not a gain ensuing from an LBO?
a. Tax benefits
b. Management incentive and agency cost effects
c. Transfer pricing gains
d. Asymmetric information and under pricing

50. In a typical LBO, ___________________.
a. The investor makes the company a private entity
b. The investor raises the money required for the buyout
c. The investor purchases all outstanding shares or assets of the company
d. The investor increases the operating cost without changing the marketing strategies.

51. Which of the following is not a reason for the failure of joint ventures?
a. Inadequate preplanning for joint venture
b. A rigid contract that does not allow changes
c. The parties concerned fail to arrive at an agreement
d. Customer demands are not taken into consideration

52. In which activity are structures and systems changed to accommodate changes in strategy?
a. Refreezing
b. Implementation
c. Evaluation
d. Designing

53. Strategic managers often use ____________ to obtain and use power to influence organizational goals.
a. Knowledge
b. Money
c. Politics
d. Muscle power

54. ___________ takes place when change patterns are accepted and followed willingly.
a. Refreezing
b. Freezing
c. Vertical integration
d. Horizontal integration

55. In which stage of the industry do barriers to entry tend to be based on access to key technological know-how rather than cost economies or brand loyalty?
a. Embryonic stage
b. Growth stage
c. Shakeout stage
d. Mature stage

56. At what stage of the industry life cycle does the rivalry between companies intensify?
a. Beginning stage
b. Growing stage

c. Mature stage
d. Shakeout stage

57. How do firms respond to a shakeout in the industry?
a. Price wars
b. Maximum utility of resources
c. Decrease in additional expenditure
d. Use of new technology

58. In which stage of the industry, do entry barriers increase and the threat of potential competitors decrease?
a. Beginning stage
b. Growth stage
c. Mature stage
d. Decline stage

59. __________ describes its product, market and technological areas of thrust and reflects the values and priorities of the strategic decision maker.
a. A company's profile
b. A company's mission
c. A company's objectives
d. A company's policy

60. __________ assess/assesses the strengths and weaknesses of its management and organizational structure.
a. The profile of a company
b. The mission of a company
c. The policy of a company
d. The objectives of a company

61. ______________ is a marketing tool that allows management to examine the rate of market growth and market share of products.
a. The Managerial grid
b. The BCG matrix
c. The GE nine cell matrix
d. Ansoff's model

62. What is the most important factor that should be taken into consideration when developing a functional strategy?
a. Investment
b. Product line
c. Price
d. Quality

63. Which of the following factors does not influence the pricing strategy of a firm?
a. Cost
b. Market
c. Competition
d. R&D

64. Which type of structure helps the corporate management delegate authority for the strategic management of a distinct business entity?
a. Functional structure
b. Divisional structure
c. Matrix structure
d. SBU

65. __________ is/are required to determine whether resources are being allocated in line with the plan and to find out whether the plans and actions can help the organization achieve its objectives efficiently.
a. Corporate resources
b. Control mechanisms
c. An organization structure
d. A mission statement

66. _______ is/are the basic tool(s) for determining competitor costs.
a. A Value chain
b. Cost drivers.
c. Cost cutters.
d. A Value analysis

67. When does government directed divesture take place?
a. When the market is saturated
b. When there is poor business fit
c. When antitrust problems occur
d. When there is market inefficiency

68. Which of the following statements best describes a management buyout (MBO)?

a. A leveraged buyout in which management is the prime moving force
b. A buyout in which management of a company plays no role at all
c. A buyout in which the management of one company buys another company
d. A buyout in which a dispute between managements of the two companies is settled by the management of a third company

69. __________ helps the strategic leader develop a suitable culture for the mission he/she wishes to pursue.
a. Organizational culture
b. Legitimate power
c. Information
d. Organizational development

70. In which of the following roles, does the manager have to perform the role of motivating, communicating, and encouraging team spirit.
a. Leader Role
b. Liaison Role
c. Disseminator Role
d. Figure Lead Role

71. Which of the following is not the responsibility of top managers in business level strategic planning?
a. Environmental analysis
b. Forecasting based on analyzing
c. Establishing business objectives
d. Evaluating and counseling all aspects of planning

72. ________________ of a company provide(s) manager(s) with a unity of direction, thus helping them transcend individual, parochial and transitory needs.
a. The vision
b. The mission
c. The objectives
d. The goals

73. Which strategy gives attention to the modification of products and the ability to copy or acquire new technology to maintain a firm's position in the industry?
a. Defensive strategy
b. Offensive strategy
c. R&D strategy
d. Technology up-gradation strategy

74. Which type of management is suitable for firms involved in the mass production of goods?
a. Democratic management
b. Autocratic management
c. Dictatorial management
d. Cooperative management

75. There are two major ways in which a firm can gain cost advantage. The first is controlling cost drivers, and the second is _________.
a. Shortening the value chain
b. Technological innovation
c. Introducing cost consciousness in all activities
d. Reconfiguring the value chain

76. Heineken pays particular attention to the quality and purity of the ingredients for its beer and uses a constant strain of yeast. By so doing, Heineken is trying to achieve differentiation at ______.
a. The technical stage
b. The procurement stage
c. The production stage
d. None of the above

77. Global Trust Bank offers not only banking facilities and portfolio management, it also offers 'D-mat' services. GTB is trying to differentiate itself through ________.
a. Competitive scope
b. Breadth of activities
c. Discrete activities of the value chain
d. None of the above

78. __________ refers to the process of acquiring a business primarily by financing with debt capital or borrowing.
    a. The takeover of a company
    b. A joint venture
    c. A Leveraged buyout
    d. None of the above

79. What are the major determinants of employee motivation?
    a. Reward and coercive power
    b. New technologies
    c. Personal power and future growth prospects
    d. Information and connection power

80. At what stage is the threat from competitors at its peak in an industry?
    a. Growth stage
    b. Embryonic stage
    c. Mature stage
    d. Shakeout stage

81. In which stage of the industry, can a company capitalize on the absence of rivalry and attain a strong hold in the market?
    a. Mature stage
    b. Growth stage
    c. Shakeout stage
    d. Embryonic stage

82. In which stage of the industry does rivalry among established firms increase?
    a. Growing stage
    b. Mature stage
    c. Decline stage
    d. All the above

83. Which of the following is an important tool for assessing the strength of an organization within its industry?
    a. Market share
    b. Financial analysis
    c. Balance sheet
    d. Profit and loss statement

84. In which of the following modes of strategic decision-making, are strategies framed by one individual?
    a. Entrepreneurial mode
    b. Planning mode
    c. Adaptive mode
    d. Innovative mode

85. When should a firm start to coordinate its functional activities?
    a. When the industry becomes increasingly global
    b. When the economy opens up
    c. When multinational companies enter the market
    d. All the above

86. ________________ identifies the source of a firm's capital.
    a. The leverage ratio
    b. The activity ratio
    c. The liquidity ratio
    d. The profitability ratio

87. Which marketing tool uses multiple factors to assess industry attractiveness and business strength?
    a. The GE Grid
    b. The BCG matrix
    c. The Turnaround strategy
    d. SWOT analysis

88. Which structure can be used to provide and control skills and resources whenever required?
    a. Matrix structure
    b. Functional structure
    c. SBU structure
    d. Departmental structure

89. _________ forms the basis for the allocation of corporate resources.
    a. Financial evaluation
    b. Organizational growth
    c. Organizational structure
    d. Organizational culture

90. In which type of organization, does the extent of decentralization determine the freedom given to

general managers to allocate resources between functional managers and departments?

a. Global division
b. Multi divisional
c. Trans national
d. None of the above

91. _________ is often critical for the proper accomplishment of a divestiture and can provide comfort to the employees as well as to potential buyers.

a. A flexible management
b. A stable management
c. An active management
d. None of the above

92. ________________refers to the movement of a company away from its present state towards some desired future state to increase its competitive advantage.

a. Re-engineering
b. Restructuring
c. Strategic change
d. Benchmarking

93. In which stage of change can continuous training and management development reap big dividends in implementing change?

a. Create consensus stage
b. Foster debate stage
c. Recognition of need for change stage
d. Building awareness stage

94. What prevents companies from investing in new technologies before competitors compel them to do so?

a. Lack of awareness
b. Fear of cannibalization
c. Lack of interest
d. Difference in perception

95. ___________ play(s) a major role in the formulation, implementation, evaluation and reformulation of strategies?

a. The organization builder
b. The strategist
c. The board of directors
d. Middle level managers

96. What degree of conceptual skill does a middle level manager require?

a. High
b. Moderate
c. Low
d. Very low

97. In which stage of the industry does the importance of technological know-how as an entry barrier diminish?

a. Embryonic stage
b. Growth stage
c. Shakeout stage
d. Mature stage

98. _____________ is defined as the aggregate number of shares held by the managers, including restricted shares but excluding stock options, expressed as a percentage of the firm's total outstanding shares.

a. Managerial ownership
b. Managerial share pattern
c. Corporate ownership
d. Company shareholding

99. Which of the following statements is true regarding managerial ownership?

a. The level of managerial ownership is generally high in large firms and low in small firms
b. The level of managerial ownership is generally low in large firms and high in small firms
c. The level of managerial ownership is generally not influenced by the size of a firm
d. The level of managerial ownership is generally determined only for large firms

100. In the _______ method of takeover, the incumbent management of the target company takes the help of a friendly company to buy the shares of the raiding company.

a. Tender offer
b. Street sweep
c. Bear hug
d. Gray knight

101. In the _______ method of takeover, a company may hive off its productive assets so that nothing is left for the raider.
a. Asset stripping
b. Poison put
c. Golden parachutes
d. Poison pill

102. Information which relates directly/indirectly to a company and which if published, is likely to materially affect the price of its securities is known as ________.
a. Securities information
b. Company information
c. Strategic information
d. Price sensitive information

103. If a firm raises funds through equity instead of debt, the agency costs will ________.
a. Decrease
b. Decrease initially, but keep increasing after a brief period
c. Increase
d. Not be affected

104. If an owner manager, who holds 100 percent ownership in a firm, issues equity to outsiders, his equity ownership will ________.
a. Decrease
b. Increase initially but keep decreasing after a brief period
c. Increase
d. Not be affected

105. Which of the following is not a part of Ansoff's strategic success paradigm?
a. There is no universal success formula for firms.
b. The level of turbulence in the environment determines the strategy required for the success of a firm.
c. The aggressiveness of a strategy should be aligned with the turbulence in the environment to optimize a firm's success.
d. Internal capability variables, i.e. cognitive, psychological, political, anthropological and sociological variables, do not play any role in a firm's success

106. Henry Mintzberg, who advocated a more humane approach to strategy formulation and implementation, coined the term _________ .
a. Crafting strategy
b. Drafting strategy
c. Designing strategy
d. Choreographing strategy

107. Mergers and acquisitions, tender offers and joint ventures form a part of which type of corporate restructuring?
a. Corporate Control
b. Sell-offs
c. Expansion
d. Change in ownership structure.

108. In a/an_______, some of the existing shareholders receive stocks in a subsidiary in exchange for the stocks of the parent company.
a. Split up
b. Split off
c. Divestiture
d. Equity Carve out

109. In a/an____________, a portion of a firm is sold to outsiders through an equity offering, giving them ownership of that portion.
a. Split up
b. Split off
c. Divestiture
d. Equity carve out

110. Premium buy-back, a corporate control strategy, is also known as _________.
a. Green mail
b. White mail
c. Premium mail
d. White knight

111. Exchange offers, share repurchases, going private and leveraged buy-outs, are a part of which corporate restructuring strategy?
   a. Corporate Control
   b. Sell-offs
   c. Expansion
   d. Change in ownership structure

112. A/an ________refers to a cooperative business agreement between two or more firms that have similar objectives.
   a. Merger
   b. Acquisition
   c. Joint venture
   d. Strategic alliance

113. In a __________, two firms operating and competing in the same business activity merge.
   a. Horizontal merger
   b. Vertical merger
   c. Conglomerate merger
   d. Equivalent merger

114. Which of the following restructuring strategies, results in reverse synergy?
   a. Takeover
   b. Merger
   c. Divestiture
   d. Acquisition

115. In a/an______, a business unit is not sold for cash or securities; instead, common stock in the unit is distributed to shareholders on a pro rata basis.
   a. Spin off
   b. Merger
   c. Divestiture
   d. Acquisition

116. Which of the following statements regarding a leveraged buyout is false?
   a. Implementing LBO is difficult and highly risky
   b. An LBO makes it more costly and difficult for other firms to borrow funds from the market
   c. After the LBO, as firms streamline their operations, many employees lose their jobs
   d. Long term investments in research and development, new plant and equipment are not made, hampering the growth of the firm in the long run

117. Using the _____________ strategy, an organization can try to defend itself against powerful buyers.
   a. Innovation
   b. Differentiation
   c. Focus
   d. Cost leadership

118. What is the main difference between cost leadership, differentiation, and focus strategies?
   a. Cost leadership and differentiation are highly expensive strategies, whereas focus is a low cost strategy
   b. Cost leadership and differentiation focus on one particular market segment, whereas a focus strategy concentrates on all the market segments
   c. Cost leadership and differentiation are aimed at the total industry; whereas a focus strategy is aimed at a particular target market
   d. Cost leadership and differentiation are company specific, whereas focus is industry specific

119. In a focus strategy, the target market in which _________ is selected.
   a. There is no competition at all
   b. The competitors are very strong
   c. The industry is perfectly competitive
   d. Competitors are the weakest

120. A generic strategy _______________.

a. Is difficult to successfully implement and sustain
b. Is expensive to implement
c. Can be implemented only in the service industry
d. Can be implemented only in a high technology manufacturing sector

121. Which one of the following generic strategies involves investing in modern equipment, selling off obsolete assets, avoiding product line extensions, and upgrading technology?
a. Differentiation
b. Focus
c. Differentiation and focus
d. Cost leadership

122. If an automobile company limits the number of models, relies heavily on backward integration, and automates its facilities, which generic strategy can the company be said to be following?
a. Differentiation
b. Cost leadership
c. Differentiation and Cost Leadership
d. Focus

123. Which of the following is not a feature of a maturing industry?
a. Intense competition for market share
b. Highly experienced, and often repeated customers
c. High concentration for cost minimization and efficient service
d. Frequent launch of new products and applications

124. In a/an ________, dealers' margins come down, forcing them to shut shop.
a. Declining industry
b. Mature industry
c. Fragmented industry
d. Emerging industry

125. In a/an ____________ industry, a firm concentrates on maximizing its recovery of investment by selling early instead of delaying the process.
a. Mature industry
b. Fragmented industry
c. Declining industry
d. Emerging industry

126. What does risk arbitrage refer to in the context of mergers and acquisitions (M&As)?
a. Purchasing the stock of takeover targets for a short period of time and reselling them at a higher price
b. Purchasing the stock of takeover targets on the basis of inside information.
c. Selling the stock of takeover targets for a short period of time and repurchasing them at a lower price
d. Selling the stock of takeover targets on the basis of inside information

127. What would be the primary objective of a firm in an industry that is perfectly competitive, has no product differentiation and cost advantages?
a. To repay all its debts
b. To launch the maximum number of products possible
c. To recover the costs it incurs
d. To earn the maximum profits in the short run and exit from the market.

128. Which of the following is not a necessary characteristic to qualify as an MNC?
a. It should have affiliates or subsidiaries in foreign countries
b. It should have operations in a number of countries around the globe
c. It should have a minimum turnover of $100 million
d. Its employees, stockholders and managers should be from different countries

129. MNCs are usually _____________ corporations
   a. Oligopolistic
   b. Perfectly competitive
   c. Monopolistic
   d. Monopoly

130. Which of the following theories states that the degree of autonomy varies with the degree of internationalization of the company?
   a. Theory of negotiated autonomy
   b. Theory of functional autonomy
   c. Theory of variable autonomy
   d. Theory of unlimited autonomy

131. According to the theory of limited autonomy, the degree of autonomy of an MNC depends on _____.
   a. The number of countries it operates in
   b. The nature of its business
   c. Its approach to globalization
   d. Its turnover

132. The theory of negotiated autonomy states that the degree of autonomy of a subsidiary depends on ___________.
   a. Its ability to negotiate with headquarters
   b. Its ability to negotiate with the host country's government
   c. Its ability to negotiate with other multinational companies
   d. Its ability to negotiate with the distributors in the host country

133. Which of the following theorems does not help us understand and predict short-term and long-term exchange rate fluctuations?
   a. The interest rate parity theorem
   b. The Modigliani and Miller theorem
   c. The purchasing power parity theorem
   d. The international Fischer effect theorem

134. Producing goods in a foreign subsidiary and importing them into the home country results in _________.
   a. An adverse BoP position
   b. A positive BoP position
   c. An increase in the cost of manufacturing
   d. A decrease in the tax revenues of the host country

135. Which of the following instances indicates successful change management?
   a. Sears' top managers expecting that successive generations of rural Americans would find its catalog the best way to fulfill their needs
   b. GM's expectation that with rising incomes, young customers would continue to buy its products as their parents did
   c. IBM expecting its revenues to increase continuously as big companies added more "mips" to their central data-processing departments
   d. Japanese managers ignoring quality as the first priority in the 1990s

136. What necessitates transformation in an organization?
   a. Need for downsizing
   b. Process redesign, and portfolio rationalization
   c. Difference between the pace of change in the industry and in the organization
   d. Industry leadership or preparedness for the future

137. Companies often concentrate on resources rather than resourcefulness, but they should do the opposite. Why do you think companies should concentrate on resourcefulness and not resources?

a. Resourcefulness stems from a deeply felt sense of purpose, a broadly shared dream, and a truly inspiring view of the future.
b. Financial strength is unimportant in the long term future of the organization
c. Resourcefulness is sustainable in the future
d. Resourcefulness rather than resources places companies in a position of strength with regard to future challenges.

Key

1.c	2.d	3.a	4.a	5.c	6.b	7.c	8.d	9.a	10.c
11.a	12.b	13.b	14.a	15.b	16.a	17.b	18.c	19.c	20.a
21.a	22.d	23.a	24.a	25.b	26.c	27.a	28.b	29.b	30.b
31.d	32.c	33.d	34.a	35.c	36.b	37.b	38.d	39.d	40.a
41.c	42.c	43.c	44.a	45.b	46.b	47.a	48.c	49.c	50.c
51.d	52.b	53.c	54.a	55.a	56.d	57.a	58.c	59.b	60.a
61.b	62.c	63.d	64.b	65.b	66.a	67.c	68.a	69.d	70.b
71.d	72.a	73.a	74.b	75.d	76.b	77.b	78.c	79.a	80.a
81.d	82.c	83.b	84.a	85.d	86.a	87.a	88.a	89.c	90.b
91.b	92.c	93.a	94.b	95.b	96.b	97.b	98.a	99.b	100.d
101.a	102.d	103.c	104.a	105.d	106.a	107.c	108.b	109.d	110.a
111.d	112.c	113.a	114.c	115.a	116.a	117.d	118.c	119.d	120.a
121.d	122.b	123.d	124.b	125.c	126.a	127.c	128.c	129.a	130.c
131.c	132.a	133.b	134.a	135.d	136.c	137.d			

Part B: Caselets (Suggested Answers)

Every caselet will have more than one possible solution. The guidelines are intended to help students develop their abilities to analyze business situations and develop feasible solutions.

Part B: Caselets

Caselet 1

In 2002, Luxor Writing Instruments Private Limited (LWIPL) was the market leader in the premium pens[1] segment in India, with a market share of 60%. The company held a 10% share in the writing instruments industry, next only to the market leader, Reynolds that held 12%. LWIPL had been in the pen industry for nearly four decades. The company adopted innovative marketing strategies that had made it one of the most popular pen manufacturers in India.

LWIPL had launched its first brand in 1963 – the 'Artist' fountain pen. However, owing to its small scale of operations during that time, the pens were made available only in Delhi and surrounding areas. During the late 1960's, the Artist brand was renamed as 'Luxor.' In 1982, LWIPL launched Pilot 05 microtip pens with needle point[2] technology. Priced at Rs.10, this was the first model of Pilot pens to be officially launched in India. The pens were manufactured at the Delhi plant of LWIPL. Though Pilot pens were available in India prior to the launch, they were available only in the grey market.

LWIPL invested heavily to upgrade its technology to manufacture microtip pens. These pens were launched with the intention of bridging the gap between ball point and fountain pens. This turned out to be a unique selling proposition for Pilot pens and they were quite successful as they were considered to be an ideal substitute for fountain pens. However, the Pilot pens launched initially were not refillable. Due to the price conscious nature of middle class people in India, the concept of disposable pens was not cherished for long. This prompted the company to launch a new, refillable variant of these pens. Within four years of launch, the annual sales of Pilot pens had increased ten fold to one million pens.

Buoyed by the success of Pilot pens, in 1990, LWIPL decided to launch another product under the 'Pilot' brand name, Luxor 0.5 mm Pilot V5. Priced at Rs.45. each, these pens were targeted at the middle and senior level executives. The attractive design of the pen and the superior technology (it had a liquid ink feeder[3] system) used, contributed to the success of the brand. By 1995, the annual sales of Pilot pens had crossed 10 million. LWIPL decided to go for further brand extension in 1997, and launched the Pilot V7 which wrote bolder compared to V5.

LWIPL's pricing strategy was determined by factors such as the demand for products, their brand image and the nature of the target audience. When Pilot 05 was launched in 1982, it was priced at Rs.10, and it was considered to be expensive at that time. However, in 1990, eight years after its launch, when the demand for these pens reached its peak, Luxor sold them at Rs. 25 each. The price continued to remain the same till early 2003, indicating the stagnant nature of its demand. On the other hand, Pilot V5 was priced at Rs.45 at the time of its launch. These pens were priced high due to its superior technology and the brand image that Pilot pens enjoyed. However, after 12 years of launch, the price of these pens had to be reduced by Rs.5.

In 1996, LWIPL launched Parker pens in India. Parker pens were primarily targeted at the upper middle class consumers, senior level executives and bureaucrats. At the time of the launch, the prices ranged between Rs.90 to Rs.10,000. Priced at Rs.90, the "Vector" brand of pens was the cheapest in the range. Within four years, "Vector"

---

[1] Pens priced above Rs.50 as per the website, www.lincpens.com.

[2] The tip of the pen is very sharp and resembles a needle.

[3] It enabled the ink to be filled directly into the main body of the pen.

became the largest selling Parker brand in India. During the corresponding period, the price was increased to Rs. 140.

In 1999, LWIPL launched the 'Papermate' brand of pens in India. The brand strengthened the presence of LWIPL in the low priced pen segment. These pens were primarily targeted at the school and college students and were priced in the range of Rs 4 to Rs 13.

In 2000, LWIPL launched the Parker Beta range, with prices ranging between Rs.50 to Rs.75. Targeted at the youth, the company sold around one million pens within a couple of months of its launch. In 2002, Parker pens were available in three broad price categories. By that time, the Parker range of pens had emerged as the largest selling brand in the LWIPL pens portfolio, contributing 40% of its revenues.

LWIPL also launched a series of innovative products in order to mark certain occasions. In January 2000, the company launched the "Millennium series" of Parker Vector roller pens. These pens had the world map inscribed on them and their unique design enabled people to determine the time difference between countries. Priced at Rs.250 each, these pens became very popular. In November 2001, LWIPL launched 'Special Moment', a gift pack consisting of Parker Vector and Parker Beta pens, which had the signature of the brand ambassador, Amitabh Bacchan inscripted on it. These pens were primarily targeted at pen collectors, who were fond of Parker pens. In February 2002, Parker launched the 'Black and White' range of Parker Vector ball pens which were priced at Rs.145 each. In mid 2002, the company launched the 'Football Legends World Cup edition' of Parker Vector pens in order to cash in on the popularity that the event enjoyed. In December 2002, LWIPL launched the "Gajgamini" range of Parker Sonnet fountain pens. The limited edition of pens (only 500 pens were released) was named after the paintings created by noted artist MF Hussain[4] and also had his signature inscripted on them. LWIPL priced these pens at Rs.5000 each.

Questions for Discussion:

1. LWIPL owes its success to its marketing strategies, which it adopted. Critically examine the various elements of company's marketing strategy and evaluate the competitive advantage they conferred on the company.
2. Market segmentation is an indispensable step to succeed in the competitive marketplace. LWIPL seemed to have mastered this aspect of business. Explain how the company segmented its customers and benefited from the market segmentation.

Caselet 2

In 1998, under the leadership of new CEO Thomas Ryder, Readers Digest Association (RDA) announced a re-engineering strategy, to increase profitability and create long-term growth opportunities by building on its core strengths. As a part of this, RDA decided to revitalize RD's franchises, focus on health, home, faith, family and finance (areas of high interest to consumers), focus on new marketing channels apart from sweepstakes and direct mail, and continue geographic expansion. Following this, RDA focused on efforts towards leveraging the RD brand, building editorial expertise and direct-marketing skills, and attaining a large customer database and global reach.

Ryder announced a three-phase plan – management restructuring, cutting costs and finding new revenue growth to achieve these objectives. By the mid-2000s, Ryder had successfully put in place all these plans by employing new staff (mainly editorial staff), cut costs through exiting the video business and by acquiring new businesses such as Books Are Fun, which offered display marketing for books and gifts for other

[4] He is an Indian artist famous across the world for his paintings.

organizations or schools. In early 2000s, RDA focused on reinvigorating RD following which it put in place many strategies.

Unlike the earlier years, when RDA focused only on direct mailing campaigns that mostly included sweepstakes, the company now began focussing on other marketing channels such as newspapers, catalogs, direct response television (DRTV) and the Internet. The company decided to reduce its focus on sweepstakes[5] because of increased regulations on sweepstakes in 1999 (in the US) and the cases filed against the company in few parts of the US, in 2000, on grounds that the company was using misleading statements in its sweepstake offerings.

To address the issue of finding new avenues for revenue growth, RDA decided to increase the number of advertisements featured in RD. This was also necessitated by the fact that there had been a drastic reduction in sweepstakes related subscriptions. The anthrax threat severely affected the direct mail market in the US, and hence, RD's subscription as well. Thus, RDA seemed to have had little choice but to focus more on increasing revenues through more advertisements.

Drastic changes were made on the editorial front as well. It had been a general practice of the company to elevate RD's top editors from within the magazine. (This was based on the premise that those editors understood the fundamental values on which RD was built). In January 2000, this practice was broken, when Ryder appointed Eric Schier (Schier), from Time magazine's health publication division, as Editor-in-Chief of RDA.

Under its magazine re-engineering plans, the look and content of the magazine was changed in a major way for the first time. The age old tradition of RD to honor ordinary people on their achievements by featuring their picture on the cover page was dropped in early-2001. From March 2001, RD featured the pictures of most popular/beautiful faces in the world such as Muhammad Ali, Tom Hanks and Princess Diana, to make the cover page attractive. RDA also used the Internet to extend the reach of its existing businesses across the world. In 2002, it had 40 Websites reaching to millions of customers across the world. RDA promoted and marketed its products through its websites.

On the content front, RDA reduced the number of hard-news stories and focused more on mini-articles that did not take much time to read or much thought to process. As a part of its content redesigning, while features such as 'Mugged by the Law' were dropped, others such as 'That's Outrageous,' (dealing with bureaucratic abuse and cultural rot) were given lesser space.

In July 2002, RDA brought some more changes in the design of the magazine, in order to broaden its target audience base, appealing to younger generations, as against its average customer age group of mid-50s. It changed the quality of its paper (cleaner paper) in July 2002, to improve its visuals. The issues (content) covered in the magazine also were changed as they focused less on first-person tales and nostalgia trips while primarily focusing on offering mini-articles that took little time to read.

[5] During the late 1990s, companies in US and other parts of the world were accused of fraudulent and misleading sweepstake promotional techniques. This was due to presentation of sweepstake offers in a manner so as to make readers believe that the purchase of specific products would increase their chance of winning the sweepstake prize. To put an end to this, the US Government approved 'The Deceptive Mail Prevention and Enforcement Act of 1999' in mid 1999. This Act required companies utilizing sweepstakes to provide adequate disclosure and state in clear terms that the purchase of items listed or advertised would not increase the customer's chances of winning. Amidst growing criticism across the world, many companies were forced to focus on alternative methods of promotions.

The magazine was made colorful, featuring more advertisements and pictures, to attract young subscribers.

According to some RD readers, all the new changes were making the magazine lose the distinct identity it had painstakingly created over many decades. According to them, in doing so, RD was becoming indistinguishable from the swarm of other publications (featuring Hollywood stars, new diet recipes for women), which offered nothing of enduring value to their readers. The quality of content had reportedly come down so much that it was instantly forgettable. Readers even criticized the increased number of advertisements. A former RD subscriber said, "Reading of current RD magazine may cause you to want to turn on your TV to view advertisements instead."

In spite of this, the company proceeded with another plan that attracted criticism from many quarters – this was the decision to acquire Reiman Publications LLC (Reiman) in January 2002. Reiman was engaged in publishing cooking, gardening, lifestyle and nostalgia books and magazines. Commenting on this, Ryder said, "It will help us distribute our products to new customers, through new marketing channels, while providing an alternate platform for new-product development. The acquisition also will advance our effort to further reduce our dependence on sweepstakes promotions."

Questions for Discussion:

1. Critically evaluate the restructuring strategies put in place by RDA during the late-1990s to regain its lost profitability. Did RDA succeed in its attempts? Give reasons.
2. Discuss the future of Reader's Digest in the light of dissatisfaction of its readers and the acquisition of Reiman Publications. What according to you should the company do to regain its profitability and subscriber base?

Caselet 3

Multi Level Marketing (MLM) was the fastest growing sector of the direct selling industry worldwide. In 1988, the total revenue generated by MLM was $ 12 billion, which doubled to $ 24 billion by 1998. The direct-marketing industry in India was about Rs. 6 billion in 1999. This was a growth of 62% over the previous year.

In the pre-liberalization era, network marketing in India was usually in the form of various chit fund companies like Sahara India. These had a system of agents, who simultaneously mobilized deposits and appointed sub-agents for further deposit mobilization. Companies such as Eureka Forbes and Cease-Fire pioneered the direct selling system in the country with a sales force that was trained to make direct house-to-house sales.

Oriflame International was the first international major to begin network marketing operations in India in 1995. This was followed by the entry of Avon India in late 1996. Tupperware, with a product portfolio comprising plastic food storage and serving containers, also entered India in 1996.

The direct selling industry in India was in its initial stages even in early 2001. Besides Amway, Oriflame Avon and Tupperware, other players included Lotus Learning, LB Publishers and DK Learning, all selling books. Privately held by the DeVos and Van Andel families of US, Amway, short for American Way, was set up in 1959. Amway and its publicly traded sister companies supported 53 affiliate operations worldwide. About 70% of Amway's sales were outside North America. With over 12,000 employees around the world, Amway was renowned for its strong R&D centre in Michigan, which had 24 laboratories. Amway was present in over 80 countries and its manufacturing plants were located in US, Hungary, Korea, China and India. The company had over 3 million distributors across the world. Besides its direct selling portfolio of 450 products, Amway promoted around 3,000 products through catalogue sales[6] as well.

Amway had received permission from the Foreign Investment Promotion Board (FIPB) in 1994, to invest $15 million in the Indian operations and to source products from India. The company began with identifying small and medium-scale companies to source its products from. Commercial operations began in May 1998 with a partnership arrangement with Network 21, a company, which acted as a support system and assisted in organizing training, seminars and meetings. Besides its extensive internal research efforts before entering India, Amway also conducted market research through agencies such as Pathfinders and ORG-MARG. Though prior to its entry into India, Amway did recognize the need for a special India-specific pricing strategy and eventually there were just a few marginal cuts in the prices, which were still almost 20% higher than those of the competing FMCG products. The company began with appointing distributors in the country by adopting the 'NRI sponsored' by getting NRIs to rope in their friends/relatives in India into Amway distributorship. These distributors were duly provided with starter business kits containing products, training material, and sales literature.

Amway's domestic operations fell into five areas - personal care, homecare, nutrition, cosmetics and home tech. The company introduced India-specific products, in pursuance of its go 'glocal' philosophy. Also, for the first time in its history, Amway utilized media advertising to promote its products.

In the beginning, Amway had to deal with the negative attitude of many Indians to direct selling. Direct selling was typically seen as unwelcome, an intrusion into one's privacy. This was true to a certain extent. Sales people often used a 'hardsell', the product quality was sometimes poor and most importantly, the salespeople were poorly trained and lacking in motivation. However, Amway changed all this radically and a significant change was brought in the field.

Amway was able to break the time tested and traditional distribution set-up of manufacturer-distributor-retailer-consumer. Within 11 months, Amway became the country's largest direct selling company and after two years of the commercial launch, Amway's distributor base crossed the 200,000 mark. In 1999, Amway reported a sales figure of Rs. 100 crore.

However, the problems like distributor attrition, a false 'premium' image and customer dissatisfaction soon began surfacing. Amway could not sit back and let competitors like Oriflame, Avon and Modicare take advantage of its weaknesses. Amway soon woke up to the reality that it had to take steps to put its MLM machinery back to the track. For this, it had to first identify where it had gone wrong. Amway realized that like most direct marketing networks, it had hoped to leverage the global promise of the lucrative business opportunity for its distributors. Though this made sense in the developed consumer markets of the West, in India, distributors also needed to know the value of the products they were selling, this aspect was overlooked by the company.

One of the first 'corrective' measures it took was putting stickers on its products, which clearly indicated the number of usages very clearly. For instance, it introduced stickers on the packs of its car-wash solution to emphasize the number of washes that a consumer could get per bottle. The idea was to firmly establish the fact of Amway's products being highly concentrated and with very low per usage cost. This practice was later expanded to other products as well.

[6] A sales catalog refers to a list of products/services provided by companies. These are sent to selected addresses. The consumers then place the orders based on the information provided in the catalog. The global catalog sales market stood at $ 87 billion in 1998.

Amway realized that a complicated market such as India needed a focused approach for each of the product categories. To strengthen its product focus, Amway set up strategic business units. Thus, though Amway had centralized marketing of all products worldwide, its Indian arm appointed category managers for individual product categories.

Amway also decided to focus on the market in the smaller towns. Quick expansion of the distribution network to smaller towns was identified as a major tool to offset the impact of attrition. The gameplan was to reach consumer homes all over directly by making the current distribution system more effective and decentralized. In early 1999, Amway realized that servicing distributors in 160 cities through its 13 locations was curbing growth due to unavailability of critical infrastructure like networked banks, toll-free phones and multi-service courier companies. The cost of making long-distance calls, the courier companies' refusal to accept cash and the time taken to deliver products were the three major hurdles that Amway faced. The typical direct selling system comprised a central warehouse located close to the manufacturing locations, which sent the products to regional hubs like the metros and then on to the branch offices. As opposed to the traditional FMCG delivery setup, where the distributors or retailers carried inventory, here it was taken care of by the company warehouses and their region-specific distribution centers. Long distance calls and courier companies took care of distribution in cities where the company had no presence. However, with these facilities not being up to the mark, Amway decided that it had to effectively handle these issues and rapidly expand its offices in order to capture the growing direct selling clientele in the country.

The company also decided to give incentives to cost and freight agents (C&FAs) who could deliver parcels in the same city within 48 hours outside, in about 72 hours.

Amway then planned to tap unemployed youth in smaller towns by subsidizing the entry fee for the starters' sales kit. Amway also offered to finance the sales kits through interest-free loans. It even gave free kits to visually impaired youth in Rajasthan. But media reports were skeptical about Amway's strategy to use localized strategies for its global products.

In a bid to make its products more affordable, Amway introduced value-for-money 'chhota (small) packs' in December 1999. The sachets significantly boosted sales. Sachets had two advantages – they helped Amway shake-off the 'super-premium-products-only' tag, and with their lower prices invited consumers from lower income levels to try the products. This was expected to promote brand penetration.

The most significant of Amway's Indian initiatives were its 'Indianisation' efforts. The company started printing Hindi slogan 'Hamara apna business' (our own business) on its stationery. The company's first product line, Persona, was created specially for the Indian consumers. Amway even named its expansion drives as 'Operation Gaadi' and 'Operation Ghar.' Operation Gaadi was launched in east-Uttar Pradesh where a store was mounted on a truck and made trips to different regions on different days. The project was later extended to West Bengal as well. Operation Ghar was primarily designed to provide better service to the customers as well as to its large family of distributors. Involving an outlay of Rs 15 crore in its Phase I, Operation Ghar eventually covered 19 state capitals. Operation Ghar was designed to provide five Es - ease of ordering, ease of paying, ease of receiving, ease of returning and ease of information/operations. Amway also utilized the Internet and electronic kiosks to hook up with its distributors and give them information.

By 2004, Amway planned to become a Rs 1000 crore company with a physical presence in 198 centers across India. As part of its plans to tap unexplored markets, Amway announced an ambitious expansion of its distribution infrastructure in Andhra Pradesh, which included setting up a warehouse. Once the marketing business in urban areas was strengthened, Amway planned to turn its attention to untapped rural areas as well.

Questions for Discussion:

1. Comment on the concept of network or multilevel marketing. Do you think the model would be successful in India? Also, compare and contrast the MLM model with the traditional distribution system, bringing out the merits and demerits of both.
2. Critically examine the corrective measures adopted by Amway to make the MLM model a success. What further measures can the company take in order to tackle the competition from FMCG majors like HLL and P&G?

Caselet 4

CavinKare's Fairever fairness cream, with the USP of 'a fairness cream with saffron' acquired a 15% share, and F&L's share fell from 93% (in 1998) to 76%. Within a year of its launch, Godrej's FairGlow cream became the third largest fairness cream brand, with a 4% share in the Rs. 6 billion fairness cream market in India. The other players, including J.L. Morrison's Nivea Visage fairness cream and Emami Group's Emami Naturally Fair cream, had the remaining 5% share. During 2000-01, with major players entering the market, the existing products were promoted with renewed vigor through price reductions, extra volumes, etc. Many products were marketed aggressively. While Fair & Lovely (F&L) advertisements projected fairness comparable to the moon's silvery glow, FairGlow offered the added benefit of a blemish-free complexion.

Fairever, which sold at a higher price, did not initiate any promotional activities. B. Nandakumar, President (Marketing) CavinKare, explained, "We will not tailor our product to the competition. We'll do so for the consumer. Freebies are not the only way to garner sales." However, analysts believed that CavinKare did not undertake any promotional activities due to lack of financial muscle. CavinKare's Fairever was available only in tubes of 25gm and 50gm, and was also priced higher than its competitor's products. A 25gm Fairever tube was priced at Rs.26 while F&L was priced at Rs.25.

However, Godrej Soaps announced the 'Godrej FairGlow Friendship Funda' in various colleges in Maharashtra. In August 2000, it launched the 'FairGlow Express,' the first branded local train in India, in Mumbai, in partnership with Western Railways. In December 2000, Godrej took its FairGlow brand to the web by launching www.fairglow.com. Later, it launched a unique online promotional scheme – 'the FairGlow Face of the Fortnight.' Every fortnight, one winner was selected and showcased on the website. The winner also won prizes like perfume hampers, gold and pearl jewellery, holiday for two etc. In early 2001, Godrej Soaps also launched its FairGlow cream in an affordable sachet (pouch pack). The 9gm sachet was priced at Rs. 5, and claimed to give around 15-20 applications per pack. It was initially launched in South India, and was expected to enter other markets very soon.

In early 2001, three major players – HLL, CavinKare and Godrej – competed fiercely to penetrate the market further with their attractive schemes. A growing number of pharma and OTC drug companies like Emami, Ayurvedic Concepts, Paras etc. also entered this segment. Companies were also facing competition from Amway, Avon, Modicare etc., which were into direct selling. The market was seeing a major convergence of product categories with the emergence of more and more variants to fill every conceivable niche.

This heightened competition forced companies to increase their advertisement spends. HLL re-launched F&L and quadrupled its advertising expenditure. CavinKare more than doubled its ad spends from Rs.215 million in 1999 to Rs.500 million in 2001. Godrej and Emami too planned to raise their ad spends. But even as ad spends increased, fakes entered the market. Fair & Lovely's fakes were rampant with names like Pure & Lovely and Fare & Lovely. Fairever's copies were Four Ever, For Ever or Fare Ever.

In early 2001, HLL launched Nutririch Fair & Lovely (F&L) Fairness Reviving Lotion to protect its brand from any threat in the premium segment. The new product was claimed to be scientifically formulated to protect the skin from harmful ultraviolet rays and enhance natural fairness. The new formula, containing Triple UV Guard Sun protection system and the fairness ingredients Vitamin B3 and milk proteins, promised to restore and protect the natural skin colours from the sun's darkening effects. The product was also claimed to contain Niacinamide making it the only patented formula fairness cream. It was targeted at women in the age group of 18-35 and was priced at a premium. A 50ml pack was priced at Rs.38 and a 100ml pack at Rs.68. HLL also launched 'Pears Naturals Fairness cream' at the same time.

By mid 2001, the fairness concept was no longer restricted to creams and soaps, but had expanded to talcs also. Emami was test marketing a herbal fairness talc in the South. The rapid expansion of the fairness business had two consequences: cutthroat competition and a flurry of copycats. Every company - from the market leader to the new entrants – was forced to rethink its marketing strategies, spend lavishly on advertisements, and even seek legal action against unfair claims.

In 2001, the organised market of branded fairness cream products was worth about Rs 6 billion. The unbranded and fakes market was estimated to be Rs 1.5 billion. The market was big and the potential was even bigger. In India, beauty seemed to be associated with fairness more than with anything else. With such an attitude firmly entrenched in the minds of millions of people, the fairness products market would see fair days ahead.

Questions for Discussion:

1. Though CavinKare's Fairever was an instant success, its market share stagnated after two years of its launch. How can CavinKare design its functional strategies related to marketing to increase its market share?
2. The competition in fair cream market is fierce. Companies like Godrej Soaps announced the 'Godrej FairGlow Friendship Funda,' launched the 'FairGlow Express,' and www.fairglow.com. A growing number of pharma and OTC drug companies like Emami, Ayurvedic Concepts, Paras etc. also entered this segment. What marketing strategies did HLL adopt to stop its declining share?

Caselet 5

The history of Jollibee dates back to 1975, when a Filipino entrepreneur Tony Tan Caktiong (Tony) set up a two-outlet ice cream parlor business in the city of Manila. His father used to operate a kitchen in Fujian (China), which was where Tony's association with the food services business began. Though the ice cream parlor business was doing well, Tony wanted to do something bigger in the foods business – in the form of a fast-food outlet chain. His vision was inspired by the global popularity of companies like McDonald's (which incidentally, was planning to enter the Philippines during that time), Wendy's and Burger King (these two already had a presence in the Philippines).

By establishing Jollibee in 1978, Tony pre-empted McDonald's entry into the country. Tony was aware that Jollibee could not compete with McDonald's which had financial muscle and decades of expertise in the business. Therefore, he decided to differentiate his company by making it a 'symbol of Filipino pride.' Thus, while Jollibee hired US consultants for assistance on the franchising and retailing fronts, it took decisions regarding the products on its own. All the food products were prepared keeping in mind the tastes and flavors prevalent in the country. Since Filipinos liked eating out in groups and ordered different dishes, the menu was quite exhaustive (as compared to the limited menu offered by US fast-food outlets). This strategy worked well and from the very beginning, Jollibee became a huge hit with the customers.

The foreign fast-food outlets, meanwhile, did not localize their offerings to cater to Filipino tastes. Moreover, their prices were 5 to 10 percent higher than Jollibee's. As a result, by 1985, Jollibee became the undisputed leader in the fast-food industry in the Philippines. Jollibee's practice of greeting customers in the traditional Filipino way (Magandang Umaga Po,[7] Welcome to Jollibee) soon became the industry norm. Even MNC fast-food companies had to decide in favor of greeting customers in this manner.

According to an article in Advertising Age International, the failed military coup in the Philippines (1989-90) prompted McDonald's and other foreign companies to leave the country temporarily. During this period, Jollibee firmly entrenched itself in the market and opened its 100th outlet in 1991. To fund the company's expansion plans, Tony decided to take Jollibee public; the initial public offering took place in 1993. Around 70% of the stake in the company was retained by Tony and his family. In 1994, Jollibee acquired a leading pizza and pasta outlet chain, Greenwich Pizza Corporation, to fulfill its ambition of becoming a dominant player in the food service industry.

Continuing its 'growth through acquisitions' model, Jollibee acquired the franchise of Delifrance, a worldwide leader in the French bakery products business, in 1995. In 1997, the President of the Philippines, Fidel Ramos, opened the company's 200th outlet. Jollibee recorded $ 3.59 billion in revenues for 1997 and a net income of $ 312.9 million.

The Asian financial crisis of 1997 led to a decline in the spending power of the average Filipino and hence a decline in the spending power of Jollibee's customer base. The company dealt with the problem by reducing prices substantially. By renegotiating with suppliers for lower prices and baking its own bread, it achieved significant cost advantages. By promoting its 'Value Meals,' which enabled Filipinos to spend less than what they would have eating at a street side hawker's stall, the company actually turned a crisis into an advantage.

In 2000, the company bought Chowking, a successful Chinese fast-food chain. Chowking, established in 1985, had pioneered the concept of the Oriental quick-service restaurant. Prior to its takeover by Jollibee, it had established its franchise network all over the Philippines, US and Dubai. Tony, one of the main shareholders of Chowking, bought the stake of Chowking's holding company, Antares. As a result, Chowking's 162 stores came under Jollibee's control.

Along the lines of McDonald's Quality, Service, Cleanliness and Value (QSCV) model, Jollibee made its own model to highlight its adherence to strict quality standards. Named FSC, the company's website expanded it as "Every Food (F) item served to the public must meet the company's excellent standards or it will not be served at all; the Service (S) must be fast and courteous; and Cleanliness (C), from sidewalk to kitchen, from uniforms to utensils, must be maintained at all times."

Jollibee's decision to expand globally seemed to have been necessitated partly by the economic recession plaguing South East Asian countries in the late 1990s. While McDonald's decided to 'slow down' within the Philippines, Jollibee seemed to have adopted a dual approach – continue expanding internally in a limited way while exploring the option of tapping new countries.

[7] A respectful way of saying 'Good Morning' in the Filipino language.

Jollibee identified the countries it wanted to enter after a lot of careful strategic thinking. The company decided to expand into those countries first where Filipino nationals were working in large numbers. Thus, Jollibee initially expanded into Indonesia, Hong Kong and Brunei, where a lot of Filipinos were working, forming a ready customer base for the company's products. Even the first outlet in the US was opened in Daly City, California, where 25% of the population was of Filipino descent.

The first US outlet became an instant hit. While the US market offered benefits such as lower rent, it also posed challenges such as tighter labor rules and a complex regulatory setup. It took Jollibee a lot of time to adapt its systems for US market use. Because of all these reasons, Jollibee had to scale down its expansion plans for the US. Manolo Tingzon (Tingzon), GM (International Division), said that not partnering with any US company seemed to have been a major mistake. He said, "Definitely, there would have been a lot of advantages if we had partnered with an American company that was familiar with US operations, from the front to the back of the house. It would have helped to know how to deal with the external parties, like cities and counties."

Questions for Discussion:

1. Analyze Jollibee's growth since its inception and comment on the strategies followed by the company to establish itself firmly in the fast-food industry in the Philippines
2. Critically comment on Jollibee's globalization strategies. Why did the company opt for globalization? Did the company make a mistake by not tying up with an experienced US partner?

Caselet 6

Cisco sources revealed that the company had a policy of attracting the 'top 10-15%' people in the networking industry. It believed that if it could get the best people in the industry and retain them, it would remain the industry leader. According to Cisco's vision statement, "Attracting, growing and retaining great talent is critical to sustaining Cisco's competitive advantage." Thus, effective recruitment was used as a powerful strategic weapon by the company. The company began to use revolutionary techniques like the 'build-the-buzz' strategy, which was centered on the primary market for its products, i.e. the Internet.

Cisco's recruiting team identified the candidates whom they felt the company 'should hire,' and then figured out the way those potential candidates did their job hunting and designed hiring processes to attract them to the company. Cisco recruiters targeted even passive job seekers – people who were happy and successful in their current jobs. Barbara Beck (Beck), Vice President, Human Resources said, "The top 10% are not typically found in the first round of layoffs from other companies, and they usually aren't cruising through the want ads." Since the most sought after employees were not accessible, Cisco devised a strategy to lure them.

As part of its strategy to attract the best talent, Cisco changed the way it used "wanted" advertisements in newspapers. Instead of listing specific job openings, the company featured its Internet address in its ads and invited prospective candidates to apply. This move helped Cisco to direct all job seekers to its website where it could inexpensively post hundreds of openings and provide information regarding them. It also advertised its website in cyberspace to reach candidates who surfed the net from around the world. The company was thus able to monitor and measure its recruiting programs through the number of visits to its site. Since most people visited Cisco's website from their jobs, the company could identify their place of work.

Cisco worked towards removing some of the frustration associated with applying for jobs. The company learned to attract happily employed people through focus groups. The focus group's exercise made Cisco realize that a candidate would approach the company if he had been informed by a friend about better opportunities at Cisco. This led to the launch of the friends program in April 1996. Cisco also reached out to potential applicants through a variety of routes, which were unusual in recruiting. It began frequenting art fairs, beer festivals and certain annual events in which people from Silicon Valley participated. These places proved to be very 'fruitful hunting venues' as they attracted young achievers from various successful infotech companies. Cisco recruiters mingled with the crowd, collected business cards from prospective candidates and spoke to them informally about their careers.

Cisco advertised the friends program in movie theaters in San Jose and received around 100 to 150 applications each week. By 1997, about one third of new recruitments were made through the Friends program. Cisco launched a tool called Profiler on the employment page of its website to accelerate and standardize online resume submission. The Profiler asked applicants to provide educational and employment information through appropriate selections from pull-down menus. The Profiler also asked a few questions regarding the applicant's background. (Peak usage of Cisco's employment page was between 10 am and 3 pm). To avoid applicants from being caught by their current employers while using Profiler, Cisco designed each screen with an escape button that opened webpage about gift suggestions for co-workers.

Cisco also found that applicants and recruiters were not totally comfortable with the time-consuming recruiting process. To speed up the hiring process, Cisco hired in-house headhunters to identify qualified candidates for managers.

Cisco also encouraged internal referrals for recruitment through a program called 'Amazing People.' This system allowed Cisco employees to refer their friends' acquaintances for positions within Cisco. The system kept track of referrals, resumes and related information and forwarded them to Cisco's recruiters and hiring managers around the world. Employees were given a bonus if the company hired the person they referred.

After streamlining its recruitment policies, Cisco conducted an employee survey to find out how the new recruits felt on their first day at work. This exercise stemmed from the company's belief that new employees typically treated the first day as 'the most important eight hours in the world.' The survey showed that some new recruits felt lost on their first day – their phones did not work, their computers had no software and if it did they had no idea how to use it. It was also found that most of the employees did not get their email addresses for two weeks. To address the above problems, Cisco launched Fast Start, an employee-orientation initiative. Cisco installed computer software, which tracked the hiring process and alerted the team about the new recruit's arrival. As a result, every new recruit started with a fully functional workspace and a whole day of training in desktop tools.

According to company sources, Fast Start not only eliminated all problems but it also enabled new recruits to know about 'life inside the company.' Every new recruit was assigned a 'buddy' who clarified all doubts and answered questions about Cisco and work in general. New recruits also had a two-day course called the 'Cisco Business Essentials,' which covered company's history, its networking market and business units. The managers of the new recruits received an automatically generated email two weeks after their new recruits' arrival. It reminded managers to review their departmental initiatives and personal goals. The above initiatives enabled the new recruits to get adjusted to the work environment fast.

Questions for Discussion:

1. 'The changing dynamics of the global infotech industry necessitated Cisco's decision to change its recruitment process.' Comment on the above statement highlighting the company's decision to adopt innovative recruitment methods.
2. The 'Friends,' 'Amazing People' and 'Profiler' initiatives were designed to integrate the Internet effectively with Cisco's recruitment philosophy to attract the best talent in the industry. Analyze the various recruitment strategies adopted by Cisco.

Caselet 7

The SBI was the largest bank in India in terms of network of branches, revenues and workforce. It offered a wide range of services for both personal and corporate banking. The personal banking services included credit cards, housing loans, consumer loans, and insurance. For corporate banking, SBI offered infrastructure finance, cash management and loan syndication[8].

Over the years, the bank became saddled with a large workforce and huge NPAs. According to reports, staff costs in 1999-2000 amounted to Rs. 4.5 billion as against Rs. 4.1 billion in 1998-99. Increased competition from the new private sector banks further added to SBI's problems. The new private sectors banks had effectively leveraged technology to make up for their size. Though SBI had 9,000 branches, a mere 22% of those (1935 branches) were connected through Internet. In contrast all of HDFC Bank's 61 branches were connected through internet. By 2000, SBI's net profit per employee was Rs. 0.43 million while HDFC's was Rs. 0.96 million, and SBI's NPA level was around 7.18% as against HDFC's 0.73%.

Analysts remarked that the very factors that were once hailed as the strengths of SBI - reach, customer base and experience - had become its problems. Technological tools like ATMs and the Internet had changed banking dynamics. A large portion of the back-office staff had become redundant after the computerization of banks. To protect its business and remain profitable, SBI realized that it would have to reduce its cost of operations and increase its revenues from fee-based services. The VRS implementation was a part of an over all cost cutting initiative.

The VRS package offered 60 days' salary for every year of service or the salary to be drawn by the employee for the remaining period of service, whichever was less. While 50% of the payment was to be paid immediately, the rest could be paid in cash or bonds. An employee could avail the pension or provident fund as per the option exercised by the employee. The package was offered to the permanent staff who had put in 15 years of service or were 40 years old as of March 31, 2000.

The response was the lowest amongst the lower cadres with only 3,137 (5.23%) applying for the VRS. The bank received a total of 35,380 applications (15.19% of total staff strength) by the time the scheme ended. Of this, the number of applications from officers stood at 19,295 - over 33% of the total officers in the bank. The response of VRS seekers was slightly lower among clerks as only 12,948 applications were received - 11.46% of the total number of clerks in the bank.

According to reports, SBI's total staff strength was expected to come down to around 2,00,000 by March 2001 from the pre-VRS level of 2,33,000. With an average of 5000 employees retiring each year, analysts regarded VRS as an unwise move. By June 2001, SBI had relieved over 21,000 employees through the VRS. It was reported that another 8,000 employees were to be relieved after they attained the retirement age

8 The process of involving numerous different lenders for providing various portions of a loan.

by the end of 2001. Analysts felt that this would lead to a tremendous increase in the workload on the existing workforce.

According to industry watchers, by 2010, the entire SBI staff recruited between mid 1960 and 1980 would retire. As a result, SBI would not have sufficient manpower to manage over 9000 of its branches. Another major hurdle was the Government's proposal to scrap the Banking Service Recruitment Board (BSRB) as the bank lacked expertise in recruitment procedures.

In the post-VRS scenario, SBI planned to merge 440 loss-making branches and announced to redeploy additional administrative manpower (resulting from the merger of loss-making branches) to frontline banking jobs. SBI also planned to reduce its regional offices from 10 to 1 or 2 in each circle. In August 2001, it was reported that a single officer had to take charge of 3 or 4 branches as the daily concurrent audit[9] got affected. Departments like internal audit, concurrent audit, monitoring, inspection of borrowals had hardly any staff, according to reports. It was reported that employees working in branches that had a high workload went on work-to-rule agitation, blaming the VRS for their problems.

Analysts felt that SBI would have to take serious steps to reorient its HRD policy to restore employee confidence and retain its talented personnel. SBI had many organizational strengths and an excellent training system, but due to weak HR policies, it had lost its experts to its competitors. The employees of almost all the new generation private sector banks were former employees of SBI. The bank's well-defined promotion policy was systematically flouted by the framers themselves and, as a result, employees with good track records were frequently sidelined. Many analysts felt that SBI was not able to realize the critical importance of recognizing inherent merit and rewarding the performers.

The above factors were cited as the major reasons for the success of VRS in the officer cadres, who were reported to be demoralized and de-motivated. The arbitrariness and insensitivity at the corporate level had dealt a severe blow to the employees of the organization. What remained to be seen was whether SBI would be able to reorganize its HRD policy and retain its talented personnel.

Questions for Discussion:

1. The outcome of the SBI VRS has highlighted the need for proper manpower planning and HRD policies in Indian public sector banks. Discuss the various steps to be taken by the SBI in the post VRS scenario?
2. The results of the SBI VRS were not in line with the management's expectations. Comment on the above statement and discuss the effects of the VRS on SBI.

Caselet 8

For Bata, labor had always posed major problems. Strikes seemed to be a perennial problem. Bata's chronically restive factory at Batanagar had always been plagued by labor strife. In 1992, the factory was closed for four and a half months. In 1995, Bata entered into a 3-year bipartite agreement with the workers, represented by the then 10,000 strong Bata Mazdoor Union (BMU), which also had the West Bengal government as a signatory.

It was in 1998, that the company for the first time signed another long-term bipartite agreement with the unions without any disruption of work. Apprehensive about labor problems spilling over to other units, the company entered into similar long-term agreements with the unions at its manufacturing units at Bangalore and Faridabad.

[9] Daily concurrent audit takes into account daily transactions of the branch.

On July 21, 1998, Weston, the managing director, was severely assaulted by four workers at the company's factory at Batanagar, while he was attending a business meet. The incident occurred after a member of BMU, Arup Dutta, met Weston to discuss the issue of the suspended employees. Dutta reportedly got into a verbal duel with Weston, upon which the other workers began to shout slogans. When Weston tried to leave the room the workers turned violent and assaulted him. This was the second attack on an officer after Weston took charge of the company, the first one being the assault on the chief welfare officer in 1996.

Soon after the incident, the management dismissed the three employees who were involved in the violence. The employees involved accepted their dismissal letters but subsequently provoked other workers to go in for a strike to protest the management's move. Workers at Batanagar went on a strike for two days following the incident. The issue was much wider than that of the dismissal of three employees on grounds of indiscipline. Stoppage of recruitment and continuous farming out of jobs had been causing widespread resentment among employees for a long time.

In 1999, the Bata management in a bid to further cut costs announced the phasing out of several welfare measures at its Batanagar Unit. Among the proposals was near total withdrawal of management subsidies, canteen facilities, township maintenance, electricity and health care schemes for the employees' families. Other measures were aimed at increasing productivity, reorganizing some departments and extending working days for some essential services.

On March 8, 2000, a lockout was declared at Bata's Peenya factory in Bangalore, following a strike by its employee union. The new leadership of the union had refused to abide by the wage agreement, which was to expire in August 2001. Following the failure of its negotiations with the union, the management decided to go for a lock out. Bata management was of the view that though it would have to bear the cost of maintaining an idle plant (Rs. 3 million), the effect of the closures on sales and production would be minimal as the footwear manufactured in the factory could be shifted to the company's other factories and associate manufacturers. The factory had 300 workers on its rolls and manufactured canvas and PVC footwear.

In July 2000, Bata lifted the lockout at the Peenya factory. However, some of the workers opposed the company's move to get an undertaking from the factory employees to resume work. The employees demanded revocation of suspension against 20 of their fellow employees. They also demanded that conditions such as maintaining normal production schedule, conforming to standing orders and the settlement in force should not be insisted upon.

In September 2000, Bata was again headed for a labour dispute when the BMU asked the West Bengal government to intervene in what it perceived to be a downsizing exercise being undertaken by the management. BMU justified this move by alleging that the management has increased outsourcing of products and also due to perceived declining importance of the Batanagar unit. The union said that Bata has started outsourcing the Power range of fully manufactured shoes from China, compared to the earlier outsourcing of only assembly and sewing line job. The company's production of Hawai chappals at the Batanagar unit too had come down by 58% from the weekly capacity of 0.144 million pairs. These steps had resulted in lower income for the workers forcing them to approach the government for saving their interests.

Questions for Discussion:

1. Maintaining good industrial relations have always been a problem for Bata. Why? How do you think Bata can maintain sound industrial relation practices?
2. In 1999, the Bata management in a bid to further cut costs announced phasing out several welfare schemes at its Batanagar unit. Do you think it right to phase out welfare schemes to cut costs? Give reasons for your answer?

Caselet 9

In 1999, IBM launched the pilot Basic Blue management training program, which was fully deployed in 2000. Basic Blue was an in-house management training program for new managers. It imparted 75 percent of the training online and the remaining 25 percent through the traditional classroom mode. The e-learning part included articles, simulations, job aids and short courses.

The founding principle of Basic Blue was that 'learning is an extended process, not a one-time event.' Basic Blue was based on a '4-Tier blended learning model'. The first three tiers were delivered online and the fourth tier included one-week long traditional classroom training. The program offered basic skills and knowledge to managers so that they can become effective leaders and people-oriented managers.

The managers were divided into groups of 24 members each. Each group then entered the first tier of the Basic Blue program (without interaction with the other members of the group – learning from information). The content for the first tier was delivered through IBM's Intranet. The first tier trained them on the fundamental skills required to be an IBM manager and offered 'just-in-time' performance support. In this tier, the managers were provided access to a lot of information including a database of questions, answers and sample scenarios called Manager QuickViews. This information addressed the issues like evaluation, retention, conflict resolution etc., which managers came across. A manager who faced a problem could either access the relevant topic directly, or find the relevant information using a search engine. He/she had direct access to materials on the computer's desktop for online reading. The material also highlighted other important web sites to be browsed for further information. IBM believed that its managers should be aware of practices and policies followed in different countries. Hence, the groups were formed virtually by videoconferencing with team members from all over the world.

In the second tier, the managers were provided with simulated situations. Senior managers trained the managers online. The simulations enabled the managers to learn about employee skill-building, compensation and benefits, multicultural issues, work/life balance issues and business conduct in an interactive manner. Some of the content for this tier was offered by Harvard Business School and the simulations were created by Cognitive Arts of Chicago. The online Coaching Simulator offered eight scenarios with 5000 scenes of action, decision points and branching results. IBM Management Development's web site, Going Global offered as many as 300 interactive scenarios on culture clashes.

In the third tier, the members of the group started interacting with each other online. This tier used IBM's collaboration tools such as chats, and team rooms including IBM e-learning products like the TeamRoom, CustomerRoom and Lotus Learning Space. Using these tools, employees could interact online with the instructors as well as with peers in their groups. This tier also used virtual team exercises and included advanced technologies like application sharing, live virtual classrooms and interactive presentations on the web. In this tier, the members of the group had to solve problems as a team by forming virtual groups, using these products. Hence, this tier focused more on developing the collaborative skills of the learners.

Though training through e-learning was very successful, IBM believed that classroom training was also essential to develop people skills. Therefore, the fourth tier comprised a classroom training program known as 'Learning Lab.' By the time the managers reached this tier, they all reached a similar level of knowledge by mastering the content in the first three tiers. Managers had to pass an online test on the content provided in the above three tiers, before entering the fourth tier. In the fourth tier, the managers had to master the information acquired in the above three tiers and develop a deeper understanding and a broader skills set. There were no lectures in these sessions, and the managers had to learn by doing and by coordinating directly with others in the classroom.

The tremendous success of the Basic Blue initiative encouraged IBM to extend training through e-learning to its sales personnel and experienced managers as well. The e-learning program for the sales personnel was known as 'Sales Compass,' and the one for the experienced managers, as 'Managing@ IBM.' By implementing these programs, IBM was able to reduce its training budget as well as improve employee productivity significantly. In 2000, Basic Blue saved $16 million while Sales Compass saved $21 million. In 2001, IBM saved $200 million and its cost of training per-employee reduced significantly – from $400 to $135. E-learning also resulted in a deeper understanding of the learning content by the managers. It also enabled the managers to complete their classroom training modules in lesser time, as compared to the traditional training methods used earlier. The simulation modules and collaboration techniques created a richer learning environment. The e-learning projects also enabled the company to leverage corporate internal knowledge as most of the content they carried came from the internal content experts.

Questions for Discussion:

1. IBM implemented different e-learning programs for its new managers, based on their requirements. Explain in detail how IBM implemented Basic Blue e-learning programs to train managers.
2. IBM claimed to have saved millions of dollars by adopting online training methods. What, according to you are the benefits of training employees through e-learning? How do employers gain from it? Explain.

Caselet 10

Wipro decided to get People Capability Maturity Model (PCMM) certification after an internal HR meeting in 1996, where company officials discussed the possibility of becoming a 'HR No 1' company. In December 1996, Corporate, Executive VP, Human Resources, Dilip Ranjekar (Dilip), and Ranjan Acharya (Ranjan) VP – Corporate, Human Resources Development, went to the US to conduct an in-depth analysis on the best global HR practices. During the next three years, Wipro officials spent a substantial amount of time and resources to understand the practices followed by global companies. They studied HR policies of various companies such as AT&T, GE, Tandem and British Telecom for the purpose.

By 1999, Wipro developed a 'competency dictionary,' wherein it identified 24 competency areas spread across the five levels of PCMM. The behavioral issues for each level were identified and the procedures to address them were also clearly defined. In September 1999, Wipro took up a study to identify HR areas, where it was weak and conducted an initial gap analysis for level 2.[10] Around 137 employees including managers and process owners were covered in groups of 10 and 20 for this purpose. The management realized that the organization already had excellent processes in place even before PCMM. For instance, Wipro was one of the first companies in India to implement practices such as 360° feedback and employee training and development programs for upgradation of skills.

All the training needs of employees (to help them fit the PCMM certification standards) were taken care of by the in-house training department at Wipro. Every new recruit in the company was put through a well-structured induction/training program, which covered all aspects of software development skills required. To meet the ever-changing training requirements of its employees, Wipro rolled out e-learning

[10] Gap Analysis is the process of establishing the differences between existing processes and the 'to be achieved' processes by an organization. It helps organizations identify their drawbacks.

initiatives for all. The 'training on demand' service helped employees to take proactive decisions regarding their training needs. These steps enabled the company to meet the requirements of the PCMM level 2.

Having successfully implemented the process areas for level 2, Wipro began to integrate Key Process Areas (KPA) for level 3. The company focused on the career development path, which consisted of several levels. The first stage in the career path was 'Team Member.' Employees having less than one year of work experience were made team members for the first few projects. Their primary task was to gain experience with various tools and software development while developing programs. After this stage, employees moved on to become 'Module Leaders,' where they interacted with customers in addition to developing software and leading the team.

Wipro decided to offer its module leaders, careers in consulting or in business development. If an employee chose a technical career, he became the Project Manager, and was made responsible for setting standards for a project, building customer relationships and providing technical assistance for his team. He was also in charge of developing of a good work culture and environment for his team, besides interacting with other internal departments. Project managers became Technical Managers, managing multiple projects and relating to customers, people and business. Successful technical managers could head Wipro's strategic business units (SBUs). Wipro employees were allowed to alter their career path midway to suit their core competencies. The opportunity to shift to either functional or technical specialization eventually was dependent on the employee's interest and expertise.

Wipro also appointed an external agency to conduct the yearly 'Employee Perception Survey' to know employee perception and help management understand the requirements for high employee morale. The management ensured that the outcome of the survey was implemented to motivate, empower and recognize the employee's performance.

After integrating the career development of employees with its strategic HR policies, Wipro concentrated on integrating key process areas of the PCMM level 4. One of the important features for achieving PCMM level 4 was the organization's ability to mentor leadership qualities in employees and empower them to take decisions which would result in the capability management in the organization. Wipro recognized the need to groom employees and develop leadership qualities and started the Wipro Leaders Program. The program had various options such as Entry Leaders Program, Wipro Leaders Program, Business Leaders Program and Strategic Leaders Program that were designed to enable employees face challenges in their career path.

The Entry Leaders Program was for employees who were at entry level positions in the company, Wipro Leaders Program was for employees who were already team leaders, Business Leaders Program addressed the leadership qualities in business leaders and the Strategic leaders Program was for Strategic leaders.

According to Ranjan, at Wipro, leadership grooming was not a just matter of intention but it was a process of continuous support. The company followed an integrated approach towards selecting and grooming leadership qualities in employees. For all the above programs, the company sought to develop the competencies of the employees through training, coaching, exposure, delegation of authority, counseling and value clarification.

While selecting the employees for the programs, Wipro set certain parameters. The company tested not only the employees' IQ and technical knowledge but also potential leadership competencies. The company delegated enough responsibilities to the employee to prove his leadership abilities and groom his people skills. These initiatives filled in the gaps for reaching the PCMM level 4.

To reach PCMM level 5, Wipro began putting in place measures to further streamline its manpower planning and HR policies. To meet the 'Continuous Capability

Improvement' KPA, Wipro made a resource commitment of 5% of its overall manpower costs towards employee training.

The management identified 24 competency areas over the 5 levels and the behaviors at each level and procedure to address such behavioral issues. Wipro went through 20 KPAs, which had around 6 observations per practice. According to company sources, there were over 400 practices, which covered around 6,000 employees. On an average, it was reported that there were around 7 observations per practice. Top Management took care of looking into minute aspects of the processes so that they could derive value.

The most critical aspect of the exercise was fixing the gaps identified by the gap analysis. The management formed taskforces for this purpose. That consisted of line managers as well as personnel from corporate HR. Wipro also had an assessment team consisting of 7 line managers, 3 HR staff and 2 quality staff. In December 2001, Wipro achieved the PCMM level 5 certification for which over 100 people had worked over 2 years.

Questions for Discussion:

1. What is the nature of potential contribution that PCMM could make to companies like Wipro who are competing globally and dependent critically on export business?
2. Explain the methodology employed by Wipro in implementing the PCMM model and integrating it with its operations. How far do you think the existing infrastructure facilitated speedy and successful introduction?

Caselet 11

To bridge the gap between its Internet and retail outlet models, Archies introduced the concept of e-kiosks that introduced shoppers to the company's website and its services. The portal also came out with advertisements that targeted non-resident Indians in the US, UK and the Middle East with the help of India Abroad News Service, Khaleej Times, India Post and India West. As a result of these initiatives, the portal claimed to have registered over four million page views and programming of 0.15 million e-greetings in September 2000.

The website became very popular in a short span of time and began to receive over three million page views per month. The number of registered users reportedly reached a phenomenal 0.6 million. Even though the number of e-greetings sent through the site touched 54 million, Archies discovered that the company gained no monetary benefit. In fact, the venture was proving to be a drain on the company's finances. Hence, Archies decided to make archiesonline.com a paid site. The company had invested Rs 20 million in the online subsidiary but made just Rs. 2 million from e-commerce. Creating and hosting one card was costing around Rs. 6,000. The company could not have continued with this free-for-all for ever since Archies accumulated losses of Rs. 13.5 million.

In June 2001, Archies ran a nationwide advertisement campaign across various newspapers and television channels. The idea was to 'equate e-cards with fun' and tell people that when it came to 'serious expressing of emotions,' an Archies card was the best option. The company spent 6% of its turnover on the campaign, which had the tagline, 'When you really mean it, send an Archies card.' In late 2001, Archies ran huge advertisements in leading Indian financial dailies, stating that e-greetings or SMS could never be as effective as a physical greeting card. According to analysts, these developments indicated that Archies had decided to treat the online venture as an extension of its business rather than as a thrust area for future growth.

Archies decided to revamp its distribution network and replace existing distributors by a C&F agent network. According to the new distribution system, in place of 68 distributors in 21 states, Archies appointed 10 C&F agents in 10 states who catered to distributors who in turn reached out to the retailers. Manish Jain, Company Secretary, Archies, said, "The biggest advantage of this model is that the company owns the inventory, so the consumer is ensured of seeing the entire products range that is available."

In 2001, Archies began an 'exclusivity drive,' by way of which all existing Archies Gallery franchisees were asked to keep only Archies range of products. If they did not want to be an exclusive outlet, they were given the option of converting into an Archies Paper Rose Shoppe on a 'non-exclusive' basis. The idea was to have only Archies Gallery and Archies Paper Rose Shoppe as the completely franchised outlets. As a part of this exercise, many shops were revamped and some even had to be shut down. Archies believed that being in direct contact with the customer will help assess the detailed requirements of various product lines, and have better inventory management and product mix systems.

In addition, the company was also planning to increase the number of Vision 2000 stores on a large scale. The Vision 2000 stores were much bigger than any other Archies retail outlets and according to company sources, brought in 40% more revenues as well. These stores had world-class interiors and stocked all the products marketed by the company.

These two rationalization moves resulted in the company facing a decline in profitability. During the conversion stage (from distributors to C&F agent setup), the company took back all the stock lying with the distributors. This increased the level of inventory, which increased the working capital requirement. This forced the company to outsource fund requirements, and therefore, incur a heavy interest burden. In addition, the fact that Archies had to pay higher interest on working capital and had to write off expenses incurred on an ERP initiative also contributed to the decline in performance. Investments in real estate, which were negligible in the franchisee-based system, went up as the company had to invest heavily in real estate. Though Archies planned to take retail space on lease, it had to incur substantial investments during the transition.

For the financial year 2001-02, the company's revenues were Rs. 804.7 million, an increase of 18%. However, net profits declined to Rs. 75.3 million. According to analysts, the revamping of the distribution and outlets was likely to affect the company's performance at least for some more years to come. They also had their doubts about Archies regaining the growth rates it experienced in the mid 1990s. ITC's entry into the greeting cards business was not great news either. In addition, analysts also questioned the company's entry into the highly competitive music and perfumes businesses. Archies was in direct competition with giants such as Saregama and Tips Cassettes in the music segment and with Hindustan Lever and CavinKare in the perfumes/deodorants segments. With the economic slowdown in the country, the margins were going downhill for most players. However, many players were entering the market including the tobacco-to-hotels major ITC (in association with the UK-based design company, Simon Elvin), Gutka manufacturer Manikchand, and pen company Rotomac.

Questions for Discussion:

1. Critically comment on Archies' franchising and distribution strategies for expansion. Do you think the company's strategy in the initial years was right in the light of the rationalization exercises? Give reasons to support your stand.
2. Discuss if Archies will be able to maintain its marketshare and leadership in the future with the entry of players such as ITC? Will the company's current strategies help sustain its competitive position?

Caselet 12

Until the 1980s, Hindustan Motors' (HM) Ambassador and Premier Automobiles Ltd's (PAL) Padmini were the only two cars available in the Indian market. However in 1981, with the entry of MUL, the scenario changed drastically. MUL's small, fuel-efficient and well-designed car, Maruti 800, became a huge success. By the late 1980s, MUL became the market leader, leaving HM way behind.

In the early 1990s, when the Indian economy opened up, many multinational automobile companies entered the country. In the 1990s, Daewoo, General Motors, Daimler Benz, Hyundai and Honda entered India through joint ventures and partnerships with Indian firms.

HM was badly hit after the entry of foreign players. In the face of stiff competition from foreign players, HM launched the Ambassador Nova in 1990 (with better interiors) and an improved Ambassador 1800 ISZ (with better engine performance) in 1993. The company also appointed consultants McKinsey & Co for a restructuring plan to turn around its business.

HM decided to tap new segments to ease the competitive pressure. In 1995, the company collaborated with Oka Motor Co to develop a vehicle specifically targeting the rural markets. This led to the launch of the Trekker (also referred to as the Rural Transport Vehicle – RTV) in 1995. Launched in three northern states the Trekker was received well in the rural markets. However, the vehicle soon came under criticism owing to a host of technical problems.

By late 1998, Trekker's sales dropped by two-thirds of its initial volumes to around 800 a year. In 1999, HM launched the redesigned Trekker and an upgraded version of the Ambassador. Despite all the product upgradations and restructuring efforts, HM could not stem the decline in sales.

Analysts opined that HM's dismal performance was due to its lax management policies and shortsightedness. Before MUL entered the market, HM was the market leader. It was able to sell whatever it produced and therefore it did not care to upgrade the technology or production facilities.

However, HM's poor performance was not due to external factors such as competition only. The company had a host of internal problems – particularly in the human resource front at the Uttarpara (West Bengal) plant. The Uttarpara plant had workforce of 14,000 employees and the wage bill alone constituted 22% of plant's expenditure. Against the standard output of 8-10 cars per employee per annum, the plant's output was as low as 3 cars.

In its bid to turn around the plant, HM invested around Rs 750 million to modernize the assembly line, build new body and paint shops and purchase new equipment. The company also embarked on a cost-cutting exercise and announced a Voluntary Retirement Scheme (VRS) for workers in April 1998 and again in November 1998, offering a Rs. 0.1 million package per employee.

However, the VRS was not well received by the strong Center of Indian Trade Union (CITU) and the Indian National Trade Union Congress (INTUC) led employee unions. Commenting on a similar VRS offered by the Fiat management at its Kurla, (Maharashtra) plant, employees said "Workers at the Fiat factory at Mumbai have got an average of Rs.0.35 million per worker while we are fobbed off with such measly sums." The strong political patronage to the unions made it tough for the management to convince workers about the VRS.

Both the CITU and INTUC union leaders refused to accept the VRS offered by the company. The unions were confident that the West Bengal State Government would back them on the issue. As employee protests intensified, HM approached the state government with a proposal to run the plant for only three days in a week, in an attempt to save Rs. 0.32 million every week. The company also promised that it would continue to pay the workforce full wages for an entire week. However, the government rejected HM's proposal, following which the company decided to seek legal recourse. In January 1999, HM filed a writ petition in the Calcutta High Court, claiming that its decision to run the plant for three days was not prompted by industrial relations, but by the company's poor financial position. It also stated that the layoff in the Uttarpara plant was temporary in nature and the company would resume normal production as soon as demand picked up. The High Court then ordered the state government to reconsider the issue.

In May 1999, instead of reconsidering the issue, the state government filed an appeal before the division bench of the Calcutta High Court, claiming that HM had suppressed facts and figures during its meeting with them to settle the issue. The division bench directed that the matter be referred to the Industrial Tribunal. In July 1999, the Industrial Tribunal dismissed the company's proposal. HM again filed a writ petition against the Tribunal's order in the division bench of Calcutta High Court and the division bench upheld the Tribunal's order. In response to the division bench's order, HM moved the Supreme Court in July 1999. During all this time, productivity at the plant suffered considerably, which added to company's woes.

When its attempts to reorganize its operations did not pay off, HM decided to look beyond its existing product portfolio to come out of its problems. As per McKinsey's recommendations, the company explored the global auto components business in 2000 and established a unit at Indore to assemble engines and gearboxes.

In order to use its design and engineering skills to enter new businesses, HM entered into an agreement with Mahindra & Mahindra (M&M) for developing petrol engine for M&M vehicles. The company also tied up with GM to market the entire range of transmission equipment manufactured by Allison Automatics (a company owned by GM).

HM then overhauled its distribution system in order to become more market-friendly and dealer-friendly. In 1999, the company unveiled a new distribution strategy, wherein dealers were divided into three tiers – red, blue, and green depending on their location and performance records. While the red-tier catered to the metros for selling and servicing Lancers, the blue-tier catered to the semi-urban areas for Contessas and Ambassadors and the green-tier catered to the rural markets for Trekkers.

HM also decided to explore the overseas markets for its products and began exporting around 150 RTVs to Bangladesh in 2001. The company also managed to secure an export order for 300 petrol engines from a UK-based company, in addition to the 1,800 engines already supplied.

In February 2001, HM sold its earthmoving equipment manufacturing division to a wholly-owned Indian subsidiary of Caterpillar Inc. for Rs. 3.3 billion. The company used this money to repay debts worth Rs. 2.25 billion. This helped reduce the gross loss in 2000-01 to Rs. 152.2 million from Rs. 255.5 million in the corresponding quarter of 1999-00. The remaining sum of Rs1.05 billion after the repayment of debt from the sale was used for working capital requirements and automotive business.

HM continued its customer relations enhancement initiatives with the launch of the 'click and customize' service for Lancer customers in September 2001. The company set up kiosks in six cities (New Delhi, Bangalore, Chennai, Hyderabad, Chandigarh and Pune) that had computed terminals displaying the features of the petrol and diesel versions of the Lancer. HM had invested Rs. 2.5 million in the software and Rs. 0.1 million on each kiosk. The company planned to install 16 such computer kiosks at its dealers' premises across the country by the end of fiscal 2001-02. According to company sources, after the launch of the service, Lancer's market share had gone up by 4%.

In November 2001, HM announced its plans to manufacture engines for other automobile companies. The company was awaiting the outcome of its bid to make the engines for Ford's Ikon. With the second phase of the restructuring efforts in place, HM hoped to improve its growth in the automotive division and offset the losses from the passenger car segment.

The company's moves seemed to be finally bearing fruits as it was able to narrow down the losses in the first quarter of 2001-02 by around 30%. HM was banking on the Ambassador's niche markets (government and taxi) and hoped to retain the segment by launching new variants. The Trekker was also poised to do well after the relaunch in 1999 and HM hoped to sell 3,200 vehicles in 2001-02.

Analysts however remained skeptical about HM's future prospects and its ability to make a turnaround as a passenger carmaker. They felt that the only way out for HM was to turn itself into auto-component supplier to multi-nationals producing passenger cars in the country.

Questions for Discussion:

1. 'Hindustan Motors itself is responsible for its inability to sustain leadership position in the post-liberalization era.' Critically comment on the above statement while analyzing the factors that led to the company's downfall.
2. In the 1990s, HM had lost its position in the passenger car market to MUL and foreign automobile companies that entered the automobile market after the opening up of the Indian economy. To face the competition, HM had undertaken many restructuring initiatives. Examine the restructuring initiatives of HM.
3. External environment has a significant influence on the functioning of an organization. Of the elements of the external environment, political environment can have a positive or negative influence on an organization. Study the effects of the political environment on the functioning of HM.

Caselet 13

Cartoon Network was first launched in the US in October 1992, by one of the world's leading media companies, Turner Broadcasting System (TBS). Cartoon Network not only showed famous cartoons, but also original shows developed in-house such as Mike, Lu & Og, Ed, Edd n Eddy, Johnny Bravo, The Powerpuff Girls, Cartoon Cartoons and Dexter's Laboratory.

These cartoons became extremely popular across the world, making Cartoon Network one of the leading children's entertainment channels during the 1990s. According to Cartoon Network sources, in February 2001, the channels had a subscriber base of over 75 million in 145 countries. Analysts attributed the success of Cartoon Network to its appeal to the entire family, its original programming content and its advanced programming technologies.

Cartoon Network entered India in October 1995, sharing airtime with Turner Network Television (TNT). While Cartoon Network was shown in the morning slot of 5 a.m.-9 p.m., TNT showed classic Hollywood movies in the night slot (9 p.m-5 a.m.). In the late 1990s, Turner Classic Movies (TCM) replaced TNT, though the content remained the same. As the pioneer in the Indian cartoon and animation market, Cartoon Network quickly gained popularity and a huge fan following in major metros.

Prior to Cartoon Network's entry, Indian TV viewers could see cartoons only during a few time-slots on the state-owned Doordarshan and some other satellite TV channels. The channel realized that it would have to build cartoon/animation viewership virtually from scratch. In addition, it had the task of building its brand equity amidst the clutter of numerous satellite TV channels. However, as there were no established players, it was not very difficult for Cartoon Network to get itself registered in the viewer's mind as a channel synonymous with cartoons. Soon, the globally popular cartoons became household names in the country.

The entry of other players into the market during the late 1990s resulted in intense competition. Kermit and Nickelodeon, leading children's channels entered India in 1999 and soon garnered impressive viewership figures. The Star, Zee, and SAB TV networks also started airing cartoons during specific time-slots.

To succeed in this competitive environment, Cartoon Network worked out a broad strategy that emphasized on 'localization' and marketing. It localized the content by dubbing its cartoons in Hindi (January 1999) to appeal to the Hindi-speaking audiences. The first dubbed program, 'Toon Tamasha,' was received very well. The channel then started offering Hindi versions of various popular cartoons. By February 2000, Cartoon Network was offering nine hours of Hindi programming every day.

Taking its localization efforts further, the channel introduced Tamil-dubbed shows in February 2000. Kathy McClaure, Vice President Programming, Turner Network, Asia, said, "The bringing in of Tamil-dubbed cartoons is to further reinforce Cartoon Network's commitment to bring localized programming." Hindi and Tamil dubbing was done in collaboration with Indian TV software production house UTV. By mid-2000, Cartoon Network reached an estimated 10 million homes in India, appealing to children between 4 and 14 years.

But many parents objected to dubbing in local languages because they wanted their children to learn a few English words and phrases through the medium of cartoons. In focus group discussions conducted by the Center for Advocacy and Research in early 2002, many parents voiced their concerns and objections about the Hindi versions because their children were picking up inappropriate language from them. As a result, Cartoon Network had to temporarily suspend all Hindi programming and conduct a 'Standards and Practices' review.

Commenting on this, a Cartoon Network spokesperson said, "It has been our observation that no real industry standard has been set for the quality of Hindi dubbed children's TV content. We have also observed that what is considered acceptable language differs widely among the small minority of parents supervising their children's TV viewing." Following the review, Cartoon Network decided to use the lower end of the tolerance scale as a new benchmark for measuring the quality of its Hindi content and also began to re-dub shows that needed language corrections/improvements. The network restarted its Hindi transmissions in May 2002. Sources at the channel were confident of sustaining their leadership position in the market on account of its first mover advantage, its rigorous promotional activities and, its indigenization efforts.

Questions for Discussion:

1. The Indian TV audience is largely ‘movie-sports-news’ centric.” In light of this statement, critically comment on Cartoon Network’s decision to enter the Indian market. Also discuss the initiatives that helped it become a leader in the children’s TV entertainment segment.
2. Do you think Cartoon Network’s localization of content destroyed the entertainment value of the original, classic cartoons?

Caselet 14

Doordarshan (DD) was launched in 1959 as the National Television Network with a modest 21 community sets, in Delhi. The year 1982 saw the introduction of a regular satellite link between Delhi and different transmitters, which kick started the transmission of the National Programme. In the same year DD switched to colour transmission. So widespread was its influence that it had penetrated into every nook and corner of the country cutting across demographic and geographic barriers. In 1984, DD added a second channel (DD 2) to provide an alternative option to the metropolitan population of Delhi, Mumbai, Kolkata and Chennai. DD 2 was targeted at urban viewers, particularly the young viewers.

In 1995, DD launched DD-India, the international channel of DD catering to the NRI population. In the same year, DD entered into an agreement with the Cable News Network (CNN) and launched 24-hour news and current affairs channel-DD-News. In 1999, DD launched separate channel for sports.

In 1984, cable television made its foray in India and it was considered a cost effective alternative to watching borrowed cassettes of feature films. Local entrepreneurs saw in this an opportunity, as investments required to install a cable network were low.

In the early 1990s many private channels were launched to tap the nascent cable television in India. Launched in 1992, Zee TV was the driver of the expansion of cable television in India. During 1992-94, there was rapid increase in the number of cable connections in western and Northern India. In southern India, the states of Tamil Nadu and Andhra Pradesh saw an accelerated growth in Tamil and Telugu channels in the mid 1990s.

Though by 2000, DD had an incredible reach of 70 mn homes in comparison to C&S's reach to only 30 mn homes, it could not turn this network into an advantage. In the urban households, DD's presence was miniscule with hardly any viewers for its programmes. Few people watched its programmes in the urban areas. DD was also lagging behind the private channels in terms of ad revenues as its TVRs were very low compared to the TVRs of programmes on private channel.

During 1996-99, TV advertisement market grew by 76%, but DD's revenue from advertisement registered a negative growth. Though DD continued to be number one in overall audience share, it lost out on viewership segments with the highest purchasing power.

In 1998-99, DD channels revenues from advertisements were to the tune of Rs. 4 bn (25.8% of the market). Zee TV was close at Rs. 3.85 bn, Sony at Rs 2.53 bn, and Star Channels at Rs. 2 bn. However, in case of private channels revenues from the ads have grown significantly compared to DD. During the period 1996-99, Zee registered growth of 122% in ad revenues, Sony 299% and Star channels 206%. During the same period, DD's ad revenues had gone down by 70.17%. Till 1998-99, 70% of HLL's ad spend went to DD. In 2000-01, because of poor TVR of DD, HLL's share in DD's Ad revenues had gone down to 50%.

During 1999-00, producers and distributors stopped giving films to DD after it started asking for a minimum guarantee of Rs. 10 mn to broadcast a film. This forced DD to repeat the same old films, and the TVRs went down further. DD's sagging TVRs were a matter of concern for clients like Hindustan Lever - DD's largest advertiser.

Analysts felt that DD's revenues were going down because advertisers considered it as a downmarket channel, which catered only to the lowest socio-economic classifications, where purchasing power was limited. The revenues earned by DD showed a negative growth during 1997-99. In 1999-00, DD saw its revenues grow by 52.8% but in 2000-01 it was projected to grow at 6% only.

Analysts felt that many of DD's problems could be attributed to its loss of identity. Initially, DD officials felt that the National channel would play the role of public broadcaster and DD Metro would be the commercial channel. Private producers and advertisers pointed out that this attitude increased the confusion.

With the launch of Star News Channel (the first independent news channel) in 1998, DD news lost its viewers to Star news. The in depth analysis of news items by Star News caught the imagination of the viewers. Analysts felt that private news channels could do well because of the image of DD as propaganda machinery of Government.

Analysts also felt that political interference and corruption were other reasons for DD's poor performance. In 1997, the Indian broadcasting bill was introduced in Parliament. DD was brought under a holding company called the 'Prasar Bharti'. In 1998, the Government sacked Prasar Bharti CEO S.S. Gill and government made DD answerable to a parliamentary committee. Political interference at the top level worsened the matters for DD.

It was also alleged that members of the Central Commissioning Unit (CCU)[11] of DD were taking bribes from the producers to air their programmes. It was reported that in 1998, CBI arrested two DD officials for taking bribes from a serial producer. DD's track record in both payments to and collections from private players had been poor. Over 50 companies owed Rs. 18.2 mn to DD as on July 2001. DD also faced a number of allegations of large-scale scams and irregularities. It was alleged that DD allowed International Cricket Council (ICC) Chief, Jagmohan Dalmiya and WorldTel's Mark Mascarenhas to defraud DD of Rs. 160 mn over the telecast of a 1998 tournament in Dhaka.

The poor performance of DD could also be attributed to its pricing for advertisement slots. DD charged the producers around Rs 1 lakh for 10 seconds whereas some highest rated soaps on C&S homes charged half of that.

Another major problem that plagued DD was the lack of a marketing team, which could market the advertisement slots as a package. Private channels like ZEE and Star had their own marketing teams, which provided the advertisers with package of advertisement slots on their programmes. But in case of DD, there were 56 different producers with 56 different half-an-hour program slots for four hours of prime time each week, who would sell their commercial time separately, to the same advertiser. But advertisers preferred package deals, which would give them airtime across the programmes for whole week.

After S.S.Gill was sacked in 1998, Rajeeva Ratna Shah (Shah) was appointed as the new CEO of Prasar Bharti. Shah started redoing DD1's and DD2's programming and also started weeding out corruption at the network. To weed out corruption, Shah stopped commissioning of programmes on DD1 and DD2. He decided to auction programming hours to the private players who produced the programs for the DD and market them. Shah also announced setting up of a board comprising of eminent filmmakers, actors, poets, writers and people from different walks of life to revamp DD.

In 2000, government appointed a committee headed by late Shunu Sen, CEO, Quadra Advisory, a Strategic Marketing Consultancy, N. R. Narayanmurthy, CEO, Infosys and Kiran Karnik former CEO, Discovery Communications, India, to work out a revival package for DD. Three options came up before the committee - first, privatization of DD, second; DD continuing as a Public service broadcaster (PSB), and third, running DD on both PSB and commercially viable lines. Of the three options, the committee recommended the third option. The committee felt that there was no need to privatize DD but recommended drastic steps for its revival.

Some of the important steps suggested by the committee were:

- to downsize 25% of DD's 21,000 strong staff,
- getting into new media,
- setting up its own marketing department,
- developing a sharper programming focus.

[11] The CCU was set up in 1991 to oversee the commissioning of the programmes. It was headed by Controller of Programmes in Doordarshan.

One of the recommendations was to improve the quality of broadcast. DD sought the help of BBC to digitise its channels. Modi Entertainment Network began distributing the five DD channels (National, Metro, News, Sports and World) via satellite. DD went in for a revenue sharing deal with B4U for showing movies, and auctioned 7-10 p.m. slot on DD Metro to HFCL-Nine network, which supplied the DD with programs for the 3 hours. In addition to Rs. 1.21 bn that DD got from this deal, the move helped DD to penetrate into urban homes and also C&S homes to some extent. DD also entered into an agreement with the Direct to Home (DTH) platforms like Echostar and Astra to distribute DD-World in 79 countries. DD employed Accenture to advice it on how to go about revamping its financial, management and administrative systems. The National Institute of Design was employed to redesign the logo.

In 2000, DD announced that it would start its own peoplemeter project through a separate corporate entity in partnership with a few private channels and some advertisers. DD felt that its programmes were not getting enough viewership ratings because the viewer sample being used by the two firms doing the ratings - IMRB-Ac Neilsen and ORG-Marg were skewed towards C&S homes and hence did not accurately reflect the viewing habits of the Indian populace.

Questions for the Discussion:

1. The present problems in DD have their roots in the mismanagement of affairs. Critically examine the above statement.
2. Though by 2000, DD had an incredible reach of 70 mn homes in comparison to C&S's reach to only 30 mn homes, it could not turn this network into an advantage. Discuss the steps taken by DD to revive itself.

Caselet 15

In April 1998, the financial services giants Travelers Group and Citicorp agreed to the largest merger in corporate history. The $166 billion merger created the world's biggest company, Citigroup, with $700 billion in assets and a market value of nearly $160 billion. The new entity was expected to have 162,600 employees and 3,200 offices, and offer some 100 million customers in 10 countries a range of financial services. Citigroup was likely to have a 24-member board, with an equal number of members from each merging entity. John S. Reed and Sandy Weill, the CEOs of Citicorp and Travelers, respectively, would serve as Co-CEOs and Co-Chairmen of the Board of Directors.

Citicorp and Travelers hoped that the merger would facilitate "cross-selling" of each other's products in each other's territories. While Travelers had a limited presence overseas, it had one of the strongest distribution systems in the US. Citicorp, however, had an impressive network outside the US. After the merger, Citicorp could sell its CitiGold and Private Banking Services more efficiently to Travelers' 20 million U.S. customers. The customer segments of the pre merger entities seemed to complement each other well. While Citicorp had a young, less affluent customer base, Travelers customers were older and more affluent. Another area where synergies existed for Citicorp was mutual funds; Citicorp was weak in this area and hoped to learn from Travelers' experience.

Although many synergies would be achieved by the merger, there were some areas of concern. The compensation policy was very different for the two companies. Citicorp had a relatively conventional compensation structure that offered stock options to the people it wished to retain. It did not insist that executives retain their stock. The officers and directors at Citicorp put together owned less than 0.5% of the company's stock. At Travelers, Weill himself owned 1.3% of Travelers' stock, worth about $950 million, and the company's officers and directors together owned 2.45%.

The work culture of the two companies was very different. Travelers had an aggressive, fast, deal making culture. On the other hand, Citicorp had a conservative culture built around long term customer relationships.

Appointing Reid and Weill as Co-CEOs also caused problems for the merged entity. Both Reed and Weill were contrasting personalities. Reed was a loner who disliked talking to the press while Weill was outgoing and liked to stand in front of crowds and answer their questions. Analysts doubted whether two such strong, but very different people could really share the top job for any length of time. Weill was a cost cutter and was always concerned about short-term profits and the stock price of the company. He also managed the company through personal relationships. Weill expected and received loyalty from his managers. Reed, however, had a long-term vision for the company and was willing to spend the money to realize it. Reed was not a "people person"; he valued on memos and processes to manage the organization. In October 1999, the merged entity took the first step towards integration by drawing up the organization chart. The chart itself was a clear indicator that Travelers had taken a dominant position in the new entity.

At the top of the chart were Co-CEOs, Reed and Weill. James Dimon, CEO of Saloman Smith Barney was appointed President. Dimon would head Citigroup's Global Corporate Businesses and would be assisted by Victor Menezes, CEO of Citibank, and Deryck Maughan, Co-head of Solomon Smith Barney.

Analysts wondered whether Weill and Reed could succeed in fashioning two very different cultures and businesses into one cohesive organization. They doubted that Weill and Reed could smoothly rearrange their corporate structures into one. Reed and Weill's inability to control their followers led to confusion over which corporate culture would predominate—the fast-moving, aggressive dealmaking culture of Travelers or the more conservative culture of a large commercial bank.

Citicorp which had relationships with large multinational companies, wanted to maintain those contacts and didn't want to be absorbed into Travelers, which also served corporations but had little presence overseas. On the other hand, Travelers' employees did not like the idea of commercial bankers (Citicorp) with little bond-underwriting expertise taking the lead in emerging-market fixed-income deals.

By mid 1999, though the merger seemed to be going reasonably well, there were signs of tension between Weill and Reed. Analysts felt that a rift at the top between Weill and Reed could hamper the performance of Citigroup. Reed and Weill were attempting several revolutions at Citigroup. They were trying to offer consumers around the world everything from CDs and credit cards to mutual funds and insurance. Reed and Weill were finding it very difficult to arrive at a consensus on numerous issues. For example, when they had to decide on a common pension plan for nearly 170,000 Citigroup employees, the gap between the two CEOs' attitudes was considerable. Travelers offered very conservative benefits to its employees, while Citicorp's benefits were quite generous. Weill believed in cutting costs by clubbing benefits and pension plans and replacing them with stock options. Citicorp traditionally paid fairly low salaries, but rewarded long-time workers with good benefits. Weill wanted to implement a new benefit plan by Jan. 1, 1999. However, Reid and Weill couldn't reach an agreement until April, and the new benefit plan did not come into effect until Jan. 1, 2000. The new benefit plan cut down Citicorp's benefits and relied more on stock options, while cutting costs in the short term.

In July 1999, relationship between Reed and Weill took a new turn. An internal memo dated July 28, 1999, indicated that Reed and Weill had agreed to split their responsibilities. Weill would be responsible for the company's operating businesses and financial function; Reed would take care of the Internet, advanced development, technology, human resources and legal functions.

In March 2000, a board meeting was called to deliberate on the failure of Citigroup's Co-CEO structure. In the meeting, Reed announced his plan to retire as Co-CEO of Citigroup, stating that the job of merging Citicorp and Travelers was done. Reed probably was hiding his feelings. In a speech he had given in August 1999 to the Academy of Management he had said: "We are talking about putting two cultures together that are quite different, quite distinct. I am trying to understand how to make this work. I will tell you that it is not simple and it is not easy, and it is not clear to me that it will necessarily be successful….As you put two cultures together, you get all sorts of strange, aberrant behavior, and it is not clear whether each side getting to know the other side helps, or whether having common objectives helps, or whether it is just the passage of time."

After Reed's exit, Weill was solely responsible for running Citigroup. Weill seemed to have done well: Citigroup recorded revenues of $112 billion in 2000 and $13.5 billion in profits, second only to Exxon Mobil's $17.7 billion. However, analysts felt that Weill, who turned 68 years in 2000, should retire and choose a successor. In 2003, Weill announced his successor.

Questions for Discussion:

1. The Citicorp-Travelers merger was expected to be a perfect fit as the merger would facilitate cross-selling of each other's products in each other's territories. However, many hurdles hindered the realization of the synergies identified prior to the merger. According to you, what were the major hurdles that prevented the realization of synergies after the merger?
2. Citigroup's Co-CEO structure did not work well and one of the CEOs had to step down. Explain why the Co-CEO structure failed to function efficiently. What are the problems associated with such a structure?

Caselet 16

Life Insurance Corporation was formed as a government regulated monopoly in September 1956 by an Act of Parliament, (LIC Act 1956) with a capital contribution of Rs. 50 million. Over the years, LIC built a strong distribution and agent network. By 2000, LIC had 2048 branches and 500,000 agents across the country. With income from premiums totalling Rs. 6,262 crore and a Rs. 1,60,935 crore asset base for fiscal 2001, LIC was a financial powerhouse, with a presence in mutual funds and housing loans besides life insurance. The company had insured more than 11.5 crore people in the country through its individual and group schemes. Of the 60-80 million life insurance policies outstanding, 48% were from the rural and semi urban areas. This was very impressive since no company in any other industry had been able to tap the rural market to this extent. LIC's annual revenue growth rate was 8.8% during 1993-2000.

In December 1999, the Government approved the IRDA Act, making IRDA the authority to protect the interests of policyholders, and to regulate, promote and ensure the systematic growth of insurance industry. IRDA also framed detailed guidelines for inviting private players into the insurance sector.

After August 2000, private licenses were given to HDFC-Standard Life, ICICI Prudential and Max New York. International companies that entered the sector included Lombard, Zurich, Allianz, Royal & Sun Alliance, Chubb Insurance, AIG, ING and CGNU, while ICICI, Hero Honda, Dabur, the Tatas, the Birlas, SBI, HDFC and Reliance were the major Indian players. With the opening up of the insurance sector, media reports predicted tough times ahead for LIC. A report revealed that LIC was 70% over-staffed, which meant that its competitors would have substantial labor-cost advantages. The report also predicted that LIC might find it difficult to retain and protect its extensive agent network and, in particular, to ensure that the most talented and influential agents stayed with it. LIC was also expected to face fierce competition on the new product development front.

In November 1999, even as the IRDA Act was being debated in Parliament, LIC begun preparations for meeting the threat posed by private players. The company appointed consultants Booz, Allen and Hamilton to do a scenario-building exercise, suggest areas for process re-engineering, and recommend ways to sharpen customer focus.

LIC gave top priority to introducing over-the-counter (OTC) facilities that would help it serve its customers better. By 2000, it had computerized and locally networked all its 2,048 branches. The speed of service delivery, particularly in the case of claims-settlement, had also improved. The total outstanding claims were brought down to 2.74% in 2000 from 3.47% in 1995.

LIC realized that to be able to retain its position, it would have to match the technological sophistication of the multinationals. LIC extended its Metropolitan Area Network (MAN) system from Mumbai, Delhi and Bangalore to Ahmedabad, Pune, Hyderabad, and Calcutta. This enabled LIC customers to pay premiums and get status reports from any of its branches in these cities. LIC planned to eventually connect up to 27 cities in a Wide Area Network (WAN). E-mail and Internet facility were introduced at over 600 additional branches. A mechanism was put in place to facilitate insurance premium payment over the Internet in cities that were covered by the WAN.

Over 98% of LIC's branches had begun providing software assistance that helped the policyholders track premium payments, loans and claims positions. Information kiosks were set up in over 50 places across the country. The company also started an Interactive Voice Response System, to help customers get details of various policies over the telephone. LIC planned to tie up with corporate agents to enable customers to buy insurance products at banks or financial services companies or while buying a consumer durable. LIC also intended to use the services of brokers once brokerage concerns were allowed to operate in India.

LIC initiated measures to revamp its service network and to open 600 new training centers. The new centers were to have a new training module in the curriculum which focused on marketing. It intensified its research activities in order to get market feedback and tailor its products according to customer needs. LIC also planned to offer new products and schemes and enter new markets, especially in the global arena. LIC began exploring the possibility of entering the Nepalese, African, Middle-East, Mauritius, US and UK markets.

Under Section 27 A of the Insurance Act, 50% of LIC's investments had to be in central and state government securities and 25% in the social sector (comprising power, telecom, ports, roads, bridges, housing etc.) LIC was free to invest the remaining 25% wherever it wanted. LIC was hoping that the 25% mandatory investment in social sector would be waived in the near future. LIC also decided to leverage its brand value to increase its presence into more lucrative areas like the equity markets.

A major area of concern was retaining employees and strengthening the agency system, which was the backbone of the life insurance business. LIC had 8.5 lakh agents outside its payrolls who reported to its development officers in branch offices. As 80% of the business was brought in by just 30% of the agents, the private competitors were likely to make an attempt to poach the good agents. LIC, however, believed that there was no danger of its agents leaving, as it had a more competitive commission structure. Moreover, since IRDA had prohibited agents from working for more than one insurance firm, LIC could afford to relax a bit.

Soon after the IRDA announcements, there were a number of breakups in the private sector joint ventures. This was largely due to IRDA rules and regulations, which stipulated that the partners to a joint venture could not disinvest from the venture for a period of seven years after the license was granted. This meant that no there was no exit route for companies that wanted to opt out. Also, foreign insurers were allowed only 26% equity participation.

The companies that did stay back found the going tougher than expected as they had the added burden of having to build credibility in the marketplace and to build infrastructure. The average business LIC got per active agent was Rs. 1.26 million - a figure hard to achieve over a short period of time. The services offered by the new players were found to be quite similar to the ones offered by LIC, with differences only in the presentation and packaging of the policies.

Reacting to media reports about LIC being adversely affected by the entry of MNCs, an LIC agent said, "The entry of the private players will not make any difference to LIC. The private players will concentrate more on the higher income groups while LIC will maintain its goodwill among the masses." A policyholder added, "LIC has already been offering all the frills that the private players are now banking on and the only differentiating factor could be the quality of service." Apprehensions of the MNCs 'taking over' the Indian insurance sector were gradually put to rest as various reports revealed that LIC would easily continue to be the market leader. A Monitor Group study predicted that LIC would continue to have 75-80% market share even in 2010. A report by consultants KPMG revealed that the threat of new players taking over the market had been overplayed and that the nationalized players would continue to hold strong market share positions. At the same time, there would be enough business for new entrants.

A look at the developments in other countries which opened up their insurance sector to global players revealed that new companies seldom displaced the existing players. In China, Malaysia, Indonesia and Thailand, the foreign companies accounted for only 10% of the market share. In South Korea, the opening up of the sector saw the six biggest domestic players, who initially controlled the entire market, increase their business substantially. The foreign companies were not able to capture more than 0.4% of the domestic market.

What LIC did to retain its competitive strength would determine its success in the future. LIC need to take the Business Wire report very seriously. This report aptly summed up the whole issue: "Over the years, LIC has made money the easy way. Hereafter, it must sweat for it."

Questions for Discussion:

1. Write a brief note on LIC's reaction to the entry of foreign players. Critically examine the steps taken by LIC to face the competition from MNCs.
2. Do you think LIC will be able to remain the market leader in the insurance business in the long run? Give reasons for your answer.

Caselet 17

Since the development of PCs in the late-1970s, the marketing of IT related software and hardware was mainly driven by computer vendors and software publishers. However, Intel relied completely on its computer-vendor customers otherwise known as Original Equipment Manufacturers (OEMs) to convey to end users the benefits of using an Intel processor. As a result consumers had very little awareness about Intel and its products. Most PC users were not aware of the availability of advanced processors and their cost saving performance.

Intel realized that it needed to create more awareness about itself and its products among consumers. The first focused marketing initiative was developed by Intel in 1990 to market the 386SX microprocessor. A small group of marketing personnel interacted with IT managers who came to buy PCs for business purposes and briefed them about the features and advantages of the existing microprocessors as well as the new releases. As a result of the above, customer awareness about the 386SX processor increased and translated into increasing sales.

Even as the company initiated marketing activities, it had to deal with certain legal problems. Arch-rival AMD, which had been given the license to manufacture chips by Intel began making use of the latter's processor numbers to market its own products. By offering chips at comparatively cheaper prices, AMD captured 52% of the market by 1990. According to Intel sources, the company had 'assumed' that the 386 and 486 processors were protected trademarks and that no other company could make use of them. Intel then made attempts to protect the technology of the 386 and 486 processors. As a result AMD sued Intel for breach of contract. Intel lost the case and the courts stated that the processor numbers were not trademarks. This opened the doors for other companies to use them. Intel realized the need for a better marketing program that would protect its rights. Intel thus sought to create a strong brand to communicate better with consumers, justify the billions of dollars invested in product development, and highlight the superior performance and reliability of its products. The decision to go in for component branding was taken because of the company's observation that although a microprocessor was a key component of the PC, it was largely seen as 'just another component.'

The company developed a component branding strategy that aimed at gaining consumer confidence in Intel as a brand. It decided to run campaigns that would demonstrate the value and benefits of buying a processor from a leading company in the industry. The most innovative aspect of this strategy was the decision to communicate directly with end-users. This was a very novel idea for a 'pure technology' company.

Intel, however, decided to go ahead with its plans, and with the help of an advertising agency, Dahlin Smith and White, designed a campaign for its products. The company adopted a new tagline - 'Intel. The computer inside'- in July 1991. Later, the company shortened the tagline to 'Intel Inside.' The tagline was accompanied by a new logo, in which the words 'Intel Inside' appeared inside a circle. This design suggested that the brand had an implicit seal of approval.

The new marketing program consisted mainly of an incentive based cooperative advertising (coop) program. Intel created a cooperative fund wherein 5% of the purchase price of the microprocessors was kept aside for advertising funds and made available to all PC makers. Intel shared the advertising costs with the OEMs for print advertisements that included the Intel logo. This arrangement became very popularly and many OEMs joined the program. As a result of the arrangement OEMs could not only increase their ad spend, they could also be assured that their computers were powered by the latest microprocessor technology. By the end of 1991, around 300 PC OEMs had joined Intel in support of the Intel Inside coop program. After the success of this program, Intel started to advertise in the print media around the world to explain the Intel logo to global customers.

Intel released its first TV advertisement in early 1992. This ad was made by Industrial Light Magic for the new Intel i486™ processor. It stressed on the power, speed and affordability of the chip. Intel had a series of high profile launches for its new chips over the next couple of years. Pentium® and Pentium® Pro were launched in 1993 and 1994 respectively. The company had now decided to use names instead numbers for its microprocessors (the word Pentium was derived from a Greek word meaning five). In the meantime Intel's investment in marketing seemed to have paid off. A company research revealed that while only 24% of European PC buyers had been familiar with the Intel Inside logo in late-1991, the figure increased to nearly 80% in 1992 and 94% in 1995.

Intel's marketing efforts not only increased the demand for chips, they also increased the demand for PCs around the world. This was interesting considering that the demand for PCs was growing sharply in spite of increase in PC prices. The number of people who owned home-PCs was increasing even as the PC emerged as the most viable tool for business, education and entertainment. Intel was the catalyst in this PC revolution that swept the entire world.

Intel's advertisement campaigns and coop marketing strategy had become well known marketing success stories of the 1990s. Each new campaign in the print, electronic or outdoor media attracted significant attention. However, even those who had accepted Intel as an unconventional marketer were not prepared for the Stayin' Alive campaign in 1997. Commenting on its success, Advertising Age said, "They became nothing less than the whimsical icons of a go-go PC industry."

In the same year, Intel started advertising on the Web and also encouraged PC makers to use this media. Intel also allowed them to use the company logo and messages in their advertisements. This helped the company convey to customers the important role its chips played in giving then a good Internet browsing experience.

As the Internet gained in popularity during the late-1990s, consumers began turning to it for gaining information on products and purchasing products online. Consequently, Intel took steps to become a leader in the Internet economy. The company spruced up its Intel Inside Program to promote and support e-Commerce marketing activities undertaken by taken up by computer manufacturers. To leverage the popularity of the Intel logo, the company even started selling products like books (for engineers and IT professionals), caps, T-shirts, key chains, pens, coffee mugs and dolls. These products, made available through the company's website, came with the Intel Inside logo printed or embroidered on them. The printed material on the merchandise generally featured the latest product(s) launched by the company.

In 2001, in another innovative move, Intel set up the Intel Inside® Online Network. This was essentially a web-based tool that helped manage business transactions related to the company's coop advertising program. The Intel Inside® Online Network, which was available 24 hours a day, provided services in languages other than English (Chinese and Japanese).

Intel's consistent efforts towards providing customer satisfaction through quality services and its innovative efforts at component branding fetched it commensurate results. The company's net income of $ 7.31 billion in 1999 increased to $ 10.53 billion in 2000. Intel earned 35% of its total revenues from North America, 31% from the Asia Pacific region, 25% from Europe and 9% from Japan. Besides PC manufacturers, the company marketed its products to various other industries such as industrial equipment, military equipment and communications industries.

Questions for Discussion:

1. Examine the business environment in which Intel began selling its microprocessors in the early-1980s. Why did Intel decide to intensify its marketing activities in the 1990s? Discuss.
2. Examine Intel's decision to target the PC end-users through its marketing campaigns. Also, comment on the cooperative marketing strategy and the execution of the Intel Inside campaign.

Caselet 18

Until 1996, Pizza in India was synonymous only a bready dough base slathered with some ketchup. Since 1996, there was a proliferation of 'high-priced branded' pizzas in the market, with the entry of international pizza chains. Domino's and Pizza Hut, the two big US fast food chains entered India in 1996. Domino's entered India in 1996 through a franchise agreement with Vam Bhartia Corp. Pizza Hut entered India in June 1996 with its first outlet in Delhi. Initially, the company operated company-owned outlets. However, keeping in line with its worldwide policy where Pizza Hut was gradually making a shift from company-owned restaurants to franchisee owned restaurants, Pizza Hut made the shift in India too. Both Pizza Hut and Domino's claimed it had the original recipe as the Italians first wrote it and was trying desperately to create brand loyalty. While Pizza Hut relied on its USP of "dining experience," Domino's USP was a 30-minute delivery frame. To penetrate the market, both the players redefined their recipes to suit the Indian tastes. Domino's went a step ahead by differentiating regions and applying the taste-factor accordingly. Domino's also made ordering simpler through a single toll-free number through out the country.

When Domino's entered the Indian market, the concept of home delivery was still in its nascent stages. It existed only in some major cities and was restricted to delivery by the friendly neighborhood fast food outlets. Eating out at 'branded' restaurants was more prevalent. To penetrate the Indian market, Domino's introduced an integrated home delivery system from a network of company outlets within 30 minutes of the order being placed. Domino's also offered compensation: Rs.30/- off the price tag, if there was a delay in delivery. For the first 4 years in India, Domino's concentrated on its 'Delivery' act. For its delivery promise to work, Domino's followed a 11-minute schedule: one minute for taking down the order, one minute for Pizza-making, six minutes oven-time, and three minutes for packing, sealing and exit. Pizza Hut, on the other hand, laid more emphasis on its "restaurant dining experience." It positioned itself as a family restaurant and also concentrated on wooing kids. Its delivery service was not time-bound.

Analysts felt that Pizza was something that just was not meant to be delivered. If it is not eaten fresh, it turns cold and soggy. However, Domino's seemed to have overcome this problem through its delivery pack called 'Domino's Heatwave.' Since its entry into India, Domino's introduced nine new toppings for Pizzas to cater to the local tastes. Different flavors were introduced in different parts of India. Very soon, Pizza Hut followed Domino's and offered customized Spicy Paneer and Chicken Tikka toppings. Apart from this, it also opened a 100% vegetarian restaurant at Ahmedabad, a one-of-its-kind worldwide.

Domino's sold a 12" Pizza for Rs. 265. The high price was attributed to the high quality of ingredients used. However, with competition increasing from Pizza Hut, Domino's introduced price cuts, discounts and freebies to attract the customers. In 1998, Domino's introduced the Pizza Mania scheme where it offered a large pizza for Rs.129/-. The demand was overwhelming and the company sold close to 5000 pizzas in the first week of its launch.

During late 1998, both Domino's and Pizza Hut were trying to lure the customers with discount coupons by issuing such coupons through several schemes. Said an analyst, "Even then, the prices are too high. Globally, fast food chains only succeed when they bring their prices down to the same level as the street food." However, both Domino's and Pizza Hut were concentrating more on data base marketing and below-the-line activities and special offers.

Domino's was spending 50% of its total marketing budget on special offers and discounts along with delivered direct mailers and pizza training classes. Domino's also had a tie-up with Discovery Channel under which the channel advertised its pizzas while Domino's put the channel's name on its mailers. Domino's conducted Pizza making classes for school students. In 1998, it offered a clock to all its customers who had bought Rs. 15,000 worth of pizzas throughout the year.

In 1998, Pizza Hut also launched a promotional campaign to attract the customers. It had a 'Pan In Your Name' contest where it offered a free pizza to anybody with the word Pan in his/her name – for example, Pankaj or Panandikar. In April 2000, Pizza Hut launched its innovative Pizza Pooch Menu and a Pizza Pooch Birthday Party package exclusively for kids in the 6-10 age group.

In March 2000, Domino's slashed prices of Pizza by 40%. The price of a regular Pizza with three toppings was cut from Rs.225 to Rs.130. In October 2000, Domino's ran a scheme, where it gave away two pizzas for the price of one, within five days of placing an order. During the same time, Pizza Hut launched a 'one rupee pan deal' scheme. Under the scheme, for every pan Pizza purchased, another was given away for Re.1. In November 2000, Pizza Hut introduced a scheme called 'barah nahin to tera (if not served in 12 minutes, it is yours free)'. The scheme offered a speed lunch in 12 minutes for Rs.89. One second over 12 minutes guaranteed that the customer would get it for free.

Domino's supply chain management enabled it to cut costs. In late 2000, it revamped its entire supply chain operations. This enabled Domino's to slash prices. For instance, the price for a no-frills cheese pizza was down from Rs.75 to Rs.49. A 10" pizza with at least three toppings was available for Rs.119 as against the earlier price of Rs.225.

Domino's and Pizza Hut initially restricted their ad strategy to banners, hoardings and specific promotions. In August 2000, Domino's launched the 'Hungry Kya? (Are You Hungry)' sequence of advertisements on television. The launch of 'Hungry Kya?' campaign coincided with Domino's tie-up with Mahanagar Telephones Nigam Ltd. (MTNL) for the 'Hunger Helpline'. The helpline enabled the customers to dial a toll-free number from any place in India. The number automatically hunted out the nearest Domino's outlet from the place where the call was made and connected the customer for placing the order. The number also helped Domino's to add the customer's name, address and phone number to its database.

This was followed by Pizza Hut's first campaign on television in July 2001, which said, 'Good times start with great pizzas.' The ad was aired during all the important programs on Star Plus, Sony, Sony Max, Star Movies, HBO, AXN, and MTV. Pizza Hut planned to spend between Rs.70-75 million on the ad campaign in 2001.

By March 2000, Domino's opened 37 outlets all over India. Between April 2000 and February 2001, Domino's set up 64 more outlets in India. Domino's had the largest retail network in the fast food segment in India- with 101 outlets across 40 cities.

Domino's had a tie-up with a real estate consultant Richard Ellis to help with locations, conduct feasibility studies, and manage the construction. It was also looking at non-traditional outlets like large corporate offices, railway stations, cinema halls and university campuses. In early 2000, Domino's had opened an outlet at Infosys, Bangalore, which was very successful. It also had outlets at cinema halls – PVR in Delhi, Rex in Bangalore, and New Empire in Kolkata.

By January 2001, Pizza Hut had 19 outlets across India. In a move to expand further, Pizza Hut planned to open an additional five restaurants in Mumbai and 30 restaurants across major cities in India, by 2001 end. In March 2001, Pizza Hut opened its first three-storeyed 125-seater dine-in restaurant at Juhu in Mumbai.

Questions for Discussion:

1. Domino's entered India at a time when Pizza Hut and McDonald's were already in the market. What was the strategy adopted by Domino's to make a dent in the Indian market?
2. Though Pizza Hut entered India before Domino's, it eventually lost its share to Domino's. How Pizza Hut tried to counter the competition from Domino's?

Caselet 19

With the penetration of their products reaching saturation levels in many urban markets, FMCG companies had to turn towards rural areas in order to sustain revenue growth and profitability. Since the disposable income in the hands of rural people had been increasing in the late-1990s and the early 21st century, it made sense for companies to focus their energies on this segment. Industry observers also felt that HLL was at an advantage compared to most of its competitors – thanks to its consistent, pioneering efforts towards establishing well-entrenched distribution and marketing networks to reach the vast Indian rural masses.

Traditionally, HLL used both wholesalers and retailers to penetrate the rural markets. A fleet of motor vans covered small towns and villages. These vans induced retailers to stock HLL products and display advertising material in their shops. In many towns, there were redistribution stockists who carried bulk stocks and serviced retailers. There were some 7,000 redistribution stockists who served over a million retail outlets.

In the late-1990s, HLL realized that despite its pioneering efforts to expand its rural consumer base, a large part of the market remained untapped. Thus, the company set itself a target of contacting 16 million new village households by 1999. This was to be achieved by strongly focusing on the sales, marketing, and production of the 'Power Brands' in the rural markets. HLL adopted a phased approach in order to meet its target and decided to address the key issues related to availability, awareness and overcoming prevalent attitudes and habits of rural consumers. Penetrative pricing was also an important factor that was addressed.

One of HLL's initial initiatives was in the form of 'Project Streamline' that was introduced in select states of the country in 1998. Project Streamline addressed the problems of the rural distribution system, to enhance HLL's control on the rural supply chain as well as to increase the number of rural retail outlets from 50,000 in 1998 to 100,000 in a time span of one year. As a part of the project, HLL aimed at providing higher quality services to consumers in terms of 'frequency,' 'full-line availability' and 'credit.'

In mid-1998, the personal products division of HLL launched another campaign called 'Project Bharat' to be carried out by the end of 1999. 'Project Bharat' was a direct marketing exercise undertaken to address the issues of awareness, attitudes and habits of rural consumers and increase the penetration level of HLL products.

Another program targeted at villages with a population of less than 2000 was simultaneously launched. Under this program, the company provided self-employment opportunities to villagers through Self-Help Groups (SHG). SGHs operated like direct-to-home distributors wherein groups of 15-20 villagers who are below the poverty line (those people whose monthly incomes was less than Rs 750 per month) were provided with an opportunity to take micro-credit from banks.

Apart from this, in May 1999, the company tied up with various Non-Governmental organizations (NGOs), United Nations Development Programme (UNDP) and other voluntary organizations to increase awareness about health and hygiene in villages. The company set a goal of reaching 2,35,000 villages from the existing 85,000 and covering 75% of the population from the existing 43%.

To further increase the effectiveness of the campaign, the company aimed at achieving a 65% reach through the TV media up from the current reach of 33%. Starting with Maharashtra, the company encouraged primary education in villages with the help of V-Sat connections. This helped it to create greater awareness about hygiene and cleanliness thus influencing people's behavior, which in turn would have a direct impact on its sales.

By the end of 1999, HLL had covered 13 million households through 'Project Bharat.' The campaign was successful in increasing penetration levels, usership and the awareness about the company's products in the districts targeted. This also helped HLL grow at a better pace than the industry. In the shampoo market, while the urban growth rate was only 4-5%, the rural growth was at 15-16%. Similarly, in the skincare market the urban growth was only at 7-8% whereas it was 14% in the rural markets.

In August 1999, HLL launched a nationwide Community Dental Health campaign in association with the Indian Medical Association (IMA) to promote its toothpaste Pepsodent. HLL stood at the second position in terms of market share in the dental care segment (37%) that comprised of Pepsodent's 16% and Close-Up's 21% whereas Colgate-Palmolive was the leader with over 50% market share in the Rs. 10 billion toothpaste market.

The company wanted to attain the leadership status with the help of aggressive marketing initiatives. Statistics revealed that penetration levels in India were very low with the per capita consumption (of toothpaste) being only 0.75 gm. Moreover, only 47% of the Indian population used toothpaste – while 27% used toothpowder, the rest used traditional methods such as coal and neem sticks. The growth in the segment was around 3-4% in the urban market, whereas the rural market growth was projected at 9-10%.

As a part of the project several infomercials were launched to increase awareness on dental hygiene and also to highlight common dental problems and their causes. These infomercials were aired on Doordarshan (India's national television channel). Around 200 health fairs were organized, predominantly in the rural areas. Various dental health programmes as well as education & check up modules were organized at public health centers.

In April 2000, the company launched another campaign called 'Project Millennium' wherein it targeted at increasing its share in the tea market. HLL planned ways to tap the 'chai-ki-dukan' (tea vendors). The company provided affordable tea packets that were suitably blended to appeal to the rural taste of 'Kadak chai' (strong tea). The company test marketed an especially designed product 'chai-ki-goli', (fully soluble ball) that was dropped in boiling milk-water combination. These were priced very attractively at four for a rupee.

All these initiatives seemed to have paid off for HLL. It was found that HLL had overtaken both Colgate-Palmolive and Nirma in creating brand awareness and penetration in rural households. The survey revealed that HLL was leading with 88% rural market penetration whereas Nirma and Colgate-Palmolive followed in that order with 56% and 33% respectively. HLL's brands had the highest penetration in many product categories.

Inspired by the success of its earlier ventures, HLL went on to participate in a rural communication programme called the 'Grameenon ke Beech' (Amidst villagers) in August 2001. The program was launched by the Rural Communications & Marketing Pvt Ltd, (RC&M), an agency that specialized in rural advertising and marketing. The program involved setting up of company stalls, product briefings and demonstrations, interactive games, lucky draws, magic shows and the screening of a hit movie interspersed with product commercials.

In late 2001, HLL launched another project called 'Project Shakti' in the state of Andhra Pradesh for a period of six months. Project Shakti sought to create a sustainable partnership between HLL and its low income rural consumers by providing them access to micro-credit; an opportunity to direct that credit into investment opportunities as company distributors; and reward for growth and enterprise through shared profits.

At the end of six months of implementation (March 2002), HLL claimed to have achieved a 20% increase in consumption in the areas where it was carried out. This was a favorable development for the company, coming at a time of an overall economic slowdown. Having been successful in this initiative, HLL decided to expand this project to other states like Gujarat, Maharashtra and MP. The project at Gujarat was to be carried out in early-2002. HLL also planned to work with a group of NGOs to implement the project in the states of Maharashtra and MP in 2002-03. Continuing its focus on rural areas, HLL launched a massive rural campaign to reposition one of its leading brands, Lifebuoy, in February 2002. Lifebuoy was the single largest soap brand in rural India with 20 lakh soaps sold every year and had an estimated value of Rs 5 billion. The re-launch of 107-year-old Lifebuoy was primarily done to increase growth in the sluggish soap market.

Questions for Discussion:

1. Discuss the various measures taken by HLL to increase the awareness and penetration levels of its products in the Indian rural markets.
2. Comment on the marketing structure adopted by HLL to ensure the availability of its products in the rural areas? How far has the distribution strategy contributed to HLL's growth in rural India?

Caselet 20

In 1998, investors of Unit Trust of India's (UTI) Unit Scheme-1964 (US-64) were shaken by media reports claiming that things were seriously wrong with the mutual fund major. For the first time in its 32 years of existence, US-64 faced depleting funds and redemptions exceeding the sales. Between July 1995 and March 1996, funds declined by Rs. 3,104 crore. Analysts remarked that the depleting corpus coupled with the redemptions could soon result in a liquidity crisis.

Unlike the usual practice for mutual funds, UTI never declared the NAV of US-64 - only the purchase and sale prices for the units were announced. Analysts remarked that the practice of not declaring US-64's NAV in the initial years was justified as the scheme was formulated to attract the small investors into capital markets.

Following the heavy redemption wave, it soon became public knowledge that the erosion of US-64's reserves was gradual. Internal audit reports of SEBI regarding US-64 established that there were serious flaws in the management of funds.

Till the 1980s, the equity component of US-64 never went beyond 30%. UTI acquired public sector unit (PSU) stocks under the 1992-97 disinvestment program of the union government. Around Rs. 6000-7000 crore was invested in scrips such as MTNL, ONGC, IOC, HPCL & SAIL.

A former UTI executive said, "Every chairman of the UTI wanted to prove himself by collecting increasingly larger amounts of money to US-64, and declaring high dividends." This seemed to have resulted in US-64 forgetting its identity as an income scheme, supposed to provide fixed, regular returns by primarily investing in debt instruments. Even a typical balanced fund (equal debt and equity) usually did not put more than 30% of its corpus into equity. By the late 1990s the fund's portfolio comprised around 70% equity.

While the equity investments increased by 40%, UTI seemed to have ignored the risk factor involved with it. Most of the above investments fared very badly on the bourses, causing huge losses to US-64. The management failed to offload the equities when the market started declining.

In spite of all this, UTI was able to declare dividends as it was paying them out of its yearly income, its reserves and by selling the stocks that had appreciated. This kept the problem under wraps till the reserves turned negative and UTI could no longer afford to keep the sale and purchase prices artificially inflated.

UTI realised that it had become compulsory to restructure US-64's portfolio and review its asset allocation policy. In October 1998, UTI constituted a committee under the chairmanship of Deepak Parekh, chairman, HDFC bank, to review the working of scheme and to recommend measures for bringing in more transparency and accountability in working of the scheme.

After much deliberation, a new scheme called SUS-99 was launched. The scheme was formulated to help US-64 improve its NAV by an amount, which was the difference between the book value and the market value of those PSU holdings. The government bought the units of SUS-99 at a face value of Rs 4810 crore. For the other PSU stocks held prior to the disinvestment acquisitions, UTI decided to sell them through negotiations to the highest bidder. UTI also began working on the committee's recommendation to strengthen the capital base of the scheme by infusing fresh funds of Rs. 500 crore. This was to be on a proportionate basis linked to the promoter's holding pattern in the fund. The inclusion of the growth stocks in the portfolio was another step towards restoring US-64's image. To control the redemptions and to attract further investments, the income distributed under US-64 was made tax-free for three years from 1999.

UTI also decided to have five additional trustees on its board. To enable trustees to assume higher degree of responsibility and exercise greater authority UTI decided to give emphasis on a proper system of performance evaluation of all schemes, marked-to-market valuation of assets and evaluation of performance benchmarked to a market index. The management of US-64 was entrusted to an independent fund management group headed by an Executive Director.

One of the most important steps taken was the initiative to make US-64 scheme NAV driven by February 2002 and to increase gradually the spread between sale and repurchase price. The gap between sale and repurchase price of US-64 was to be maintained within a SEBI specified range. UTI announced that dividend policy of US-64 would be made more realistic and it would reflect the performance of the fund in the market.

The real estate investments made by UTI for the US-64 portfolio were also a part of the controversy as they were against the SEBI guidelines for mutual funds. UTI had Rs. 386 crore worth investments in real estate. UTI claimed that since its investments were made in real estate, it was safe and it could sell the assets whenever required. However, the value of the real estate in US-64's portfolio had gone down considerably over the years. The real estate investments were hence revalued and later transferred to the Development Reserve Fund of the trust according to the recommendations of the Deepak Parekh committee.

By December 1999, the investible funds of US-64 had increased by 60% to Rs. 19,923 crore from Rs. 12,433 crore in December 1998. The NAV had recovered from Rs. 9.57 to Rs. 16 by February 2000 after the committee recommendations were implemented.

Questions for Discussion:

1. Explain in detail the reasons behind the problems faced by US-64 in the mid 1990s. Were these problems the sole responsibility of UTI? Give reasons to support your answer.
2. Analyse the steps taken by UTI to restore investor confidence in US-64. Comment briefly on the efficacy of these steps.

Caselet 21

In July 1999, the Government of India decided to allow private players to enter the FM radio-broadcasting sector. It planned to offer ten-year licenses to private players in 40 cities across India. These private broadcasters would be permitted to offer only music, education and entertainment-based programs, not news or current affairs programs.

Following the announcement, many companies bid for licenses to operate in various cities. The first private FM radio station Radio City began functioning in July 2001 in Bangalore, Karnataka. By October 2001, sixteen companies were issued licenses to operate private FM radio stations.

Vividh Bharati, All India Radio's (AIR) main entertainment channel, was started in the 1960s. Commercial broadcasting was first introduced on Indian radio in 1967. In the mid-1970s, AIR started offering sponsored programs. Radio's commercials started during the early 1980s on its primary channel Vividh Bharati and were extended to other channels by the mid-1980s. All these initiatives increased the popularity of radio in the country and also generated huge revenues for AIR.

By the 1980s, radio had become a part of almost every household in India, enjoying the patronage of millions of people across the country. Due to its immense popularity, extensive reach, easy accessibility and cost effectiveness, radio became a primary communication and entertainment medium during the 1970s and 1980s attracting listeners as well as advertisers. However, from the mid-1980s, television (TV) began to lure away radio listeners. As a result, the industry spend on radio advertising has come down to less than 1 %.

Analysts felt that the government's restrictive policies also contributed to radio's downfall to some extent. They felt that even with an extensive reach of over 98%, the penetration of the radio network remained stagnant in the 1990s, as the government failed to reform its broadcasting policies. Lack of good scripts and innovation in programming were also affected the quality of radio programs. Analysts also blamed the Indian advertising agencies for the decreasing ad spends on radio. They felt that the advertising agencies failed in exploiting the potential of radio to its fullest and simply treated it as a remainder medium.

In 1993, the government allowed private players in the FM sector by permitting them to take blocks (i.e. time slots to offer their programming content) on AIR, for FM transmissions. The purpose of this move was to earn revenues for AIR (by way of license fees) and provide more variety for listeners. The major players in the private FM market during that period were Times FM (of the media giant Bennett Coleman & Co) and Radio Mid-Day (of the Midday Multimedia group). The programs offered by these private stations were much more listener-friendly and innovative than AIR's programs. As a result, the channels became very successful (in the mid-1990s) and attracted high advertising revenues. By 1997-98, the private FM business in India had grown to Rs. 930 million.

The growing popularity of private FM channels resulted in decreasing revenues for AIR as these FM channels attracted most of the ad revenues. In June 1998, Prasar Bharati stopped the operations of private FM channels, reportedly in an attempt to improve AIR's revenues. But in July 1999, the government again decided to privatize FM broadcasts and came out with a ten-year license deal. The government refused to allow any foreign ownership in the sector. In 2000, the government called for bids for FM licenses.

Reportedly, there are more than 150 million radio sets in India – three times more than the number of TV sets in the country. On the basis of this data, private radio broadcasters claimed that radio had vast potential just waiting to be exploited. They aimed at duplicating the success of satellite television (which transformed the television industry in the 1990s) in the radio sector, with the help of latest digital technologies and innovative programming. According to estimates, radio's share in the total advertising budgets of corporates was likely to grow to 5% by 2007 as against less than 1% in 2001.

Thus, radio ad spend was expected to grow by an estimated CAGR of 45% between 2002-2007 as compared to an estimated 15% growth for total ad spend. Analysts claimed that the radio industry would follow the path of the television industry, which grew rapidly during the 1990s, with the entry of private players.

Though the government's invitation to private players resulted in an initial rush for licenses, many companies decided to stay away from the sector because of the high license fees demanded by Prasar Bharati and the risk involved in investing heavily.

These players were not allowed to offer news or current affair programs, and they were given only a fixed number of slots per city. As a result, only a few players remained in the race. They were given licenses to set up 37 stations that would operate across 19 cities in India.

With the launch of 'Radio City FM91' in July 2001, in Bangalore, by STAR and Music Broadcast Private Ltd. (MBPL), the industry began its second innings. Besides Bangalore, MBPL had FM radio licenses for five other cities: Delhi, Mumbai, Patna, Nagpur and Lucknow. The Lucknow and Mumbai stations began operations in the next few months. The other three stations were yet to become operational. STAR functioned as a content supplier and provided sales and marketing support to Radio City.

Radio City achieved significant success in Bangalore and Lucknow, registering high listenership ratings. With the launch of Radio City, overall FM radio listenership increased by 56% while the time spent on listening to radio tripled (from 1 hour to 3 hours). Home listening increased to 85%, with listenership at the workplace also growing at a rapid pace. Similar trends were observed after the launch of Radio City in Lucknow. By late 2001, FM transmission reached 21% of India's population and covered over 17% of the country's area.

The strategies followed by the players varied from one radio channel to another. Radio City's market strategy was developed after six months of intensive research conducted in Bangalore. As part of this strategy, the company focused on creating brand name and brand awareness, before moving on to specific target programming. Sumantra Dutta, COO, Radio Division, STAR, said, "What we are looking at is the first mover advantage. We are the first private FM radio station in India, and we plan to cash in on this." The company identified music as a universal theme appealing to all sectors of the community. It therefore offered music-based programs in both English and local languages.

In order to broaden its appeal, the channel also offered programs such as the '11 o' Clock Show' on beauty tips and the 'Breakfast Show' offering the day's horoscopes. Apart from these, the channel offered a range of entertainment programs 24 hours a day. These programs were customized to the needs and tastes of local listeners on the basis of customer research. Radio City also signed a contract with Newscorp to leverage the best international talent in the fields of technology, research, engineering, sales, marketing and programming.

The target audience for Radio Mid-Day was however, car owners. The channel's programs targeted car owners, who had to spend hours stuck in the traffic. For the afternoon slot, Mid-Day focused on offering programs that appealed to housewives. Rajesh Tahil, Head of Radio Mid-Day, said, "In the afternoon slot, we will have to compete with television for the attention of housewives. What we are aiming at is the top 20% of the radio audience. Thus we have decided to choose an audience, and go with it."

The increasing popularity of FM resulted in considerable growth in the advertising revenues earned by radio companies. Seeing the growing listener base of FM radio, many companies increased the share of radio in their total advertising budgets. Many leading brands such as Kwality-Walls, Spice, Tanishq and Airtel advertised heavily.

Questions for Discussion:

1. Discuss the growth and decline of radio broadcasting in India and examine the reasons for the fall in the medium's popularity during the 1990s.

2. Analyze the changes in the Indian radio market with the entry of private players into the FM sector. Critically evaluate the private players' strategies to leverage the potential of radio. Do you suggest the new entrants might follow similar strategies to expand the market and ensure success?

Caselet 22

In February 2000, as part of its disinvestment programme, the Government of India (GoI) sold Modern Food Industries (India) Limited (MFIL) to Hindustan Lever Limited (HLL) for Rs. 1.05 billion. This was hailed as a major step in the GoI's disinvestment plan. However, some analysts questioned the GoI's decision to sell MFIL – a company with 14 production units spread across the country and almost 0.5 million square meters of land – for just Rs. 1.05 billion.

The acquisition of Modern Foods provided HLL control over 14 bread manufacturing units and a distribution network with 22 franchise units. HLL officials said that the vast distribution network of MFIL would help the company's growth in the high-end of the foods business. HLL, which sold branded wheat, felt that it could generate synergies in procurement. This would be critical to success in a low margin, high volume business.

Analysts felt that the sale of MFIL was well timed since the company was sold as a going concern, not as a BIFR case. However, some analysts were of the opinion that the sale was undervalued. Apart from machinery at its 14 bakeries, MFIL had 19 franchises and six ancillary units scattered across the country. Some analysts felt that the real estate alone—16 acres in Delhi, 4 acres in Kanpur and 18 acres in Mumbai—would be worth over Rs. 5 billion. They felt that HLL had paid for the brand and got the fixed assets for free.

The Comptroller and Auditor General of India (CAG) also criticised the government for not valuing MFIL correctly. The CAG also criticised the valuer of MFIL (ANZ Grindlays Bank) for not taking into account the value of surplus land in Delhi Business Unit-I as well as the leased land of the Silchar unit in Assam.

The GoI said that its decision to sell off 74 per cent of its stake in MFIL to HLL ensured a cash flow higher than ANZ Grindlays Bank's valuation and prevented the company from being declared sick. ANZ Grindlays Bank had valued the entire company at Rs. 785 million only, while HLL had valued MFIL at Rs 1.65 billion. HLL made an upfront payment of Rs. 1.05 billion for the 74 per cent government equity in MFIL, besides agreeing to infuse Rs 200 million for technology upgradation and modernisation. The GoI also claimed that HLL was the only bidder which submitted a formal proposal and offered a higher sum than ANZ Grindlays Bank's valuation. Thus, the best option before the GoI was to sell majority equity to HLL and save the company from being caught in the BIFR's net.

After HLL acquired MFIL, MFIL's losses went up. By December 2000, MFIL's accumulated losses increased to Rs. 470 million (in 1998-99, MFIL made losses of around Rs. 69 million) as against its networth of Rs. 330 million. In early 2001, MFIL was referred to the Board of Industrial and Financial Reconstruction as more than 50% of its networth had been eroded by its losses. Officials of MFIL alleged that HLL wanted MFIL to be referred to BIFR so as to get some relief from banks and financial institutions. They further contended that if HLL had used the Rs 200 million it infused into MFIL as preference share capital instead of loans, MFIL would not have become sick. However, HLL officials said that they had little choice but to go to the BIFR, because MFIL's accumulated losses had exceeded 50 percent of its peak net worth, over a four year period. According to section 23 of the Sick Industries Act (SICA) if a company's accumulated losses over four years exceed 50 percent of net worth, then it has to be declared sick and referred to BIFR.

In 2001, HLL set a two-year timeframe to turn around MFIL. The turnaround included providing financial assistance to distribution channels and introducing better-quality bread ingredients to improve quality. HLL had already pumped in around Rs. 200 million in MFIL by way of secured loans and corporate guarantees. HLL officials claimed that MFIL's sales had more than doubled since it was acquired. Said an official, "While we have already achieved a turnaround in sales, a turnaround in financial terms (profitability) will happen in the next two years." The increase in sales (actual figures not revealed) was mainly due to an increase in the number of outlets that sold MFIL bread. In Mumbai, the number of outlets increased to about 250 from 100, and crossed the 400-mark in New Delhi.

Ever since HLL took over the company, it seemed to have focussed on improving the quality of the product and its distribution. It also helped MFIL leverage on HLL's strengths in areas such as wheat procurement, communication, treasury, and training.

In mid 2001, HLL introduced a voluntary retirement scheme for employees of four units of MFIL that were closed and for its surplus employees at other locations. Work was suspended between 1991-99 at four of MFIL's 19 factories—Kirti Nagar (closed since June 1999), Ujjain (closed since March 1994), Bhagalpur (since October 1998) and Silchar (abandoned at the project stage itself in October 1991). Workers in these units were drawing wages. Moreover, many units at different locations had surplus manpower.

HLL officials said MFIL's losses would reduce to Rs. 200 million in 2000-01 from Rs. 480 million in 1999-00. In 2000-01, the first year under HLL's management, bread sales of MFIL increased to Rs. 1.02 billion from Rs. 780 million in 1999-2000. Growth in bread sales in the first four months of 2001 was 80 per cent over the corresponding period of 2000.

Meanwhile, MFIL's management was planning to initiate talks with the employee federations to put in place a streamlined and productivity-linked incentive scheme for its workforce.

MFIL's management had initially worked out a one-year agenda with employee federations in September 2000. MFIL had a workforce of about 2000 of which 490 had applied for the VRS scheme introduced by the company in June 2001. Of the 520 applications for VRS, about 490 were cleared at a cost of an estimated Rs. 150 million to the company.

In late 2001, MFIL was also looking for ways to spread its manufacturing base and was aggressively setting up ancillaries through arrangements with existing bakeries. The company was exploring the possibility of expanding in big towns, where MFIL did not have a presence, besides spreading to other smaller towns. The next few years would tell whether MFIL could be transformed from an ailing PSU into a breadwinner by HLL.

Questions for Discussion:

1. Analysts felt that by taking over MFIL, HLL could consolidate its position in the food business. Identify and describe the synergies that HLL was looking for by taking over MFIL.
2. MFIL was plagued with capacity under-utilisation, and labour problems. Discuss various strategies adapted by the HLL to revive MFIL.

Caselet 23

In December 1999, India's national carrier, Air India (A-I) signed an agreement with Virgin Atlantic Airways (VA) by which VA would fly three flights on the Delhi-London route on a code-sharing basis with A-I. A-I already had a code sharing arrangement with a number of foreign airlines. These included Air France, Swiss Air, Bellview Airlines, Austrian Airlines, Asiana Airlines, Scandinavian Airlines, Singapore Airlines, Aeroflot, Air Mauritius, Kuwait Airways and Emirates. Even VA had code-share agreements with Continental Airlines, Malaysian Airlines, and British Midland. In the late 1990s, Richard Branson, the chairman of VA, was targeting the lucrative Delhi-London route. Every year an estimated 0.3 million passengers traveled from Delhi to London, which was nearly 40 per cent of the total outbound traffic from India. The only available direct route codes were held by BA and A-I. As a result passengers were forced to take circuitous routes offered by airlines like Emirates and Royal Jordanian which made them wait for hours at distant airports.

Besides commercial cooperation on cargo services, yield management, and product development, the arrangement with Branson would give AI's staffers access to cabin crew training. However, analysts felt that once VA started its operations, it would be an all-out fight to lure passengers and AI would be the worst sufferer. As VA promised to offer tickets at 15 per cent less than BA, a Delhi-London VA ticket would be cheaper than A-I's.

As a result of the December 1999 agreement, A-I would fly three services a week on a code share basis between Delhi and London from July 2000. The arrangement with A-I was for five years and apart from the initial three flights a week, frequencies, it had agreed to give away the remaining three to V-A by 2001. VA and A-I would share seats on each other's routes and VA would operate flights to the UK on routes not covered by A-I. VA would also fly on days that were not flown by A-I. Under the terms of the agreement, flights would carry both VA and A-I flight numbers, and both airlines would sell seats on those services in competition with one another.

Air India officials felt that more than the financial gains, it was the partnership that mattered and the move would bring in fresh traffic to the country. Besides traffic, VA's arrival could also mean reduction in airfares.

VA's arrival was also expected to improve A-I's services and even bring about a reduction in the fares depending on the market conditions. Analysts felt that with the AI-VA code sharing agreement, other carriers such as Thai Airways and Cathay-Pacific, which were asking for more flights, would pressurize the GoI for code-share arrangements with AI in lieu of more flights.

Analysts felt that with the entry of VA, the Indian skies would see some fierce price wars between VA and BA. Branson said that VA's first class fares would be equivalent to the business class fares of BA and that the economy fare would be 30-50% cheaper than BA's. If BA brought down ticket prices as it had done in May 2000, VA would fly for less, Branson said. Since BA had proposed a fare of about Rs. 27,000 on the Delhi-London sector, Branson said VA would file an application with the GoI for a lower fare.

In June 2000, VA announced that it would start its operations in India in July with a bi-weekly service—Wednesdays and Fridays from London and Thursdays and Saturdays from Delhi. VA planned to launch a third weekly flight around October.

Analysts felt that VA would give BA some stiff competition, not only in terms of fares, but also with its array of services such as sleeper seats, massage services and lounge facilities.

Meanwhile, BA was bracing itself to meet the VA challenge on the Delhi-London sector. The airline announced direct daily services between London and Delhi from October 30, thereby increasing capacity by 25 per cent on this sector.

On July 5, 2000, VA dropped a bombshell. It slashed its introductory airfare from the normal Rs. 42,598 to Rs. 31,000 for a return ticket on the busy London-Delhi route. But just before VA's entry into Indian airspace, BA also announced a special economy-class fare: a Rs. 27,635 round trip ticket.

In July 2000, BA won the right to three more flights per week between India and Britain, drawing an immediate protest from VA. According to BA's South Asia manager Alan Briggs, under a special arrangement outside a bilateral aviation agreement, the GoI had given BA permission to fly three times a week to the eastern city of Calcutta. Under the bilateral pact, which was renewed in February 2000, BA and A-I were each allowed to fly 16 times a week to each other's home country. A-I used 10 of its 16 weekly flight entitlements on the route. BA used all 16 of its flight entitlements, with seven flights a week to Delhi, seven to Mumbai and two to Madras. BA had been lobbying since 1993 to increase the number of its flights to India.

By October 2000, VA was to start its third code share flight as per the agreement with A-I. In addition to the Rs. 100 million per flight per annum that A-I got from VA, the third flight would fetch A-I Rs. 300 million per annum. However, till late 2001, VA was flying only two flights a week. Also, there was no progress on the remaining three flights that VA was entitled to fly from 2001. This seemed to the bone of contention between VA and A-I.

Some analysts said that while VA was keen to operate the third flight on Sundays from London with a Monday departure from Delhi, A-I was opposed to it as the Indian carrier also had a Delhi to London flight on Monday morning. VA was willing to schedule its flight at 2 p.m. in the afternoon, ensuring a gap of more than 6 hours between its flight and A-I's London flight. But this was not acceptable to A-I, which pointed out that according to the agreement signed between VA, and A-I, VA was to operate flights only on those days when A-I did not operate services to London. A VA official said that the delay in granting permission to VA to operate the third flight on the sector was proving to be financially disastrous for A-I. In late 2001, VA was in some trouble because of the downturn in the transatlantic aviation business and shrinking revenues. Having already announced 20 per cent reduction of activities, the airline seemed unable to sustain its operations in India with just two flights a week. During its short stay in India, VA had already notched up losses on the Delhi-London sector and industry sources ruled out the chances of VA breaking even unless the frequency increased from the current level. VA officials have indicated to the GoI that VA may have to pull out of India if the frequency of operations was not increased.

VA informed the GoI that it had agreed to provide A-I with income worth Rs. 100 million per annum for each flight on the basis of the understanding that a third frequency would be allowed on schedule. VA also said that it had hired Indian crew for three flights and spent on publicity, as it was confident its frequency would be increased. It informed the GoI that it would have to pull out of India if the third flight was not cleared. In October 2001, the GoI ordered a full review of the code-sharing pact.

Questions for Discussion:

1. Air India's code sharing arrangement with Virgin Atlantic was expected to benefit the ailing Air India. However, by the end of 2001, relation between Air India and Virgin Atlantic deteriorated and Virgin Atlantic threatened to pull out of India. Explain why the Air India-Virgin Atlantic code sharing arrangement failed to have the desired effect.
2. "Tie-ups between major airlines have become a key part of the global aviation strategy in the late 1990s. They range from mere code sharing arrangements and joint frequent flyer programmes to alliances." Discuss.

Caselet 24

Cabdbury India Ltd. (CIL) and the Cadbury's brand are synonymous with chocolate in the minds of Indian consumers. The company began manufacturing operations in Mumbai in 1946. In the 1960s, CIL launched a range of products such as Crackle, 5 Star, Gems, Tiffins, Nutties, Butterscotch and Caramels. Most of these products became instant successes and led to rapid growth in chocolate consumption in India. Following this, the company launched Cadbury's Eclairs in 1972, priced at 25 paise. Eclairs, was a runaway success, despite being priced higher than the available sugar confectioneries in the market at that time.

In 1990, CIL's domination of the Indian chocolates segment was threatened by the entry of Nestle India (Nestle), the Indian subsidiary of global FMCG major, Nestle S.A (Switzerland), into the Indian chocolate segment. Nestle, which entered India in the 1950s, was a leading player in the coffee and milk products segments in India. It entered the chocolate segment in India with the launch of a range of premium chocolates under the Nestle brand name. In 1994, Nestle introduced BarOne (chocolate bar with peanuts) and soon garnered a respectable market share in the chocolate segment.

CIL carried out many successful advertisement campaigns on TV and other media. As a result, CIL brands gained high consumer recognition. During the 1980s, CIL identified children as its target audience and developed campaigns that appealed to this segment. However, by the mid-1990s, chocolates were being positioned as near-meal substitutes by both Nestle and CIL. This was because the market was moving from being 'children-centric' to encompass adults as an important target segment. In 1994, to cope with this change in the composition of the target audiences, CIL decided to target Cadbury's Dairy Milk (CDM) at adults instead of only children.

The result was a new campaign which repositioned CDM. The company brought out a series of advertisements that carried the tagline, 'Kya Swaad Hai Zindagi Mein' (Real Taste of Life – RTOL). These advertisements depicted people from various backgrounds 'celebrating life,' with CDM in the backdrop.

In 1995, Nestle entered the wafer-chocolate segment by launching its global 'bestselling' wafer chocolate brand KitKat in India. CIL responded quickly by launching its own wafer chocolate brand, Perk, to meet the KitKat challenge. Both the brands were backed by promotional campaigns and decibel advertising. Even though KitKat's 'Have a Break, Have a KitKat' campaign becoming a huge hit, Nestle's sales lagged far behind CIL's. In 1996, while CIL's market share was 76%, Nestle's was only 10%.

Though CIL continued to be the market leader in the chocolate segment during the late 1990s, it faced problems regarding the market shares of 5 Star and Perk. 5 Star's market share had declined to 15% in 1997 from over 20% in 1995; and Nestle's aggressive marketing of KitKat had placed Perk under threat. CIL's management thus decided to focus on new product launches to stay ahead of the competition and regain market share.

CIL launched a number of new products in 1998, such as Picnic, Byte, English Toffee and Cadbury Gold. Much to the company's dismay, these new products failed to click with the consumers, largely because of their taste. During that same period (the late 1990s) Nestle's range of snack-substituting chocolates such as Charge, Nuts, KitKat orange and Crunch, ate into the share of most of CIL's new launches.

In late 1999, a new two-fold vision was formulated for CIL – one, doubling shareholder value and, two, putting 'a Cadbury in every pocket.' To achieve this, the company planned to increase the depth of chocolate consumption by adding 10 million consumers every year, launching more new and innovative products, relaunching existing major brands, and revampimg the marketing mix, advertising and promotional strategies, and focusing on the gifts segment. To increase the depth of chocolate consumption, CIL strengthened its distribution network to reaching 80,000 additional retail outlets every year. It also offered low-priced packs for the masses and launched new products that targeted different age groups.

In February 2001, Mathew Cadbury (Mathew) became CIL's Managing Director. He continued with the policy of placing 'a Cadbury in every pocket. The company therefore went ahead with the launch and relaunch of chocolates.

During 2001, CIL also launched a range of gift packs for various festive occasions and celebrations such as Diwali (Diwali Range), Valentine's Day (Sweet Nothings Range), and Rakhi. In January 2002, CIL launched 'Celebrations,' a selection of assorted chocolates in three flavors aimed at the 'gifting' segment.

Innovative promotional and advertisement strategies were developed to support all the above launches/relaunches. Many of CIL's advertisement campaigns became very popular and the company bagged various awards for the same.

In 2001, CIL's sales volumes grew by 5.8% (against a targeted volume growth of 10%). This growth was attributed to the launch of small pack variants of the leading brands and the new advertisement campaigns.

When Puri replaced Matthew as the Managing Director in January 2002, there was a radical shift in the company's policies. Puri changed CIL's vision statement from 'A Cadbury in every pocket' to 'Life full of Cadbury and Cadbury full of life.' As a result, the company shifted its focus from launching new brands to rejuvenating and strengthening the existing brands (CDM, 5-Star, Perk, Gems and Eclairs). In addition, CIL planned to extend its reach to semi-urban and rural markets. CIL also decided to sell its products through 'non-traditional' outlets like music stores (such as MusicWorld), malls, renowned bookstores and popular apparel outlets (such as Pantaloons and Wills Sport boutiques). The March 2002 decision to change the positioning and advertising of CDM was essentially a part of the above shift in strategy.

Despite the numerous measures taken by CIL during 2000-2001, only CDM managed to show positive growth; the market shares of the other brands remained stagnant. According to analysts, for the past few years, the company had failed to achieve the growth volumes it had set for itself. Meanwhile, Nestle managed to take away over 6% of CIL's market share between 2000-2002. According to analysts, of the 6%, 3% of the market share was acquired by Nestle during the first quarter of 2002 alone.

Both Nestle and CIL had launched many products during 2001-2002. Unlike Cadbury's 'new' products Nestle's products differed substantially from its existing range. By providing variety, Nestle was able to increase its share in the chocolates and confectioneries market from 26% in 2000 and 29% in 2001 to 32% in March 2002. Analysts felt that because Cadbury did not launch new products, its product portfolio lacked variety compared to Nestle's. According to them, this was the main reason for the decline in CIL's volume share from 66% in 2001 to 63% in March 2002. However, even when CIL brought out new products – Picnic, Cadbury Gold, Triffle, Relish – many of them were non-starters. Some analysts attributed the failure of many CIL brands to the slump in the confectionery market.

While Nestle derived its revenues from various sectors such as milk products, coffee, culinary products, confectionery and other beverages, CIL was present only in the chocolates, sugar confectionery and malted food segment. Thus, Nestle had the option of diversifying its risks across its vast product portfolio, something CIL could not do. In addition, Nestle had 1 million retail outlets, while CIL had only 0.45 million outlets.

Questions for Discussion:

1. Discuss the strategies followed by CIL until the early 1990s to establish itself as the market leader in the chocolate segment. Why did CDM change the positioning of its brand in 1994? To what extent did CIL succeed in its attempts to reposition CDM?
2. Do you think repositioning CDM in 2002 was a good strategy? Justify your stand. Discuss the future prospects of CIL in light of severe competition from Nestle. What, according to you should CIL do to retain its market position and keep the competition at bay?

Caselet 25

In 1997, Samsung launched its first corporate advertising campaign – Nobel Prize Series. This ad was aired in nine languages across Europe, Middle East, Latin America and CIS. The advertisement showed a man (representing a Nobel Prize Laureate) passing through one scene to another and as the man passes through different scenes, Samsung products transform into more advanced models. According to company sources, the idea was to give out message that Samsung uses Nobel Prize Laureates' ideas for making its products. Samsung also signed an agreement with Nobel Prize foundation to sponsor Nobel Prize Series, worldwide. The program was developed by Nobel Foundation, Sweden to spread achievements of the Nobel Prize Laureates.

In 1999, Samsung unveiled a new campaign in the US with a new brand slogan – '*Samsung DIGITall: Everyone's invited'* on the eve of its 30th anniversary. Samsung re-designed its logo to convey its objective of making life filled with convenience, abundance and enjoyment through innovative digital products (Refer Figure I). SAMSUNG DIGITall expressed the company's vision to provide digital products: *For all generations, For all customers and For all products.*

In April 2001, in the brand campaign created by True North Communications' the company planned 30-seconds TV spots on various channels such as CNN, VH1, ESPN, TNT and NBC during NBA games. The first advertisement in the series – 'Anthem' was set in U.K. The advertisement showed different Samsung products – flat screen TV monitor, MP3 Player, watch phone being used by multi-ethnic cast. In the background, a voice broke out: *"There is a world where you see, hear and feel things like never before, where design awakens all your senses. This is the world of Samsung and everyone's invited"* and at the end of the commercial company's tagline 'DIGITall, Everyone's invited' appeared.

Figure I

Source: www.hvdm.nl

The 'DIGITall' campaign was integrated across all the countries where the company had presence and across all product lines. The marketing initiatives included sponsorship of events on global and regional scale. It was reported that around 30 people from Samsung's Seoul and North America offices worked with FCB on the campaign.

In 2001, Samsung added word 'WOW' in its marketing campaigns signifying the admiration of the consumers for its innovative products like voice activated mobile phones cum MP3 players. The word 'WOW' indicated consumers' appreciation about Samsung's high technology products at affordable prices.

It was reported that Samsung's 2001 global brand campaign increased consumer awareness about Samsung from 83.7% in 2000 to 91.2 in 2001 and in the US, brand awareness and preference for Samsung increased from 56.4% to 74.1% for the same period.

In April 2002, Samsung adopted Internet marketing to reach out the high-profile consumers. It concentrated on increasing brand awareness; retail and web traffic and give away product information with every advertisement. It bought out web ad space on more than 50 websites such as *Fortune.com*, *Forbes.com* and *BusinessWeek.com*. Along with its Internet marketing initiatives, Samsung also advertised in print and television.

In May 2002, Samsung announced to extend its 'DIGITall' campaign, by launching new global campaigns with different tag lines – ***'DIGITall Passion,' 'DIGITall Escape,' and 'DIGITall Wow.'*** The new ads projected mobile phones, Colour LCD mobile phones, entertainment products and its future products like – Internet refrigerator, highlighting easy accessibility and usage of the products. Said Kim, "Many consumers think of digital technology as an elite experience that's inaccessible to them. Samsung prides itself on developing revolutionary technology that meets everyone's needs – business or personal."

Questions for Discussion:

1. Narrate how the objective behind samsung's advertising campaigns shifted over a period of time?
2. Do you think its advertising campaign helped Samsung in positioning itself better in the market?

Caselet 26

In 1999, the leading Indian herbal health care company, Himalaya Drug Company (HDC) launched an advertisement campaign for its range of personal care products branded 'Ayurvedic Concepts.' The Rs 120 million[12] campaign was extensively covered by the electronic and print media. The television commercials (TVCs) for the brand featured an unusual brand ambassador. Indians, who were used to advertisements featuring celebrities from the world of movies/sports, and young, good-looking models, watched in amusement an old, 'grandmotherly' lady promoting the brand.

According to the marketing research conducted by Himalaya Drug Company (HDC), most consumers perceived Ayurveda as an age-old branch of medicine, which was revered but not accepted as being reliable for treating ailments. Thus, the two major tasks for HDC in India were to establish an image for itself and promote the message that Ayurveda was as modern and vibrant a science as any other. HDC realized that it needed a campaign, which would be able to destroy the commonly accepted notion of Ayurveda as something developed by 'sadhus' (Hindi-language term for saints).

The company adopted a strategy to present Ayurveda as a contemporary form of medicine. The company wanted to project that products under the Ayurvedic Concepts range addressed the complete body, and did so better than anything else as they were formulated with R&D support. The brand was promoted with a tagline, 'Get on with your life,' which indicated that its products helped people cope better with the pressures of modern life.

HDC and its advertising agency, Contract, decided that the product's positioning had to be conveyed strongly by a protagonist. After considerable deliberations, it was decided that the protagonist would be 'Dadima' (grandmother). Soumitro Banerji (Banerji), Executive Vice-President, Consumer Products, HDC, said, "In our institution, the grandmother is still a very warm, loved, trusted and respected figure. The only problem the consumer feels is that the grandmother has to be contemporary before her advice can be listened to."

To address the above 'problem', the advertisements very subtly revealed the fact that 'Dadima' was a double-doctorate in molecular biology. HDC initially released three TVCs: daily health capsules (airplane), digestive capsule (cafe) and hair care (card shop). In all the three TVCs, the goodness of Ayurveda was projected by the warm and lovable Dadima who knew the present day generation well. For instance, in the advertisement designed for digestive capsules set in a cafe, the brand ambassador spoke to a group of students and informed them of the contents of the capsules, their

[12] In October 2002, Rs. 48 equaled 1 US $.

effect on the body and how they would help them maintain a good digestive system. Moreover, she spoke in English, a language the youngsters use to communicate with each other. The time duration for the three TVCs was 60, 50 and 45 seconds respectively.

The campaign was targeted at cable and satellite households. During February-March 1999, HDC ran over 2000 spots on various leading channels including Sony, Star Plus, Star News, Star Movies, ESPN, Channel [V], Raj, Discovery, Sun, Gemini, DD-7 (Calcutta) and local cable channels in Mumbai and Delhi. After the initial round, the campaign maintained an 'event-based' presence all through the following year. Due to its strong R&D, product development and marketing efforts, Ayurvedic Concepts was able to garner business worth Rs 150 million in 1999, Rs 250 million in 2000 and Rs 400 million in 2001.

Questions for Discussion:

1. Describe why HDC chose 'Dadima' as a protogonist? Desribe also how they faced a problem in projecting and how did they over come the problem?
2. Write briefly about how HDC reached its target market and the difficulties it faced in selling ayurvedic products?

Caselet 27

The Grameen Bank model was one of the widely researched microfinance models all over world. The Bank had four tiers, the lowest level being branch office and the highest level being the head office, second highest being zonal office, and next highest being area office. The branch office supervised all ground activities of the bank such as organizing target groups, supervising credit process and sanctioning loans to the members. For every 15-22 villages a branch was set up with a manager and staff. Area office supervised around 10-15 branch offices. Program officers assisted the area office to supervise utilization of loans and recovery of the same. All area offices were under the purview of Zonal Office. Each zonal office supervised around 10-13 area offices and all zonal offices reported to the head office situated in Dhaka.

Grameen Bank operated on the principles: mutual trust, supervision, accountability and member participation. Unlike commercial banks, which granted credit on the basis of collateral security, Grameen Bank did not demand any security for extending credit. The interest charged by Grameen Bank was higher than that charged by commercial banks, but lower than the interest charged by moneylenders. The difference between the interests earned by the Grameen Bank and interests paid by it on the loans taken from commercial banks was used to cover the operational costs of the Bank.

Grameen Bank adopted an innovative 'Group Lending Technique' for extending loans to the rural poor. Under this technique in the first stage around six to eight groups were formed. Each group consisted of 5 women who became members of the Grameen Bank. All the members were given training for a week, which included introducing them to the rules of the bank and the bank's social contract. It was mandatory for the members to abide by the social contract known as 'Sixteen Decisions' for getting loans from Grameen Bank. These sixteen decisions helped in increasing awareness about the social issues among the rural poor.

Every group had to give oral examination, which test the member's understanding of the bank's rules and decisions. After the group cleared the oral examination, two financially weak members were chosen for loans. After choosing members for loans, each group had to submit proposals for loans to the branch. All groups discussed the loan proposals in the branch's weekly meetings and approved loans were sanctioned in sequence.

The loan amount usually ranged between 1000 to 3000 Taka[13], which had to be repaid in 50 weekly installments spread over one year. Initially, 16% interest was charged on the declining balance but since 1992, the interest rate was increased to 20%. In addition to paying interests, every member of the group was bound to contribute 5% of the loan amount to the group fund. The group fund was utilized during emergencies. In addition to this, in order to mobilize savings among the poor, each member had to save 1 Taka every week and buy non-saleable Grameen Bank shares.

In 1984, along with offering loans for entrepreneurial ventures, Grameen Bank also started lending housing loans to its members. Unlike the traditional methods followed by banks and financial institutions, Grameen Bank did not demand any collateral for issuing housing loans. Initially, Grameen Bank offered housing loans up to US $312.5 (around 15,000 Taka) in its Moderate Housing category. Later on the amount was increased to US $520.83 (around 25,000 Taka). In 1987, Grameen Bank introduced a new housing loan – Basic Housing Loan up to US $145.83 (around 7,000 Taka), which became very popular. In 1989, another type of housing loan Pre-Basic Housing Loan was introduced in the northern part of the country. Grameen Bank also provided loans for buying land for constructing house. Grameen Bank charged 8% interest per annum on housing loans and the repayment period was spread over 10 years with weekly installments.

However, the Grameen Bank also attracted criticism from media and economists all over world. Analysts pointed out that there was no proper monitoring of how the loans were utilized; it was reported that the loans availed by women were mostly used for consumption rather than investment purposes. Analysts also pointed out that accounting methods used by Grameen Bank were not in accordance with the industry standards and it did not provide full details about its financial position and loan repayments.

Questions for Discussion:

1. What do you think is the secret of Grameen bank's success? Why did the bank succeed though the interest rates it charged are higher than those charged by commercial banks?
2. Comment briefly on Grameen bank's model and its operations?

Caselet 28

Pfizer, the global pharma major, is famous for its hard-driving, pragmatic style. Its sales people wield tremendous influence over the prescriptions of physicians. Its research operation with highest productivity in the industry has been a remarkable success. An industry survey conducted in 1995 revealed that Pfizer needs less than one third of industry average of 190 person-years of work to advance a compound from conception to clinical trials.

Pfizer clearly understood that merits of novel drugs do not register with busy doctors unless and until they hear from a well trained salesman. Going against industry trend, Pfizer raised its US sales force from 1,500 in 1990 to 3,467 in 1997. The company now has one of the best sales forces in the drugs industry. Its sales personnel use latest information systems and technology to track the prescription histories of physicians and to respond with appropriate sales effort to optimize sales revenues. Top management also use information systems to plan the expansion of the sales force, track its performance, link that performance with compensation. This sales strength, a major asset for Pfizer, brought co-marketing rights for several major drugs manufactured by other companies.

[13] 1$ = 58.1000 Taka as on May 14th 2003.

Steere, CEO of Pfizer in 1991, hired many of the industry's best scientists by offering attractive compensation and unrivaled opportunity to conduct leading-edge research. This research team created efficient management processes, which include provisions for early feedback from marketing and commitment to delivering practical results. Most of the pharmaceutical companies are reluctant to stall even dubious research efforts. But Pfizer shows superb discipline in managing research projects at all the stages of the development process. Research teams at Pfizer use "step-charts" to know the number of promising compounds that should be on hand at each phase of the drug development process to balance the attrition rate. These charts relying on statistical models help the scientists in applying themselves to generate successful business results. These management practices aligned with research and development budgets that rise at 18 percent a year (industry average is 9 percent) propped up the product line.

This example shows that when executives are sure of their organizational strengths they can design superior strategies. Pfizer followed industry's traditional approach by concentrating on sales and research. This operational strategy produced returns of 35 percent a year between 1992 and 1997.

Questions for Discussion:

1. To what extent do you think Pfizer's ability to execute a strategy influences the success of its strategy?
2. Pfizer produced remarkable results between the years 1992 and 1997. Describe briefly, the steps taken by Pfizer to ensure this remarkable performance.

Caselet 29

In 1985, Yamaha Motor Company (Yamaha Motors) entered into a technical support agreement with Escorts Limited (Escorts), and started local production of Yamaha motorcycles. In 1995, Yamaha and Escorts signed another contract, establishing Escorts Yamaha Motor Ltd. (EYML) to manufacture and market motorcycles in India. Each company invested 50% of the capital for the Indian motorcycle venture.

The joint venture manufactured Rajdoot motorcycles at Faridabad and the RX and four-stroke YBX series at Surajpur. EYML had the largest countrywide network of over 500 dealers, supported by a wide base of sales & service outlets and spare parts stockists. Anil Nanda, chairman, EYML, said the Surajpur and Faridabad facilities would be modernized and upgraded with a Rs. 3.75 billion budget. With the additional investments, volumes were expected to go up from 300,000 units in 1996 to 500,000 units by the year 2000. Sales turnover too was projected to rise from Rs. 9 billion, (including exports of Rs. 1.2 billion) to Rs. 20 billion (including exports of Rs. 3 billion) over the same period.

In 1999, EYML closed down its moped manufacturing facility and discontinued production of its two existing brands due to lack of adequate demand. The company decided to concentrate fully on its motorcycle production. Company sources said that EYML decided to discontinue the production as earning was low from moped business. Against a 5% growth recorded by the moped segment in 1998-99, sales of EYML mopeds declined by 17.7%. Its market share also declined from 1.9% in 1997-98 to 1.5% in 1998-99.

In April 2000, Escorts announced that it was likely to sell around 20% stake in EYML to Yamaha Motors. On April 24, 2000, Rajan Nanda, Chairman of Escorts, the flagship of the Rs. 35 billion Escorts group held board meeting of Escorts Limited (Escorts). At the meeting, Nanda informed the directors that, subject to the board's approval, Yamaha Motors could be given a majority stake in the joint venture company. The Japanese two-wheeler major had offered to buy an additional 24%

stake in EYML from Escorts at Rs. 200 per share. The deal would add Rs. 2.3 billion to Escorts' coffers. The announcement seemed to have been well accepted by the board. In late April 2000, the board of Escorts approved the proposal to divest 24% equity.

For the Escorts board, such announcements were not new. In a little over a year, Escorts had offloaded substantial chunks of its equity in three joint ventures to its overseas partners. It all started in 1999 when Escorts sold one-third of its shares in the construction equipment company Escorts JCB to JCB of the United Kingdom for Rs. 490 billion. This brought its stake down from 60% to 40%. Next came the turn of Hughes Escorts Communication, a 51:49 joint venture between Hughes Communications of the United States and Escorts. In December 1999, Escorts offloaded 23% of its stake to Hughes for Rs. 750 million. This brought its shareholding in the company to 26%. Escorts would thus become a minority shareholder in EYML. However, an official said that Escorts' holding in the joint venture would not be less than 26% and it would not exit from the joint venture. Said Nanda, "I have no intentions of selling off the entire stake to Yamaha. Escorts will retain the 26 per cent stake we now hold in the venture." With the change in the equity pattern, Yamaha Motors would control the management of the joint venture. Commented Nanda, "We have always believed that business relationships are driven by the value added by each partner. We have decided that it would be appropriate for Yamaha Motors, as the technology provider, to take the lead role in the business."

This was the second such exercise undertaken by Nanda since 1995 when he took over the reins of the company from his father, Har Prashad Nanda as chairman of the group. Nanda identified four thrust areas for Escorts-agri-business, telecom, software and healthcare. The idea behind giving Yamaha Motors the majority stake in the joint venture was to focus more on the four thrust areas. Escorts would now concentrate on agri-business, telecom and healthcare. Escorts' exit from the joint venture seemed to be a well-planned move. The group had already moved out of businesses where it believed it did not have a sustainable advantage.

Escorts would now focus on four core businesses: agribusiness (tractors), telecom services (cellular telephony), IT and Internet services and healthcare services (cardiac healthcare). However analysts were skeptical about Escorts' success in these areas. One analyst said, "It's been almost 12-18 months since it identified these as core businesses, and Escorts is still grappling with the new economy initiatives." Escorts was planning to acquire a controlling stake in at least two circles – Madhya Pradesh and Gujarat. Escotel Mobile Communications, a 50:50 joint venture between Escorts and First Pacific of Hongkong, had earlier lost out on two acquisitions to Skycell in Chennai and Essar Cellphone in Delhi, as its bids were too low.

In May 2000, EYML was renamed Yamaha Motors Escorts Ltd (YMEL) following Escorts decision to sell off 24% stake. In May 2001, Yamaha Motors struck a deal with Escorts for acquiring the latter's 26% shareholding in YMEL for Rs. 700 million. The deal marked Escort's exit from the joint venture. Yamaha Motors would now hold 100% stake in the company.

With the change in management, Yamaha Motors was expected to build global capabilities, bring in new technology and offer a wide range of cost effective quality products. All this was expected to give them an edge over competitors. The company would also have the additional benefit of enlarging its scale of operations for manufacturing and supplying products worldwide. On its part, Escorts would continue to provide a stronger base for manufacturing facilities, a countrywide dealership network and skilled manpower.

Yamaha Motors was also working to regain its lost market position. From being number two in 1996, it had slipped to the fourth position in 2001. In December 2000, Yamaha Motors launched Crux-a four-stroke bike. By mid 2001, Crux had already sold 33,000 units. In December 2001, Yamaha Motors had a 14% share in the Indian market which improved marginally in March 2002, to 15%. As a part of marketing strategy, the company planned to introduce one new model each year and was working on one such model.

Questions for Discussion:

1. Both Escorts Motors and Yamaha Motors entered into a joint venture to manufacture and market motorcycles in India. What was the rationale behind this joint venture and what synergies were expected out of this joint venture?
2. In May 2000, Escorts took the decision to sell off 24% stake. In May 2001, Yamaha Motors struck a deal with Escorts for acquiring the latter's 26% shareholding in YMEL for Rs. 700 million. The deal marked Escort's exit from the joint venture. Why do you think Escorts exited from the joint venture?

Caselet 30

In the late 1990s, the leading South Korean car manufacturer, Daewoo Motors (Daewoo), was in deep financial trouble. For the financial year ending 1999-2000, Daewoo generated revenues of $197.8 million and net loss after tax of $10.43 billion. The company's revenues had dropped by 94 percent since 1999. The loss was regarded as South Korea's largest ever corporate loss. Apart from this, the company's domestic market share came down to 23 percent in 2000 from 33 percent in 1998.

According to analysts, borrowings by the company for its expansion programs were considered the reasons for the losses. By December 1999, the company's domestic and foreign debt amounted to more than $16.06 billion. The entry into risky markets and selling products at very low price in order to gain market share are the other reasons that affected the company's financial condition. Even there was labour unrest, which aggravated the problem. However, some analysts felt that the primary reason for Daewoo's problems was mismanagement and the corrupt corporate governance practices adopted by Kim Woo Choong (KIM), the founder of the Daewoo group. In 1999, Kim came up with a restructuring plan. He planned to sell about $7.5 billion worth of assets of other companies of the group and concentrate on the automobiles and finance business. Though the creditors appreciated the plan, it seemed difficult to execute. Kim planned to sell Daewoo Group's shipyards to a Japanese company, but Japan was planning to reduce its own shipyards by 50 percent. Kim also planned to exchange the Group's electronics business for the Samsung Group's car division. However, Samsung was not interested in buying the debt-ridden Daewoo electronics.

Since Kim was not able to execute his restructuring plan successfully, in July 1999, the South Korean government declared Daewoo insolvent and put the company on sale. In November 2000, the Korean Government officially announced Daewoo's bankruptcy and its assets were put on sale. The government also set up a committee for restructuring Daewoo. Around the same time when the company was about to be announced bankrupt, General Motors (GM), Ford and Daimler-Chrysler expressed interest in acquiring Daewoo. By June 2000, Ford entered into negotiations with the committee. However, after a few months of negotiations, Ford reported that its due diligence had revealed some discrepancies in Daewoo's valuation of its assets. In September 2000, Ford announced the withdrawal of its offer, citing the discrepancies in Daewoo's accounts as the primary reason. From August 2000, Daewoo stopped paying its 19,000 employees since further loans were not sanctioned to the company.

Meanwhile, Daewoo employees opposed the sale of the company to a foreign automaker. There were strikes at all Daewoo plants in Korea. One of the South Korea's largest trade union groups, Korean Confederation of Trade Unions, also protested the sell-off. There were also protests from a group of activists comprising some high-profile members of the country. The group launched a campaign offering to buy Daewoo and name it a 'people's company."

In October 2000, GM and its partners, including Isuzu Motors, Fuji Heavy Industries and Suzuki Motors, announced their interest in acquiring a part of Daewoo's assets. GM also insisted on the completion of the restructuring plan, which involved laying off hundreds of workers at various Daewoo plants.

Amidst revolts and controversies, an agreement was reached between the Korean government and GM in September 2001. GM signed a memorandum of understanding with Daewoo's creditors to acquire two plants in Korea and one each in Egypt and Vietnam, along with all their outstanding debts for $1.2 billion. The agreement also included the acquisition of 22 sales units of the company across the world. However, this agreement ran into problems when GM reported a discrepancy in Daewoo's overseas accounts. In February 2002, GM made a renewed bid for some of the Daewoo's assets to its main creditor KDB. In this bid, GM expressed interest in only nine sales units of Daewoo as against the earlier 22. It also refused to pay the $260 million debt of these units as it had discovered new debts in some of Daewoo's overseas operations, including Daewoo's plant in Egypt.

In April 2002, GM and Daewoo's creditors arrived at an agreement. According to this agreement, GM would create a new company which would be owned jointly by Daewoo's creditors and GM. GM would own a 75 percent stake in the new company, with an investment of $400 million. Creditors were to pay $137 million for the remaining 33 percent stake.

According to analysts, GM's acquisition of Daewoo seemed to be the ideal solution for the latter's problems. An analyst commented, "GM badly needs Daewoo to establish a beachhead in the Asian market. And without GM, Daewoo will simply collapse." They also opined that GM was the ideal buyer as it had owned a 50 percent stake in Daewoo till 1992. Analysts felt that in the long run, GM could use

Daewoo to gain a foothold in Asia. Moreover, GM was facing problems in the US. Tough its sales were more than those of Daimler-Chrysler and Ford, GM's net earning were decreasing. Prior to the acquisition, GM depended solely on its European subsidiary Ada Opel to manufacture small cars for developing countries. However, some analysts felt that restoring Daewoo's brand image would require a lot of time and money. Alan Perriton, who was in charge of GM's business development in Asia, commented, "Daewoo's acquisition gives us high-quality, low-cost products for the rest of Asia. However, sales have been hit so badly because Koreans weren't sure Daewoo would survive. We have to let customers know that the company is back in business and stand behind its products." However, some analysts felt that GM was adding to its problems by acquiring a company like Daewoo.

Questions for Discussion:

1. In 1999, Kim Woo Choong (KIM), the founder of the Daewoo group, came up with a restructuring plan. He planned to sell about $7.5 billion worth of assets of other companies of the group and concentrate on the automobiles and finance business. Kim planned to sell Daewoo Group's shipyards to a Japanese company. Kim also planned to exchange the Group's electronics business for Samsung Group's car division. What could be the reasons behind Kim's decision to sell Daewoo Group's shipyards and electronics?
2. GM had expressed interest in Daewoo at a time when most automobile manufacturers had shown disinterest towards Daewoo. Explain why GM was interested in Daewoo and how Daewoo will benefit after being acquired by GM?

Caselet 31

In 1970s and early 80s Nissan along with another Japanese automobile premier, Toyota forayed into U.S. automobile market. The strength of Nissan was its technological competence. By 1985, the company exported around 8,30,000 vehicles to U.S., thus making it second largest exporter after Toyota.

In late 1980s, things started worsening for Nissan. Growing competition from Toyota and Honda, and appreciation of Yen against U.S. dollar contributed to the downturn of Nissan. The problem got aggravated due to bureaucratic structure of the organization.

In 1987, when the Japanese economy was booming, Nissan invested heavily by borrowing and doubled the production capacity. Because of high borrowing, the debt burden of Nissan reached $22 billion by 1999. Later, the company fell into a debt trap with recession in the Japanese economy. The company also incurred a loss of $1000 on every car sold in the U.S market. The domestic market share had fallen from 17.4% to 13% at the end of first half of 1999. Nissan's global market share dropped from 5.8% in 1988 to 4.9% in 1999 and its net debt was more than Yen 2.1 billion. Added to these problems was the culture of the organization, where people found fault with each other for problems. Also there were no well defined areas of responsibility for managers. Further, heavy investments in non-core areas had added up its woes. All these with huge debt burden and lack of new models in the product line made the management of the company to think of a potential partner for joint venture.

In late 1980s, one of the top automobile marketers in Europe, Renault was also facing various problems. The company was considered strong in R&D and design. However, the company had no global presence and its productivity was low. Further, there were many structural problems that plagued the company. The company was restructured in 1990 and was privatized in 1996. The same year, Carlos Ghosn was appointed as deputy CEO for Renault. He launched various restructuring initiatives, which boosted Renault's profitability. In 1998, Renault had around 7.9 billion pounds as equity and another 1.9 billion pound of cash and was debt free. Therefore, the company was well placed to tie up with a partner in order to achieve its objective of becoming the most competitive European car manufacturer by year 2000.

The merger of Daimler-Chrysler in 1998 prompted both Nissan and Renault to look for a partner. In March 1999 the alliance between Renault and Nissan was finalized after 8 months of negotiations. The negotiation was done in 4 stages. In the first stage, both the partners formulated their expectations regarding the alliance and explored the various things that the potential alliance would involve. In the second stage, work groups scrutinized various areas of potential synergies in terms of market, product line, procurement, manufacturing and distribution. For instance, Renault had only meager presence in Asia and no presence in America while Nissan got substantial presence in U.S. and Asia. Nissan was strong in trucks and luxury cars whereas Renault was strong in small cars. In the third stage, the economic value of the alliance was calculated. In the final stage, the details of the agreement were negotiated and the Renault board approved the alliance. However, Renault itself admitted that the deal with Nissan was a high-risk, high-reward strategy.

After the merger had taken place, Renault decided to send Carlos Ghosn to head the turnaround efforts in Nissan. Nissan had worked in four continents. This experience helped him prepare for his new job in Nissan. After the merger, a Global Alliance Committee (GAC) was formed to promote joint strategy and exploit synergies between the two companies. According to Ghosn, Nissan suffered from lack of clear profit-orientation, insufficient focus on customers and too much focus on chasing competitors, no culture of working together across functions, borders, or hierarchical lines, lack of urgency, and no shared vision. There were many cultural differences between the two companies. The differences were in language, decision-making processes, communication patterns, accountability and labor management relationships. In Nissan, the decision-making process was through consensus, whereas decisions were taken by senior managers in Renault. In Nissan, responsibility, accountability and reward systems were group based; in Renault, importance was given to individuals.

Finally, Ghosn came up with a Nissan Revival Plan and established English as the common language throughout the company to avoid miscommunication. He further formed nine cross-functional teams to concentrate on various business functions. Ghosn decided to tackle all problems like utilization of plant capacity, launching new models, retrenchment, shutting down plants, repaying debt and transforming purchasing practices at one go. Ghosn's revival plan faced strong resistance both from internal and external forces. Even Hiroshi Okuda, chairman of Toyota, was skeptical about the success of Nissan's revival plan. However, Ghosn was stubborn and did not relent to the criticisms. He said, "There were fundamental management problems. Nissan had to do things that make business sense, not because of habit or tradition."

Ghosn adopted the seniority system with regard to payment and promotion. He adopted a career progression system, which was merit based. He defined areas of accountability. Things started changing and Nissan was able to cut down purchasing costs by 20 percent. The number of suppliers were reduced to 700 from 1,145. Even service suppliers were also reduced by 70 percent. The company later initiated rationalization of the distribution network in Japan. Many of the overlapping outlets were closed down. Ghosn even closed down five plants of Nissan and the workforce was reduced by around 23,000 thousand.

In 2000, Nissan's sales had fallen to 27 year low of 17.4 percent. Though, the sales increased in 2001 to 18 percent, still it was lagging far behind Toyota, which had 42.2 percent of the Japanese market. However, Ghosn was not worried. He said, "I have no problems in losing market share that I don't deserve. We are concentrating on profit."

Questions for Discussion:

1. Mergers can be of different types. What is the type of merger that took place between Nissan and Renault known as? Discuss the economic rationale of the merger between Nissan and Renault.
2. There can be various motives and reasons for cross-border mergers. What could be the motives and reasons for the merger between Nissan with Renault? Explain in detail?

Caselet 32

In the mid-to-late 1980s, the number of places in the world where one had opportunities for exploration and productions were limited. In the late 1990s, there were more opportunities so far as oil production and exploration of oil was concerned. Many countries were opening up, such as China, Venezuela, and countries in the Middle East. These were the sort of large-scale, capital-intensive opportunities that the merger entity would capitalize on. This is one of the reasons why Exxon and Mobil had merged to increase the scope of opportunities.

By the late 1990s, the merger mania seemed to have been over amongst the major oil producers. The mergers and acquisitions in the late 1990s, resulted in many new organizations, like TotalFinaElf, Exxon-Mobil and BP Amoco Arco, to be called BP. These mergers had changed the rankings of the oil companies involved in petrochemicals. TotalFinaElf had overtaken both Exxon Mobil and Royal Dutch Shell to take the top spot.

On December 1, 1998 Exxon Corporation and Mobil Corporation agreed to merge, in the world's largest industrial merger ever, surpassing the earlier concluded BP Amoco merger. The $ 80 billion deal involved an exchange of 1.32015 shares of Exxon stock for each outstanding share of Mobil stock. Exxon shareholders would own 70% of Exxon Mobil. The combined revenues of both the companies for 1997 were $178.7 billion and the combined market capitalization was $237.5 billion. The merger was projected to generate immediate cost-savings of about $2.8 billion. Lee Raymond, (Raymond) CEO of Exxon, would be the CEO of the merged company while Mobil's Lucio Noto (Lucio) would be his deputy. The enlarged board of 19 members would have only six from Mobil. Though Raymond projected 9,000 jobs to be cut from a combined employee strength of 122,700, analysts expected the figure to be as high as 14,000. In addition to reduced manpower costs analysts felt that there were other benefits of the merger as well. Exxon Mobil would position itself as partner of choice for nations seeking help and capital to exploit their reserves.

However, many public interest organizations opposed the Exxon-Mobil merger on the ground that it would be harmful to consumers, workers, the environment, and the economy. They were of the opinion that merger would lead to anti-competitive behavior at the expense of consumers, especially in many areas where Exxon and Mobil competed directly. The merged entity would have enormous political power, with the ability to skew critical policy debates over matters such as labor standards, global warming, opening of the Arctic and other environmentally sensitive areas to oil exploration. Some felt it would be less sensitive to public demands for environmental responsibility in exploration, extraction and transport and use its bargaining power to the detriment of the environment and the owner of natural resources i.e., the public.

The integration between the two was not a smooth affair as many differences existed between them. One key issue which Exxon and Mobil had to address in the implementation of the merger was cultural differences. Exxon was generally considered to be tight lipped and conservative by analysts. Whereas Mobil had a more open culture and was receptive to new ideas. Exxon's top management had a subdued style of working, with a sharp focus on cost reduction. The company's public relations efforts had been fairly unimpressive. Mobil on the other hand had been far more successful in handling the media. Exxon's decision making was relatively slow while Mobil's management was far more risk loving. The company had ventured into natural gas in the 1980s before it was popular with most other oil companies. Mobil also had shown a lot of enterprise, moving in to the politically volatile central Asian region after the dissolution of the Soviet Union. On the other hand Exxon's oil exploration production strategy was exclusively focused on the North Sea and North America. However, there were areas where Exxon and Mobil could complement each other well. Exxon's strengths lay in finance and engineering, Mobil's strength was its industry's most accomplished dealmakers and marketers.

Though Raymond freely acknowledged his admiration for Noto, he stuck him with the honorific title of vice-chairman and did not give him much to do. Throughout the senior management ranks, the Mobil managers who remained generally were subordinated to their Exxon counterparts with the exception of petroleum refining and marketing.

In 2000-01, Exxon Mobil's net income was $17.7 billion and its $232.7 billion in revenues pulled it to the top of the list of Global Fortune 500 companies. Analysts felt that Exxon Mobil merger was successful and the success was not just a function of its overwhelming size and wealth. Said one, "They only have one way of doing things: the most efficient, with the least risk. They want to see the studies. If the studies are yours, they want to redo them. They have a clear line of sight to the target."

Exxon Mobil excelled in both petroleum production and oil exploration. Its vast, geographically diversified array of oil and gas properties made it the envy of the industry. However, apart from size there seemed to be other factors that contributed to its success. Exxon Mobil's commitment to unmatched technology was one of the reasons for its success.

In 2001, Exxon Mobil board announced that Raymond would continue as the CEO beyond his original retirement date of August 2003. The board did not set any specific time frame for Raymond's tenure as CEO. It said the directors made the decision to help ensure smooth transition of management after significant changes made in the company over the past several years, including the merger of Exxon and Mobil. "The high level of change during the past three years has resulted in a delay of some executives moves required to develop the next generation of corporate management," the board said.

Analysts felt that the key issue in Exxon Mobil future growth was whether the company's penchant for centralized control would promote the entrepreneurial business of natural gas. Gas marketing was pre-merged Exxon's glaring weakness. Much of its production came through partnership arrangements in which the gas already was committed to buyers under long-term contracts. In other words, zero salesmanship was required, least of all by Exxon, which often was a passive partner in these joint ventures.

Analysts felt that Exxon had so far not reaped any dramatic benefit from Mobil's high-powered gas-marketing arm. In fact, in 2001, Exxon Mobil lost to BP Amoco in its bid for the 20-year contract to build China's first LNG receiving terminal. In March 2001, BP Amoco was chosen by China National Offshore Oil Corp to do the same. Said, Nancy Vaughn, director of upstream services for Petroleum Finance Co., "Exxon now has the Knowledge of how to develop an LNG business that it probably did not have before, but the fact is, they haven't been able to make a move on any of their big projects."

Questions for Discussion:

1. The Exxon-Mobil merger was one of the biggest industrial mergers ever. Do you see any synergy in this merger?
2. An analyst commenting on the Exxon-Mobil merger said, "While most mergers go wrong, this deal struck gold...…black gold." What were the reasons behind Exxon-Mobil's success as a merged entity?

Caselet 33

For decades, the majority of the world's diamond trade was controlled by De Beers. It used its market power to keep the prices high. The biggest winner was De Beers; the firm thrived on artificially inflated prices, murky dealings in war zones, and strictly oral contracts.

De Beers' problems started in the early 1990s. The Russians, in desperate need of currency, began dumping low-quality near-gem diamonds. This violated Russia's contract with the CSO (Central selling organization). The CSO retaliated by slashing the price for this type of rough stone by as much as 11%. This resulted in losses for the Australian diamond producer, Argyle Diamonds, too. During 1992-96, Argyle Diamonds was compelled to hold back nearly 15% of its production to lower the CSO's carrying costs. In 1996, it decided not to renew its contract to sell its diamonds through the cartel. In terms of value, Argyle diamonds accounted for 6% of De Beer's input. But in terms of volume, it accounted for 40% of De Beers input. As a result of these developments, the market was flooded with cheap stones from Russia and Australia.

In 1997, the diamond market became weak due to the Asian Financial crisis. The market was flooded with cheap diamonds and De Beers decided not to maintain control of the cheaper stuff. Instead, it focused on the more expensive diamonds. From November 1997, the CSO decreased supplies by reducing the sales of rough diamonds to sightholders by 50%. The Asian crisis also reduced the CSO's sales in 1998. Though sales improved in 1999, they were lower than that of 1997.

In 1997, De Beers decided to stop supporting the prices of small diamonds by maintaining a buffer stocks. The announcement came as a nightmare to Asian countries, especially India. India's diamond industry depended on the cartel to control rough diamond supplies worldwide in order to sustain prices. De Beers announced that it didn't see any reason to continue supporting the price, especially when the Indian diamond trade's main supplier of small diamonds was Argyle Diamonds.

Since India lacked sufficient mining technology and financial muscle, the state government of Madhya Pradesh was unable to systematically carry out diamond exploration in the state. So, in 1998, it invited the world's mining powerhouses to carry out the exploration. While most global mining ventures paid royalties to host governments averaging 5%-7% of the value of their output, Madhya Pradesh government wanted a minimum of 10% and encouraged competition among bidders to offer more. Companies were required to set up joint mining ventures in which the state would hold an 11% share. The state government also announced that the diamonds would be sold through an open auction rather than through the CSO.

In 1998, the Namibian government considered measures to increase competition in the diamond industry, thus aggravating De Beers problems. Namibia – producer of the world's best gem diamonds – recommended that the diamond trade be deregulated under the Diamond Act, 1999[14]. By the end of 1999, De Beers' stock was worth around US$4 billion, nearly as much as the company's annual sales of US$5.5 billion. As these assets were not earning an attractive return, the share price fell, unnerving several large shareholders, especially in the US. Analysts estimated that De Beers shares, listed on the Johannesburg Stock Exchange, traded at a discount of more than 70% to the company's assets, even though the company recorded its highest-ever diamond sales in 1999.

Questions for Discussion:

1. Business environment plays a critical role in the strategic decisions taken by firms in any industry. How did the changing business environment influence the diamond industry?
2. It appears that De Beers' hold over the prices of diamonds has come to an end. Do you think this development would benefit consumers?

Caselet 34

In February 2001, Infosys Technologies Ltd. (Infosys) was voted as the best managed company in Asia in the Information Technology sector, by Euromoney's[15] Fifth Annual Survey of Best Managed Companies in Asia. Infosys was started in 1981, with an equity capital of Rs.10,000 brought by seven[16] professional entrepreneurs led by Narayana Murthy, Chairman and CEO of Infosys. By 2000, Infosys' market

[14] The Act seeks to expand the diamond industry, while at the same time strengthening the security of the diamond industry, and diamond resources, which are strategic to the Namibian economy. Five diamond dealer licences were granted and issued to Diamond and Gem Development Corporation Namibia, Warmouth, Namibia Diamond Trading (PTY) Ltd, Gem Experts (PTY) Ltd and Prime Trading (PTY) Ltd. Six cutters' licences were granted and issued to Mange Diamond Manufacturing Company (PTY) Ltd, Tornado Enterprises (PTY) Ltd, Namco Diamonds (PTY) Ltd, the Diamond Mine (PTY) Ltd, Nam Diamond Cutters Ltd and Centreville Namibia (PTY) Ltd.

[15] *Euromoney* is one of the world's leading financial magazines

[16] Nandan Nilekani, S. Gopalakrishnan, K. Dinesh, S. B. Shibulal, N. S. Raghavan, Ashok Arora (Arora left Infosys in 1983)

capitalization reached Rs.11 billion. By 2001, Infosys was one of the biggest exporters of software from India.

From the beginning, Narayana Murthy focused on the world's most challenging market - the US. He had two reasons for this. First, there was no market for software in India at the time. He believed that Indian software companies should export products in which they had a competitive advantage. In 1987, Infosys entered into a joint venture with Kurt Salmon Associates (KSA), a leading global management consultancy firm. KSA-Infosys was the first Indo-American joint venture in the US.

In 1988-89, Infosys set up its first office in the US. Reebok of France was looking for a software system to handle its distribution management at the same time. Infosys bagged the contract and developed the Distribution Management Application Package (DMAP)[17] for Reebok's French operations. Infosys decided to use this package to create a standard application package for similar operations of any company. In 1989, Infosys bagged another major contract from Digital Equipment.

In the early 1990s, with the opening up of the Indian economy, many export-oriented software companies were set up in India that created the momentum: Infosys leveraged this very successfully. By mid-1990s, Infosys was competing not only with Indian software majors like Tata Consultancy Services, and Wipro, but also with overseas players like Cambridge Technology Partners and Sapinet, which offered software solutions. Narayana Murthy believed that Indian software professionals had the ability to deal with complex projects. Analysts felt that unlike elsewhere, India's sharpest minds were heading for a career in software, and the best of these aspired to be at Infosys. Infosys also competed with consultancies as Anderson Consulting and Ernst & Young, which positioned themselves as information management specialists.

In 1994, the joint venture with KSA was dissolved. In 1995, Narayana Murthy created Yantra Corp.[18] in Acton, Mass. US. Around the same time, Infosys entered into a joint venture with Satyam Computers and DCM.[19]

During 1998-99, Narayana Murthy planned to position Infosys as a true global company – global clients, global operations, global staff and a global brand image. In 1998, to support his global ambition, Narayana Murthy listed the shares of Infosys on Nasdaq through American Depository Receipts (ADR) issue worth US$75 million. With this, he took the Indian software industry global.

Narayana Murthy's global strategy comprised three features. The first one was the "global delivery model." The model emphasized on "producing where it is most cost effective to produce and selling where it is most profitable to sell." Cost effective production meant doing as much of the software development work in India and profitable selling meant focusing almost exclusively on foreign markets, particularly the US.

The second feature of the strategy was "moving up the value chain" – which meant getting involved in a software development project at the earliest stage of its life cycle. However, analysts felt that for this, Infosys would have to compete with big companies like Cambridge Technology Partners or even Andersen Consulting, and

---

[17]DMAP integrated databases and data-crunching tools in forecasting, purchasing, warehousing, sales management, credit control, customer services, sales ledger, claims and disputes, operations and security, apart from finance and decision support systems.

[18]Yantra helps companies to unlock value from multi-enterprise trading networks. Yantra solutions enable companies to sell complementary products and services, reduce inventory, coordinate outsourcing partners etc.

[19]DCM provides design services in the areas of ASIC & FPGA, Communication Software and Web Applications.

that could be tough. Agreed Narayana Murthy, "Yes, it is not going to be easy. But we don't have to be unduly concerned about unmitigated success. We may succeed in some and not in others – which is not to say that we will not succeed as consultants."

The third feature of the strategy was the PSPD. According to Narayana Murthy, there are four fundamental tenets of any well-run business. One: predictability of revenues; two: sustainability of the predictions; three: profitability of revenues; and four: a good de-risking model. 'De-risking' meant that Infosys had put limits on its exposure to businesses of various kinds. For instance, it limited its exposure to Y2K projects to less than 25% of its total revenues because this was a business that could disappear overnight and Infosys didn't want to take the risk.

Questions for Discussion:

1. Infosys is one of the biggest exporters of software from India. Describe briefly, how Infosys reached this enviable position?
2. Narayana Murthy tried to position Infosys as a true global company. What are different features of the global strategy he used in this positioning effort?

Caselet 35

After the September 11, 2001 terrorist attacks, Southwest Airlines (Southwest) and the entire airline industry in the US faced devastating losses. To reduce their losses, airlines in the US cut the number of flights by 20% and laid off 16% of their workforces in the weeks following the attacks. However, Southwest avoided layoffs altogether and stuck to its mission of caring for its employees. It was felt that avoiding layoffs in the face of a dramatic decline in demand would jeopardize Southwest's short-term prospects. However, Southwest was willing to suffer damage even to its stock prices, to protect the jobs of its people. Southwest's no-layoff response to September 11 was a reminder to its employees of the organization's tradition of caring for its people.

Southwest has been profitable every year for 31 years since it started its operations in 1971. During this period most airlines have struggled to achieve three or four years of consecutive profitability. Many analysts feel that the remarkable performance of Southwest is because of its ability to build and sustain relationships characterized by shared goals, shared knowledge and mutual respect between employees. All these characteristics were ingrained in the organizational culture of Southwest.

Southwest's objective was to provide safe, reliable and short duration air service at the lowest possible fare. With an average aircraft trip of roughly 400 miles, or a little over an hour in duration, the company had benchmarked its costs against ground transportation. Southwest focused on short-haul flying, which was expensive because planes spent more time on the ground relative to the time spent in the air, thus reducing aircraft productivity. Thus it was necessary for Southwest to have quick turnarounds[20] of aircraft to minimize the time its aircraft spend on the ground. Southwest limited the turn time for each plane to ten minutes or less. It has managed to limit airplanes' turn time to (about 20-25 minutes) over the years.

A quick turnaround strategy was more relevant to Southwest than to its competitors as it had a point-to-point flight between cities rather than a hub-and-spoke network[21]. A

[20] Turning aircraft around as fast as possible to the gate to minimize the time that aircraft spend on the ground as ground time is non-revenue producing time for an airline.

[21] A system for deploying aircraft that enables a carrier to increase service options at all airports covered by the system. It uses a strategically located airport (the hub) as a passenger exchange point for flights to and from outlying towns and cities (the spokes).

hub-and-spoke system was characterized by longer wait time for both passengers and airplanes, more planes, extra computer systems, extra salaries to ground staff and additional commissions to travel agents. In addition, the airlines had to pay rent for the gates, as the planes were kept idle at airports waiting for the connecting flights. Recognizing these disadvantages, Southwest persisted with its point-to-point flights between cities. There are many ways of being cost-effective such as cheap labor and cheap equipment. But Southwest chose quicker turnaround of its aircrafts. Kelleher had realized the importance of building confidence in his employees so as to get things done faster. Kelleher also strove hard to make Southwest's employees understand the importance of 'quickness', a term he preferred to 'speed'. He explained that though quickness brought discomfort, "there can be security in discomfort."

Southwest's organizational culture was shaped by Kelleher's leadership. Kelleher's personality had a strong influence on the culture of Southwest, which epitomized his spontaneity, energy and competitiveness. Southwest's culture had three themes: love, fun and efficiency. Kelleher treated all the employees as a "lovely and loving family".

Southwest attempted to empower its employees to work on new ideas. When Southwest employees came up with the idea of ticketless travel, they did not make a formal presentation to senior executives. They just went ahead with the implementation. Company sources stressed that Kelleher had never tried to single out an employee for a mistake that had been inadvertently made. Southwest also laid great emphasis on integrity. Integrity at Southwest meant sticking to promises and actions. Southwest pilots entered into a 10-year long wage contract with the company because they probably believed in the integrity of persons on the other side of the negotiating table. There were also differences in the degree of shared knowledge between Southwest employees and employees of other airlines.

Southwest chose to grow very conservatively, expanding only into one or two cities each year, so that it could devote the necessary time and attention to spread its unique culture in each new city. Southwest used in-house newsletters, videos, annual reports and cultural exchange meetings to diffuse its culture as the company grew big. Southwest instituted a mechanism called the Culture Committee in 1990 for the sole purpose of reinforcing the spirit of Southwest.

Questions for Discussion:

1. Southwest demonstrated tremendous commitment towards its employees. Explain how Southwest demonstrated this commitment towards its employees?
2. Southwest's objective was to provide safe, reliable and short duration air service at the lowest possible fare. Describe briefly, how it met its objective?

Caselet 36

ITC is one of India's leading private sector companies with a market capitalisation of around US $ 4 billion and a turnover of US $ 2 billion. It has presence in Cigarettes, Hotels, Paperboards & Specialty Papers, Packaging, Agri-Business, Branded Apparel, Packaged Foods & Confectionery, Greeting Cards and other FMCG products.

ITC believed that the profit margins were not as high as they could ideally have been. To a great extent, it was right. The company did not get the desired results due to several reasons – firstly, it did not have sufficient control over the supply chain of the agricultural produce. For instance, in Madhya Pradesh, soya farmers were generally located at far flung villages scattered throughout the state. In Karnataka, the roles of coffee planters (large and small), traders and agents were not clear. As a result the company did not have any direct control over the quality of the products. As the quality of the products was very important to be able to attract and retain international buyers, ITC suffered. Lack of infrastructure for storage, handling and transportation of the produce acted as a major hurdle.

Next on the list was the problem of middlemen or intermediaries. The company was completely dependent on the middlemen for obtaining good quality products. Not just this, the middlemen exerted influence on the farmers by concealing the prevailing market prices and other related information. They also made unreasonable profits for themselves by blocking such information.

In order to overcome these problems ITC took recourse to technology. Even in the technologically advanced global business environment of the 21st century, it would perhaps be rather difficult to think of poor, illiterate farmers in the remote, dusty villages of India (in the states of Madhya Pradesh, Uttar Pradesh, Andhra Pradesh and Karnataka) making e-business a part of their daily lives. E-choupal initiative was one such. e-Choupal is a more efficient supply chain aimed at delivering value to its customers around the world on a sustainable basis.

Building and expanding the e-choupal initiative was not an easy task for ITC. The company faced several problems like intermediary unrest, widespread illiteracy, outdated telephone exchange and sporadic electricity supply. However, ITC evolved innovative ways to overcome these problems. At places, where the connectivity was poor due to the lack of proper telephone lines, ITC upgraded the telephone lines using RNS kits (RAX Network Synchronisation)[22] and in some cases, by using VSATs[23] to by-pass the telephone lines completely.

To deal with problems related to bandwidth[24], the company made use of specially devised technical solutions to manage data along with new imaging techniques. This way, downloads became faster, thereby optimizing bandwidth use. The company also began capturing the static content locally. To overcome the problem of sporadic electricity at various kiosks, ITC made use of backup batteries, which could be recharged with solar panels.

ITC also had to overcome a few government regulatory problems. The Agricultural Produce Marketing Committee Act[25] (APMC Act) of India prohibited a company from purchasing certain specified commodities from any source other than government designated mandis. These items included soybean, coffee and wheat, all products that ITC dealt with. ITC persuaded the state governments by telling political and bureaucratic leaders about the benefits of the project to the farmers and others who were involved in it. ITC also made efforts to explain how the Act was impeding the growth of a free market system, direct marketing and competition. As a result of these efforts some state governments amended the Act while others allowed certain exemptions for ITC.

However, the biggest challenge for ITC lay in familiarizing the farmers in the remote areas with computers, the Internet and its usage. Luckily, despite the initial hesitation on part of the farmers, there was no direct resistance. And contrary to the expectations, ITC was able to train the very first group of sanchalaks in just two hours rather than two days as it had initially planned for. ITC made use of videos showing farmers using the kiosks. The sanchalaks also helped by retrieving necessary information for those who could not read.

---

22 An RNS kit's ability to work reliably in harsh non-air conditioned environments makes it particularly useful for rural regions.

23 VSAT is an earthbound station used in satellite communication of data, voice and video signals.

24 Bandwidth refers to the amount of information that can be carried over a wired or wireless communication device in a given time period, usually a second.

25 The APMC Act of 1966 (generally known as the Agricultural Produce Markets Act) was formed with the objective of 'removing various malpractices widely prevalent in the markets, for settling of disputes between sellers and buyers and for promoting orderly marketing of farm produce in general.'

According to ITC's calculations, the investment of Rs. 0.1 million could be recouped within 18 months (three sowing seasons). This looked like a viable proposition and the company went ahead with the work of covering the entire state of Madhya Pradesh. By the end of 2002, Madhya Pradesh had 976 e-choupals spread in 7,000 villages, covering 0.6 million farmers and trading soyabean worth Rs. 1.6 billion.

Questions for Discussion:

1. ITC is one of India's foremost private sector companies. It had been a highly successful company in almost all the industries it entered. Then why did it choose a radical initiative such as 'E-choupal'?
2. What is 'E-choupal' initiative? And what problems did ITC face while implementing this initiative?

Caselet 37

To successfully implement its e-business strategy, GE had to deal with some cultural issues. It had to ensure smooth operations and build good relationships with customers. GE had traditionally maintained a large salesforce. With the introduction of the new e-business strategy, the salesforce felt threatened. The salespeople felt that by teaching customers how to use GE's websites to directly place orders, they might end up losing their jobs. To overcome this problem, GE offered a bonus to salespeople who helped customers use GE's website to place orders. The members of the sales force were also educated about how the Internet would benefit them as well as customers.

In order to facilitate online communication between employees within the company, GE set up an Intranet.[26] All internal newsletters and many of Welch's memos were made available online on the Intranet. To make blue-collar workers familiar with the web, computer kiosks were established on factory floors. All managers and executives, including Welch, were required to work on the Internet under the guidance of young, skilled mentors for three to four hours per week. During this session, they were supposed to learn how to evaluate a competitor's website, how to use the Internet in other beneficial ways, and learn typing. All the above measures helped employees discard their traditional way of doing business and eased their transition into an e-business friendly environment.

Though GE was taking measures to increase its customer base by e-enabling its business, there was still the possibility of losing customers to competitors using a counter strategy. In order to minimize this threat, Welch initiated project DYB (destroy your business). The goal of the project, in Welch's own words, was "to define a new business model for our existing businesses, without getting interference from those in the business who had been doing it in the old way." According to him, the guiding principle of the project was that "if someone else was going to leverage the Internet to destroy our business, what would their economic model look like?" In other words, GE attempted to develop a business model that could build on its strengths and offset its weaknesses.

To execute this project, small cross-functional teams were created in all of GE's business units. Each of these teams had to look at its business unit from its competitor's perspective and identify the weak points, which could be exploited to attack the unit. After uncovering the unit's weaknesses, the next task was to make necessary changes in the unit to eliminate these weaknesses, move the business to the web, and identify new e-business opportunities. Each team thus worked out an

[26] A network based on TCP/IP protocols to share information within an organization. It is accessible only by the organization's members, employees and other authorized persons.

Internet-based business plan that could have been used by competitors to attack its unit and made necessary changes in the unit to deal with such an attack successfully.

The cross-functional teams created under the DYB project started major e-business initiatives in their respective business units. The first among them was started at the GE Medical Systems unit, a manufacturer of diagnostic imaging systems such as CAT scanners and mammography equipment. Under the project, the team identified websites such as WebMD, which provided unbiased information about competing products and also sold them over the net. On the site, GE Medical's products were displayed in the same way as the competitor's products, without much differentiation. To differentiate its products, a web connection system was established between the GE Medical's equipment and the unit's website. This system was named iCenter. The system collected data about the equipment (using the web connection) and transferred it back to the customer's site in a format that easily help the customer determine the performance of the equipment. And using iCenter, customers could inquire about the status of the equipment whenever they required. The system also provided an analysis of the operational performance of the medical equipment and compared it with similar equipment operating at any other place, and gave suggestions for improving the performance of GE's equipment. GE also started providing online training classes to its customers so that they could learn to use its medical equipment anytime and from anywhere.

Managing change is at the heart of any major e-business strategy. GE firmly believed that no change initiative could be successful unless the employees accepted it. To show confidence in its employees and motivate them to accept the change, the company decided to use more people from within the organization for its e-business projects than use new, external employees. The company allocated 80% of its existing staff for these projects while the rest 20% were recruited externally. The confidence GE placed in its employees pleased them. Employees were motivated to handle tough assignments with challenging deadlines. GE's flat organization structure, with just four levels separating the top and the bottom layers of management, helped the company implement change quickly and easily. Employees were emphatically told to 'fall in line' or 'risk their jobs.' They were made accountable for successful execution of the strategy. While execution failures were penalized, failures on account of external factors were tolerated. Successful executors were rewarded and those who failed were removed.

Questions for Discussion:

1. To successfully implement its e-business strategy, GE had to deal with some cultural issues. How did GE manage to do it successfully?
2. What is project DYB? How was this project executed at General Electric?

Caselet 38

In the late 1990s, a silent cafe revolution was sweeping urban India. Coffee drinking was increasingly becoming a statement of the young and upwardly mobile Indians. Coffee bars, an unheard concept till a couple of years ago, had suddenly become big business and coffee bars like Barista, Cafe Coffee Day (CCD) and Qwiky's had become quite popular. Though being a late entrant, Barista took elite India by storm. With 105 branches in 18 cities and annual sales of Rs. 650 million, Barista was clearly the leader in the coffee retailing business in 2002.

Barista adopted a three-pronged approach to expand its business. The first was to open espresso bars in various cities across the country. The second approach was to target institutional areas and the third approach was to target the home segment.

In 2001, Barista entered into a strategic alliance with Tata Coffee. Tata Coffee has the largest coffee plantation with facilities for roasting and retailing. The strategic alliance would enable the two companies to leverage each other's strengths. According to Ravi Deol (Deol), managing director, Barista, the association with Tata Coffee would strengthen the distribution network of Barista further and provide it with opportunities in the hospitality, airline, catering and other allied business. The alliance was expected to result in backward and forward integration of the coffee business with Barista and Tata Coffee offering a new concept in India: from bean to cup. The capital infusion by Tata Coffee would enable Barista to set up coffee bars abroad. The alliance would also enable supply chain integration. Tata Coffee would supply coffee beans to Barista and the Taj Hotels (part of Tata's Indian Hotels) would supply food items like baguettes, croissants, cookies, sandwiches, pastries and desserts.

In 2002, to promote its original coffees, Barista launched a new marketing initiative, 'Exclusive Original Coffees of The Month' at select outlets. Every month, the focus was directed on a particular type of coffee. For example, May was the month of 'Original Colombian Coffee and June was the month of 'Mexico Altura Organic'. This was an ongoing process throughout the year. The idea was to change customers' occasional indulgence in original coffees into a habit and to educate them about the original coffees.

In 2002, Barista also opened its outlets in banks (ABN-Amro), movie theatres (PVR in Delhi), offices (HSBC and GE) airports and hotels. Other than retailing, it was also developing the store-in-store concept by focusing on themes that complement coffee such as music, books and art. In 2002, Barista entered into marketing tie ups with Planet M,[27] Crossword[28] and Ebony[29] to set up Espresso Corners at these places. It was also planning to enter into co-branded marketing tie-ups with several banks for credit cards.

Earlier, Barista had entered the home brew segment with freshly grounded coffee. The company extended its product portfolio from roasted coffee range to single origin coffee under the umbrella brand Barista. The range of single origin coffee included 'Jaimaica Blue Mountain,' Cuba Carocolillo Crystal Mountain', 'Colombia Supremo,' 'Brasil Santos,' and 'Single Mould Scotch.' A 200 gm pack was priced between Rs. 800 and Rs. 1,800. Barista ensured that there was a clear line of distinction between its gourmet coffee and the mass market. According to Deol, Barista was not competing with the regular coffee pack on the shelf, but was in the value share game, and that explains its higher price compared to the mass market products. While some analysts were skeptical whether consumers would actually buy off the shelf, an analyst tracking the FMCG sector said, "While in-pub activity will continue to drive bulk sales, a niche set of consumers are likely to opt for gourmet coffee off the shelf. The product has a status symbol connotation which these marketers are hoping to exploit."[30]

Questions for Discussion:

1. Barista adopted a three-pronged approach to expand its business. Describe briefly, this three pronged approach?
2. Barista entered into a strategic alliance with Tata Coffee. Explain how these two companies are going to benefit from this alliance?

27 Planet M is a music retail chain promoted by the Times group.

28 Crossword is India's premier book retailer. It is one of India's fastest growing bookstores, a destination bookstore where people come to be informed, entertained and enlightened. Crossword caters to a wide audience with its unique product mix of books, CD-ROMs, music, stationery and toys.

29 Ebony is one of the first premium segment retail departmental stores in India. It is the largest chain of retail stores in North India.

30 Business Line, October 4, 2001.

Caselet 39

By 2003, with revenues of around Rs. 160 crores, Pioneer Electronics Ltd. had established itself as a leading local manufacturer of consumer electronics and electrical goods in India. The company used to supply certain parts of TV, refrigerator and air-conditioners to various players in the industry apart from selling finished products directly in the market. With the increasing popularity of the company's products the CEO of the company, Mallesh Sen Gupta (Mallesh) planned to foray into new markets.

Pioneer Electronics Ltd. was established in 1977 by Rakesh Sen Gupta (Rakesh), father of present CEO Mallesh. Before, starting his own venture, Rakesh, who was an engineer, worked as technical expert in various organizations. After working in various organizations for considerable time, he decided to start his own venture. Initially, he started a small plant in Pune. He decided upon Pune because it was strategically located. During the initial days Rakesh did not have enough funds. So he took loan of Rs. 25 lakhs from bank, borrowed Rs. 9 lakhs from his father-in-law and put Rs. 12 lakhs on his own. The venture started with an initial capital investment of Rs. 46 lakhs. The company initially concentrated on manufacturing certain parts of electronic goods. However, credit sales increased the fund lock, which had a heavy impact on the company. The company struggled to pay the bank loans.

In early 1980s, there was spurt in the number of suppliers. With growing market for electronic items in India, many players entered the market. Most of the buyers of the company had multiple suppliers and the buyers uses to give order to the suppliers who quoted less price. Therefore, in order to get orders, Pioneer Electronics Ltd. was forced to quote lower price than its competitors to get order. This price cut had further eaten away the revenues of the firm.

In 1986, Mallesh, after completing his graduation in management, joined Pioneer Electronics Ltd. Mallesh understood the operations of the business very quickly. In one of his strategic discussions with his father, he said, "Time has come for us to bring in certain changes. Further, we need to increase the production level of our factory to avail the benefits of economies of scale."

"I agree with you. But, what about the purchasers. Even if you produce, buyers need to buy our products. So, we need to produce according to the demand existing in the market," said Rakesh.

"There is much more potential for TVs with the advent of cable network. The growth in upper middle class segment will lead to much more market demand in the coming years. To tap this potential we need to expand our production and produce goods at much more cheaper price. Even growing competition in the market is making big players to outsource certain activities like spare parts development etc. So, our buyer count is also going to increase. Still if there is slack in off take of our products, we ourselves will assemble the parts and sell the products. Anyway, we are manufacturing majority of the parts required for TV except picture tubes," said Mallesh.

"But that requires lot of funds. Further for selling goods, we need to have good distribution network," said Rakesh.

"Things will take care of itself with time," replied Mallesh.

In 1988, Pioneer Electronics Ltd. opened a new manufacturing plant in Hyderabad. The company also started cost cutting exercise and organizational restructuring. The company reduced the manpower and decided to leave the relatively low value adding manufacturing processes to suppliers. The entire manufacturing process was streamlined by bringing in much more professionalism in procurement division. Mallesh restructured the materials management division and it resulted in cost reduction. This was possible by controlling the flow of goods from Pioneer Electronics Ltd.'s suppliers. By restructuring its relations with suppliers, the company was able to get quality products from its suppliers at a competitive price. The company started to build a long-term relationship with suppliers by involving the suppliers right from the product planning stage. Each supplier was assessed periodically through company audits. The company created categories of preferred suppliers and supplier partners. All suppliers were also expected to do their own quality testing and the company only conducted random checks. The company even started having tie-ups with various marketing agencies to market its products.

In spite of all these measures, the company was not able to generate much profit. In early 1990s, the revenue of the company increased marginally. Though the company did not have a premium brand tag still consumers felt that they were getting value for the money. However, the company's markets were limited to Maharashtra, Andhra Pradesh and Karnataka. In early 1990s, there was an increase in company's revenues. However, from 1995 onwards, there was a drop in sales. Analysts attributed the reduction in revenue to poor after sales service. They found that though the company's products were cheaper when compared with competitors products, still consumers were hesitant to buy as the after sales service was bad. After much analysis, Mallesh found that the consumers include after sales service while ascertaining the value of the product at the time of purchase. Therefore, he started providing training to the sales personnel of the marketing agencies that worked for his company with regard to after sales service, though the company needed to spend heavily for the training. Further, he had an agreement with those agencies to provide after sales service.

Mallesh found that the company had diversified into too many businesses, which was affecting the efficiency of the company. Therefore, he dismantled several home appliance products and concentrated more on TVs and air-conditioners. Mallesh realized that with growing business, there was need for significant investment in R&D. So, Pioneer Electronics Ltd. entered into a tie-up with other related companies with regard to supply of product designs. This helped the company significantly as it was able to release new models into the market periodically.

By late 1990s, there was rapid growth in revenues. In 2001, the company started its own marketing & service division. However, the company did not discard its existing understanding with marketing agencies. Instead, the company's own marketing & service division will strengthen the existing force of marketing agencies. Mallesh realized that the process of adding value was a continuous process. Therefore, he formed a team, which specifically looks into value addition to the product by identifying various value activities of the products.

Questions for Discussion:

1. Mallesh Sen Gupta has given lot of importance to procurement division, control systems and organizational structure and further spent huge amount on training salesforce. Identify the above activities in the context of value chain and how these activities help Pioneer Electronics Ltd. deliver value to the customers?
2. Pioneer Electronics Ltd. entered into tie-ups with different companies with regard to supply of product designs. What are the advantages Pioneer Electronics Ltd. is going to get by having long-term agreement with different companies with regard to supply of product designs? Explain in detail.

Caselet 40

It was celebration time at 3M! The company completed 100 years in business in 2002. For many, 3M represented the house of innovation. For 100 years, 3M's formula for growth – *recruit the right people*, *provide them with the right environment to work* and *let them do their things* – resulted in around 55,000 products and over thousands of patents for the company.

Analysts attributed 3M's success to its commitment to innovation. They pointed out that 3M gave its employees the freedom to conduct research in areas of their choice even if that research was not related to their official projects. By thus nurturing the talents of its employees and fostering a climate of innovation, 3M became one of the most innovative companies in the world.

By the late 1990s, 3M's growth rate started slowing down. According to reports, the stock price of 3M dropped from $83.00 in 1996 to $71.13 in 1998 and the price-earning ratio (P/E ratio)[31] of the company also declined considerably. It was reported that during 1995-2000, earnings per share grew at an average of only 8.8% and shareholder returns fell far behind Dow and the S&P 500.

In December 2000, 3M announced the appointment of James McNerney Jr. (McNerney) of General Electric as its CEO. For the first time, an outsider was appointed as CEO of 3M. The stock markets responded positively to the appointment of McNerney and 3M's stock price closed at $120.50, the highest in the decade.

McNerney introduced cost cutting measures at 3M. Under the 3M Acceleration program, he cut down research projects from 1500 to 700. In addition, McNerney also announced that he would lay off around 6500 employees, thus sending negative signals to employees. However, his assurance that he would continue to invest 7% of annual sales in R&D, and his emphasis on preserving the culture of innovation at 3M generated confidence among employees. McNerney also set up the leadership development institute, to foster leadership qualities among employees. The institute offered a three-week development program, which provided participants real-life experience. McNerney also made changes in 3M's pay structure. Earlier 3M had a seniority-based pay structure, under which employees who had put in more years of service were paid better. McNerney introduced a performance-based pay structure. In addition, all employees had to come up with individual development plans, stating steps they would take to improve their performance.

Analysts were apprehensive about the outcome of such changes. They felt that McNerney's 3M Acceleration program and Six Sigma initiative[32] might dampen the spirit of innovation at 3M. Some of 3M's employees also had misgivings about the impact of such changes on the company's culture.

However, McNerney's initiatives received the support of top ranking employees of 3M who were willing to make changes to accelerate the growth of the organization. Analysts felt that his initiatives brought in results in some units, though a lot more needed to be achieved. However, many analysts pointed out that McNerney's main challenge would be to balance drive for efficiency and innovation. Said one, "It will mean getting stronger business and marketing involvement earlier, without killing off all the harebrained ideas."

Questions for Discussion:

1. Since its early years, what strategies did 3M adopt to foster a culture of innovation in the organization? How far do you attribute the success of the company to its culture?

---

[31] P/E ratio equals common stock closing market price divided by the last 12 months diluted net income per share.

[32] Six Sigma is a sophisticated quality program that is designed to reduce defects to 3.4 per million opportunities. McNerney introduced Six Sigma at 3M after taking over as the CEO.

2. In December 2000, 3M announced the appointment of James McNerney Jr. (McNerney) of General Electric as its CEO. Describe briefly, the steps taken by Mc Nerney to stimulate growth at 3M?

Caselet 41

Reva Electric Car Company (RECC) was established in 1994 through a joint venture between the Maini Group and Amerigon. Amerigon helped RECC in building the chassis of Reva. The car uses electricity and was manufactured at RECC's plants at Bommasandra in Bangalore. The car's key technologies included its steel frame, the energy management system and a motor controller. The motor controller was developed through a technical collaboration with Curtis, one of the world's leading manufacturers of motor controller for electric vehicles.

In 1996, RECC built the first prototype for Reva and received the mandatory certification. However, Reva was not launched immediately. RECC wanted to ensure that at least 75% of the car's components were available in India. The car had 1,100 components out of which 99% were manufactured in India. In terms of value, the components manufactured in India accounted for about 75%. The company aimed to achieve an indigenisation of 100% by the end of 2002.

In 2001, the commercial version of Reva was launched in Bangalore. Reva was a two-door hatchback[33], which could accommodate 2 adults and 2 small children. RECC did not adopt any marketing or promotional strategies as the company felt that the cars should be sold without the help of advertisements. One higher level executive said, "We mostly depend on public relations and use minimal advertising." The car was targeted at two-wheeler owners planning to buy a 4-wheeler. It was also positioned as an ideal second car for housewives, professionals and students. RECC also planned to sell the cars to tourist operators to be used as taxis. The executive said, "At Rs 0.40 per km, it is the cheapest car to drive around." RECC also promoted itself as an environment-friendly company. It promoted many environment-linked events on World Environment Day. The car also had the slogan: "I don't pollute when I commute."

Initially, RECC had only one company-owned showroom in Bangalore and planned to open more showrooms in some of the major cities across India. The company planned to launch the car in a phased manner, nationally. Depending on the demand, the company appointed dealers nationwide. In late 2001, RECC launched Reva in Goa. By January 2002, RECC appointed about 7-10 dealers in North India. In April 2002, Reva was launched in Delhi and Surat.

To promote the sales of Reva, RECC requested the state governments to exempt Reva owners from road tax and sales tax. This was granted by the Karnataka and Rajasthan governments. In September 2001, RECC entered into an agreement with ICICI to provide loans to people planning to buy Reva. As per the agreement, customers could get loans covering about 75-85% of the cost of the car. In February 2002, Reva was planning to extend its agreement with ICICI for leasing the cars at a nominal cost. According to the agreement, Reva would take care of all repairs, and any customer could own the car on a pre-determined monthly amount. After three years, the customer could either retain the car or return it to the company.

[33] A hatch is a rear luggage access door with a fixed glass window. It is hinged at the top and hangs vertically or at an angle. In a 'hatchback' car, the luggage area is integrated into the passenger compartment. Instead of a boot and a horizontal stretch at the back, the roof slopes down at an angle of 45 degrees, with a small door or 'hatch' at the back of the car.

The insurance premium on Reva was also low and RECC offered to replace the car in case of repairs or accidents. In February 2002, RECC introduced a new scheme under which it agreed to buy Reva back if a customer was not satisfied with its performance. The customer could get back the money invested excluding about Rs 43,000, which accounted for taxes and insurance. Sudarshan said, "It is a new concept and the scheme is for a limited period. We want to promote electric cars as much as possible. What is heartening is that not a single customer has brought back his car to us." By April 2002, RECC had sold about 180 cars in Bangalore and Goa.

Questions for Discussion:

1. RECC appears to have positioned Reva in the niche segment of two-wheeler owners graduating to a 4-wheeler. Do you agree with the company's approach? What are the options and alternative strategies open to RECC to deal with the challenges?
2. RECC did not adopt any marketing or promotional strategies as the company felt that the cars should be sold without the help of advertisements. How is the company planning to sell its cars?

Caselet 42

DRL was founded in 1984 by Dr. K. Anji Reddy (Dr. Reddy) to create and deliver innovative pharmaceutical healthcare solutions. DRL became a public limited company in 1985 and had an IPO of equity linked debentures aggregating Rs.24.6 million in May 1986. During the 1990s, the company consolidated its position in the domestic formulations market through aggressive product launches as well as acquisitions. By late 1990s, DRL transformed itself into a global pharmaceutical powerhouse with research and drug development as its strengths.

In 2000, DRL hired Enterprise IG (EIG)[34], to implement its new corporate identity plan. The whole exercise was completed in a year and evolved over nine stages, beginning with an across-the-board study of the perceptions of different stakeholders and ending in a brand manual that was to be implemented by the employees. In the new corporate identity, changes were carried out at two levels—i) institutional: implemented throughout the company, and—ii) at a more individual level surrounding the persona of the founder, Dr Reddy.

The new corporate identity plan also emphasized control of the top management should be passed onto to the second generation: Dr Reddy's son-in-law and Chief Executive Officer, GV Prasad (Prasad), and son and Chief Operating Officer, Satish Reddy (Satish). Analysts felt that DRL was too closely identified with its founder. It was this realization that prompted Dr.Reddy, to make way for other professionals.

The study undertaken prior to the formulation of the new corporate identity plan showed that while DRL's strengths as a research and development company were widely recognized, its other attributes like professionalism and quality consciousness, were less evident. The new corporate identity was designed to emphasize these attributes of DRL. Explained Manoj Tadepalli, Senior Consultant, EIG, "The new image was tailored to bring out these attributes that were subdued."

The new corporate identity was forged from the merger of DRL, Cheminor Drugs Ltd. (CDL)[35] and American Remedies Ltd. The subsequent increase in the size of DRL and the company's global ambitions called for the creation of multiple leadership levels. Prasad said, "This meant that the three of us moved away from the role of an operator

[34] EIG is a global branding consultancy and a part of the WPP Group Plc., the world's largest marketing services group.

[35] Incorporated in 1981, CDL had been a part of DRL since 1984.

to don the mantle of a strategic controller. This also means that it has to be a nose-in but hands-off approach, which was a fundamental shift from an entrepreneurial company to a professionally oriented set up."

The new corporate identity also aimed to create a flatter organization structure and to inculcate a stronger performance ethic within the company. One of the objectives of the new identity exercise was to bring energy to the workplace and change the way people perceived work. Other objectives included retaining talent, and speeding up the process of developing products based on the research they have undertaken. However, the main aim of the entire exercise was to establish DRL as a global pharmaceutical major.

Questions for Discussion:

1. By late 1990s, DRL transformed itself into a global pharmaceutical powerhouse with research and drug development as its strengths. Then why did it try to change its identity all of a sudden?
2. What were the changes that were carried out at DRL as a result of a study undertaken prior to the formulation of the new corporate identity plan?

Caselet 43

HP followed a highly centralized organizational structure till 1950s. In 1960s the company adopted a divisional structure as the top management thought that the divisional structure would give considerable autonomy to its employees. The company brought in certain changes in 1968. With increasing number of operating divisions and product lines, the company adopted a group structure. Under the group structure, related divisions were combined and a group manager headed the group. The company's orientation towards decentralization process enabled it to improve its field marketing activities.

In early 1970s, the company moved towards decentralization from its traditional centralized structure. A new concept 'local decentralization' has emerged. The objective of this concept was to reduce the level of bureaucracy and enable the company take decisions immediately. With the increase in the number of divisions there seemed to be lack of synergy between the divisions. However, the then CEO, John Young, further decentralized the decision-making process.

In the mean time, there were reports that innovation was getting bogged down by high level of bureaucracy. Revenues stagnated and profits started declining. This was the time when Carly Fiorina took the mantle at HP. Immediately after taking over, Fiorina brought in certain changes. Some of the changes were demanding regular updates on key units, inculcation of discipline in salesforce, focus on breakthrough projects, etc. Finally, in 2000, Fiorina dismantled the decentralized organization structure. At that time, there were 83 independent product divisions. Fiorina reduced the number to 6 centralized divisions. Fiorina expected that there will be more collaboration between sales and product development executives. However, according to experts, this approach requires lased focus and superb coordination between thousands of product lines of HP. The new approach smoothened the company's operations.

Previously, the product chiefs used to take care of operations from designing to selling of products. Now, the onus of marketing and selling of the product was on sales department of the organization. Therefore, R&D people were unable to allocate R&D funds due to lack of authority to set sales forecast.

According to analysts, the R&D product designers would not able to deliver products as per the requirements of customers since, they were not involved in the interaction process with customers. Further, there was no clear assignment of responsibility for profits and losses. Even there were many complaints from HP customers about the operations of the company. One of the customers said, "It's beyond my ability to communicate our frustration. It's painful to watch them mess up million-dollar deals."

There was not much improvement with regard to structural problems and the company's business performance under Fiorina. According to one HP manager, "The people who deal with Fiorina directly feel very empowered, but everyone else is running around saying, "What do we do now?" Even there were accusations by some analysts that Fiorina is overambitious with regard to tackling of all HP's problems at one go. Analysts feel that bringing such substantial changes was tough anywhere and specifically in the case of HP, which was traditional and further suffered from slowdown in the technology sector.

Questions for Discussion:

1. The organizational structure of HP was changed several times under various heads. What are the structural choices available with HP and which according to you is the best structure for HP? Justify your answer.
2. Under Carly Fiorina, there were dynamic changes in organizational structure of the company to accommodate the needs of strategy. With reference to the cases discuss the relationship between strategy and structure.

Part B: Caselets (Suggested Answers)

Caselet 1

1. As the case indicates, LWIPL has successfully employed marketing strategies to gain market share. Since 2000, it launched a series of innovative products in order to take advantage of certain occasions. In 2000, the company launched the "Millennium series" of Parker Vector roller pens. These pens had the world map inscribed on them. The unique design on these pens helped people to determine the time difference between countries. These pens were priced at Rs.250 each, and became very popular.

In 2001, it launched 'Special Moment', a gift pack consisting of Parker Vector and Parker Beta pens. These pens had the signature of Amitabh Bacchan, the brand ambassador, inscripted on them. Pen collectors were the target customers for these products. These pens were primarily targeted at people who were fond of Parker pens.

In 2002, Parker launched the 'Black and White' range of Parker Vector ball pens which were priced at Rs.145 each. Similarly, in mid 2002, the company launched the 'Football Legends World Cup edition' of Parker Vector pens in order to cash in on the popularity that the event enjoyed.

In December 2002, the company launched the "Gajgamini" range of Parker Sonnet fountain pens. These pens (only 500 pens were released) were named after the paintings created by noted artist MF Hussain and also had his signature inscripted on them. LWIPL priced these pens at Rs.5000 each. The company benefited immensely by chosing this type of opportunistic marketing strategies.

2. LWIPL invested heavily to upgrade its technology to manufacture microtip pens. These pens were launched to bridge the gap between ball point and fountain pens. This became a unique selling proposition for Pilot pens and they were quite successful. However, these pens launched initially were not refillable. Due to the price conscious nature of middle class people in India, the concept of disposable pens was becoming an issue slowly. This prompted the company to launch a new, refillable variant of these pens. Within four years of launch, the annual sales of Pilot pens had increased ten fold to one million pens.

In 1990, LWIPL decided to launch another product under the 'Pilot' brand name, Luxor 0.5 mm Pilot V5. Priced at Rs.45. each, Pilot targeted the middle and senior level executives. The attractive design of the pen and the superior technology (it had a liquid ink feeder system) used, contributed to the success of the brand. By 1995, the annual sales of Pilot pens had crossed 10 million. LWIPL decided to go for further brand extension in 1997, and launched the Pilot V7 which wrote bolder compared to V5.

In 1996, LWIPL launched Parker pens in India, targeting the upper middle class consumers, senior level executives and bureaucrats. At the time of the launch, the prices range was Rs.90 to Rs.10, 000. Priced at Rs.90, the "Vector" brand of pens was the cheapest in the range. Within four years, "Vector" became the largest selling Parker brand in India.

In 1999, LWIPL launched the 'Papermate' brand of pens in India. These pens were primarily targeted at the school and college students and were priced in the range of Rs 4 to Rs 13. The brand strengthened the presence of LWIPL in the low priced pen segment.

In 2000, LWIPL launched the Parker Beta range, with prices ranging between Rs.50 to Rs.75, targeting the youth. This product was a huge success. The company sold around one million pens within a couple of months of its launch. Thus, the company clearly identified where there was unmet demand and designed its strategies accordingly.

Caselet 2

1. RDA announced a re-engineering strategy in 1998, under the leadership of new CEO Thomas Ryder, to improve its profitability and create new growth opportunities by leveraging its core strengths. In line with these plans RDA decided to restructure RD franchises, focus on areas such as health, faith, home, family and finance and planned to use a range of new marketing channels, than focusing on sweepstake promotions alone. For this, RDA decided to leverage RD brand, its superior editorial heritage and the company's direct-marketing network.

Following this, Ryder focused on management restructuring (by appointing new staff), eliminating unnecessary costs and by finding new revenue gaining opportunities. By mid-2002, most of these plans were put in place. New staff was recruited for the magazine, costs were brought down by discontinuing the video business and new businesses such as 'Books Are Fun' were acquired to increase growth opportunities. In mid-2000, RDA announced plans to redesign RD. Initiatives taken by RDA as a part of its magazine redesigning efforts included –

- Reduce focus on sweepstakes promotions and direct mail initiatives and focus on marketing channels such as newspapers, catalogs, direct response television (DRTV) and the Internet.
- Broaden its customer base to include youth.
- Increase the number of advertisements featured in RD to generate revenues.
- Recruitment of top editorial personnel.
- Change in look of the magazine to make it attractive. Featured the pictures of celebrities such as Meg Ryan, Princess Diana, Tom Hanks and Muhammad Ali on the cover page instead of real-life heroes (ordinary people who performed extraordinary deeds).
- Change in content, by reducing the number of hard-news stories and offering increased number of short-commitment pieces. As a part of this it reduced first person tales and nostalgia trips and discontinued features such as 'Mugged by the Law.'
- Change in quality of paper used to give RD a more polished look to appeal to youngsters.
- Change in color patterns used in the magazine to make it more colorful and enjoyable.
- Increase in number of advertisement and use of pictures in the magazine to make it more attractive to youth.

Despite these initiatives, RDA seems to have failed to increase its profitability or subscriber base. This was because, redesign of magazine was not liked by many ardent lovers of RD. According to them the quality of content also came down significantly. They commented that the present RD issues did not render any value to the reader as they are mostly mini articles which take less time to read and are immediately forgettable.

Readers remarked that the content they were being offered, and its quality, had come down so much that RD was fast losing its distinct identity and was becoming one among the many publications that offered such trivial stuff. Readers also criticized the increase in number of advertisements featured in the magazine. Decreased focus on sweepstakes promotion also affected the company's profitability.

2. In mid-2002, RDA acquired Reiman Publications LLC (Reiman), engaged in publishing cooking, gardening, lifestyle and nostalgia books and magazines. The acquisition was expected to enable RDA to offer its products to new customers, via new marketing channels, which would help it further reduce its dependence on sweepstakes. Though, few of the company's major shareholders opposed the acquisition saying that RDA was making a mistake by acquiring Reiman, when it should have focussed more on revamping its core product strategies, RDA went ahead with its plans.

Design, content and marketing are three important considerations for any magazine. In case of RD, the change in design and content did not meet with an approval from its readers which naturally harmed the growth prospects of the magazine. On marketing front, according to analysts, the decreased focus on sweepstakes also contributed to the decease in profitability and subscriber base of RD during the late and early 2000s.

To regain RD's subscriber base and increase its profitability the company has to primarily focus on RD's design and content. Though the company brought about considerable changes in RD's design and content during the previous years, most of these changes were criticized by the magazine's loyal subscribers. With its plan to appeal to the younger generations as well, RD focused more on making RD attractive with the choice of its light-hearted articles.

As the average age of RD's subscribers was mid-50s, it could be understood that these loyal customers were not ready for the contemporary look of the magazine. In these terms, it is equally important for RD to retain its old subscribers (with average age of mid-50s) and to make new subscribers (youth) to take RD to the next generation as well. Hence, it could be advised that the magazine design and its choice of contents should appeal to both, the aged and youth. It is also important for RD to strike a balance between contemporary trends and its primary objective (informing, enriching, entertaining and inspiring readers). RD should ensure that it retains its distinct identity in spite of all its efforts to attract the attention of youth. RD should retain hard news stories and real-adventurous stories to inspire people and enrich their knowledge. However, RD should also focus on adding more entertainment and fun to the magazine in order to attract youth.

Apart from design and content of the magazine, RDA should also focus on exploring new marketing channels. The company should primarily focus on the Internet and other electronic media to reach new readers. Increased usage of direct response television, newspapers and the Internet by RDA also can increase the subscriber base in future. With the increased penetration of the Internet in the world through the early 2000s and with youth forming the largest user base of Internet in the world, RD could attract the youth through the Internet. The company can launch more international editions of RD to increase its subscriber base. With such initiatives, RD could possibly succeed in increasing its subscriber base and profitability.

Caselet 3

1. Network or multi-level marketing (MLM) system comprises sales people or distributors at various levels. The sales force includes independent distributors, who earn commissions at two levels. The first is the distributor margin, which typically ranges between 9-21%. The second is the commission the distributor gets by appointing distributors under him/her. This commission is based on the sales generated by the recruits. This system cuts costs of the conventional distribution system, and eliminates the need for the traditional retail chain.

This type of marketing begins with the recruitment of distributors, who enter the network by paying a registration fee. They are given the first product kit and the next kit is delivered only after the first kit has been sold. The commission to the distributors is based on the sales volume. As these distributors recruit more distributors, the network grows, thus increasing market penetration. In this type of marketing, the investments on marketing account for about 25% of the selling price, on an average

For FMCGs operating in niche market, the system would be ideal. Products like specialist cosmetics and premium fragrances, and products that needed to be demonstrated could be sold through network marketing. Ideally, products sold through MLM should be neither expensive nor cheap, and they should not be bought very frequently and very rarely.

In India, direct selling was never as popular as it was in other parts of the world. There were many reasons for this. There was a widespread mistrust of the selling and marketing function in India. Either the product or the sales person or sometimes both are not trusted. Strangers were not easily allowed into the house for security reasons.

However, the concept could catch on in the future with the changing social environment. Many multinationals were in the process of popularizing the concept in India. Amway was rather successful in India, because it chose more women as its distributors, particularly as the company's products largely comprised cosmetics and personal care products. The company was already working on plans to encourage unemployed youth to take up distributorships by reducing the registration fee.

The traditional distribution setup being a successful model was used widely in India. As the MLM model was rather new and untried, Indian companies did not adopt it on a large scale. Though this model cuts the costs involved in the traditional retail chain and the company also builds a direct relationship of trust and belief with the customers. If the distributors were trained and motivated properly, the network would grow continuously.

In a traditional distribution system, the company saved on the inventory costs, as against the MLM model. In an MLM model, the company had inventories at different locations, to source its distributor base. This was not required in the conventional distribution system, where the distributor stored the products. Also, a higher market penetration could be achieved through the traditional system, as the product could be delivered even in the remote places. In the MLM model, the company had to give commissions to the distributors at many layers of the network hierarchy. This added to the costs.

One of the major advantages of an MLM model is that, innovative products can be properly demonstrated. A classic example is Eureka Forbes vacuum cleaners. However, sales forecasting becomes difficult in an MLM model. This increases inventories. Moreover, brand building is not possible without advertising. Also, in an MLM model, there is high rate of self-consumption. The distributors become the consumers, curbing the growth of the market for the products. This is due to the high distribution margins offered to the distributors. Also, the company that uses a MLM model cannot control the actions of its sales team.

2. Amway faced many problems during the initial period after its entry into India: decreasing number of distributors, self-consumption by the distributors, a premium segment product image, low brand awareness, low product knowledge etc. To overcome these hurdles, Amway planned several measures.

Firstly, to increase product knowledge among the customers and the distributors, the company began putting stickers on its products. The stickers made it clear, that Amway's products were very concentrated and could be diluted to a large extend, and that this would result in a low cost per usage.

Amway also decided to have a focused approach for very product category. It increased product focus by establishing strategic business units, and appointing category managers for category, in India. It also turned its attention to the smaller towns and decided to expand its network in these towns on a priority basis.

The major obstacles that Amway faced were the high costs of making long distance calls, long delivery time, and the refusal of courier companies to accept cash. The company lacked crucial infrastructure such as network banking, toll-free phones, and multi-service courier companies. Its central warehouses were not operating efficiently, and Amway had to announce incentives to C&F agents who could deliver parcels quickly - locally, within 48 hours and to other cities, within 72 hours.

Another important initiative taken by Amway was to encourage unemployed youth to take up distributorships by reducing the entry fee, and providing interest free loans. The company also gave free kits to blind youth in Rajasthan.

To shed the premium-segment product image, the company introduced smaller packs, which made its products affordable by different income groups. Hindi was used on company's stationery and Amway's expansion programs were named 'Operations Ghar' and 'Operations Gaadi'.

To deal with competition from other FMCG giants, the company should price its products competitively. It should increase product exposure through aggressive advertising. The distributors should be motivated and trained to contact more customers. They can be given incentives for getting in touch with more customers. The company should also try to rope in more women as distributors, as they would find it convenient to work part-time and at their own pace. Also, as many of Amway's products are aimed at women, it would be easier for women to accept the distributorship.

Caselet 4

1. Fairever's stagnating market share could be mainly attributed to its high price and increasing competition from the new entrants and the direct selling companies. Fairever's success attracted major companies into the market. OTC drug companies also entered. All these companies had a strong financial muscle and started heavy advertising and aggressive promotional campaigns. CavinKare, which sold at a premium to competition, did not initiate any promotional activities.

FairGlow and F&L were also available in the affordable Rs.5/- sachet packs, which further increased their sales. Fairever was available only in tubes of 25gm and 50gm, and was also priced higher than its competitor's products. A 25gm Fairever tube was priced at Rs.26 while F&L was priced at Rs.25.

The competition also increased with the new trend of cross categorization. Fairness soaps were launched by Godrej and HLL. Godrej's soap was successful and creams also started losing share to soaps. This was because soaps were perceived to be less harmful to the skin than the creams and there was no cosmetic feeling. CavinKare did not have a product in this category.

Though CavinKare more than doubled its ad spend in 2001 it should also cross-categorize its fairness product to have a presence in all the categories of the fairness segment. The product should also be made available in affordable packs. Another important area to concentrate was the distribution network. The company had a small reach and needed to expand its network.

2. As a response to challenges in the market HLL made some strategic moves. It launched Nutririch Fair & Lovely (F&L) Fairness Reviving Lotion in early 2001, to protect its brand from any threat in the premium segment. The new product was projected as a scientifically formulated cream to protect the skin from harmful ultraviolet rays and enhance natural fairness. The new formula, containing Triple UV Guard Sun protection system and the fairness ingredients Vitamin B3 and milk proteins, promised to restore and protect the natural skin colours from the sun's darkening effects. The product was also claimed to contain Niacinamide making it the only patented formula fairness cream.

It was targeted at women in the age group of 18-35 and was priced at a premium. A 50ml pack was priced at Rs.38 and a 100ml pack at Rs.68. HLL also launched 'Pears Naturals Fairness cream' at the same time. This product launch in the premium segment was apparently meant to restrain the growth of FairEver in the premium segment.

Caselet 5

1. Since the company was started in 1975, by a Filipino entrepreneur Tony Tan Caktiong (Tony) the company went from a two-outlet ice cream parlor business in the city of Manila to biggest player in Philippines fast-food industry. Its founder, Tony established a chain of seven hamburger outlets in 1978 under the name Jollibee. By establishing Jollibee in 1978, Tony pre-empted McDonald's entry into the country. Tony was aware that Jollibee could not compete with McDonald's which had financial muscle and decades of expertise in the business. Therefore, he decided to differentiate his company by making it a 'symbol of Filipino pride.' All the food products were prepared keeping in mind the tastes and flavors prevalent in the country. Since Filipinos liked eating out in groups and ordered different dishes, the menu was quite exhaustive (as compared to the limited menu offered by US fast-food outlets). This strategy worked well and from the very beginning, Jollibee became a huge hit with the customers.

The foreign fast-food outlets, meanwhile, did not localize their offerings to cater to Filipino tastes. Moreover, their prices were 5 to 10 percent higher than Jollibee's. As a result, by 1985, Jollibee became the undisputed leader in the fast-food industry in the Philippines. Jollibee's practice of greeting customers in the traditional Filipino way (Magandang Umaga Po,[1] Welcome to Jollibee) soon became the industry norm. Even MNC fast-food companies had to decide in favor of greeting customers in this manner.

When the failed military coup in the Philippines (1989-90) prompted McDonald's and other foreign companies to leave the country temporarily, Jollibee firmly entrenched itself in the market and opened its 100th outlet in 1991. To fund the company's expansion plans, Jollibee went public in 1993. In 1994, Jollibee acquired a leading pizza and pasta outlet chain, Greenwich Pizza Corporation, to fulfill its ambition of becoming a dominant player in the food service industry. Jollibee also acquired the franchise of Delifrance, a worldwide leader in the French bakery products business, in 1995. Jollibee recorded $ 3.59 billion in revenues for 1997 and a net income of $ 312.9 million.

The Asian financial crisis of 1997 led to a decline in the spending power of the average Filipino and hence a decline in the spending power of Jollibee's customer base. The company dealt with the problem by reducing prices substantially. By renegotiating with suppliers for lower prices and baking its own bread, it achieved significant cost advantages. By promoting its 'Value Meals,' which enabled Filipinos to spend less than what they would have eating at a street side hawker's stall, the company actually turned a crisis into an advantage.

The company's growth from obscurity to the hall of fame can be attributed to its distinct identity it created among the Filipinos and its opportunistic strategies.

2. The Asian financial crisis of 1997 led to a decline in the spending power of the average Filipino and hence a decline in the spending power of Jollibee's customer base. This apparently forced Jollibee towards globalization. But, Jollibee's

[1] A respectful way of saying 'Good Morning' in the Filipino language.

globalization strategy seemed to be doomed from the beginning. Its unique strength had been its distinct image. By going for acquisitions it seems to have lost this indispensable advantage. Globalization alone is not a mistake. The company should have entered global markets where it could have successfully leveraged its distinctness. It could have created different segments like premium, ordinary etc in its Filipino market itself. Instead it chose to compete in US with giants such as McDonald's on their terms in their own soil. And the company didn't enter into any partnership with US firms in fast food industry. As a result, it was competing naively in a hyper-competition market like that of the U.S. This approach highlights how a company falls into the trap of grandiosity when it loses sight of its real strengths and weaknesses.

Caselet 6

1. The early 1990s boom in the global infotech industry saw the birth of many ventures that lead to a substantial spurt in demand for personnel. The existing labour markets were not able to satisfy this demand for 'quality employees.' Employers saw a decline in the growth of the labor, and also had to contend with the declining quality of labor. Globalization and the Internet revolution have forced companies to face high attrition rates. This has made them realize that effective recruitment policies can act as strategic weapons and enable them to stay ahead of the competition.

CISCO found that a lot of job applicants lacked the basic skills. The low labour force growth combined with the skill supply/demand mismatch forced companies to face constant labour shortages. Thus, they had to target the limited supply of qualified personnel in an aggressive manner. This in turn necessitated the need for adopting novel and creative recruitment methods that lead to a wider usage of internet to recruitment.

Cisco realized that to attract the best people in the industry and retain them, it needed to devise new recruiting methods. Cisco realized that many of the best people were passive job-seekers who were happy with their current jobs and to attract them the company adopted revolutionary recruitment methods. Cisco also realized that its employees would be the company's major competitive advantage over its competitors in the long run.

2. Cisco concentrated on its human resources to gain a competitive advantage over its competitors. The company revolutionized its recruitment process. It tried to reduce the burden for its recruiters and also prospective employees by reducing the time spent on the recruitment process. It realized that many of the talented people were happy with their current jobs and hated searching the 'wanted columns' for jobs. A Cisco survey also found that many people preferred to work in organizations where they knew someone and hence knew about the organization. So, Cisco started an innovative recruitment method through its 'Friends program.' According to company sources, this program helped the prospective employees have a fair idea of the work atmosphere and this made them comfortable. As they already knew someone in the company they found it easier to adjust to the job after they were hired. Cisco even had an internal referral program, Amazing People, through which employees were allowed to refer their friends and relatives for a job at Cisco.

To reduce the time and amount spent on the recruitment process, Cisco advertised its website, through which prospective employees could apply. Their resumes were stored in the Cisco resume database. Cisco saved a lot of time and money through its online recruitment program.

The other steps taken by Cisco included:

- Conducting focus group studies and incorporating their findings to improve its website.

- Hiring in-house headhunters
- Advertising its website in movie theaters and other websites.
- Mingling with potential employees at beer festivals and other social gatherings.
- Launching the 'Profiler' – a tool on the employment page of its website to accelerate and standardize online resume submission.

Caselet 7

1. SBI had lost quite a few of its good employees to its competitors, even before the VRS was announced. The VRS made things even worse for the SBI with many qualified officers opting for the scheme. Because of the voluntary nature of the scheme and the attractive monetary package, SBI found it very difficult to stop this exodus. Despite the bank's strong organizational strength and training system, its management of human resources was reported to have left a lot to be desired, particularly due to the reported 'erosion of organizational culture with meritocracy taking a beating.' SBI was reported to have floundered on implementing a well-defined promotion policy as people with consistently good track records were sidelined. This was because the whole process of higher-grade promotions was not dealt with organizationally. In short, SBI failed to harness the abundant talent to its advantage.

The SBI management should announce a confidence-building and long-term promotion and human resource development (HRD) policy with a view to ensure that the officers of intrinsic merit with a consistently good track record do not leave the organization. SBI was a bank with strong fundamentals and could challenge any bank in the world in providing professional banking services. However, this could happen only if it succeeded in keeping its key personnel motivated by adopting a consistent and transparent promotion and HRD policy.

2. SBI declared a VRS package to its employees in December, 2000 in line with the Government's decision to reduce the workforce in the banking industry - reported to be overstaffed by around 35%. 35,380 people applied for VRS (15.19% of total staff strength) by the time the scheme ended. 19,295 of these people were officers. This number is equal to over 33% of the total officers in the bank. Clerks however did not show that much enthusiasm. Only 12,948 employees showed interest- 11.46% of the total number of clerks in the bank. The response was the lowest amongst the lower cadres with only 3,137 (5.23%) applying for the VRS.

The large number of applications from the officers dashed SBI's hopes of the VRS weeding out the surplus staff from the lower cadres. However, this should not have come as a major surprise to SBI because in most of the PSB's, it was the officer cadre opting for the VRS in hordes.

After the VRS, SBI had to merge 400 branches and eliminate the regional offices from 10 to 1 or 2 in each circle. This resulted in heavy workload for the staff - at some place a single officer had to handle the concurrent audit of 2 or 3 branches. Some employees even went on a work to rule agitation against the increase in the workload. It was also reported that staff shortage would hamper SBI's newly begun insurance business in the future.

Caselet 8

1. Bata has not been able to maintain good industrial relations practices for the following reasons:

- Employees always felt that the management was consistently ignoring new recruitment, downsizing its workforce, and rendering more workers jobless.
- Phasing out the welfare schemes by the management.
- Management was highly suspicious of workers and their intentions. Assault on Weston added fuel to the fire. Management became more severe with the workers. Bata management had taken a tough stand by dismissing erring employees in the assault case against the chief welfare officer in 1996 and against Weston in 1998. On the other hand, trade unions were demanding reinstatement of these employees thus creating a deadlock between the management and the unions.

In order to maintain good industrial relation practices, Bata can take the following steps:

- Make efforts to maintain good industrial relations by introducing a participative style of management.
- Strengthen its grievance settlement mechanism (machinery).
- Maintain good relations with local government and send signals that govt. intervention is all right but not party[2] intervention.
- Collective bargaining (a process through which employee issues are settled through mutual discussions and negotiations) should be practiced.

2. Welfare schemes are meant to achieve organizational, employee and societal objectives:

- Organization provides certain welfare schemes to its workers in order to support recruitment and to retain workers in the organization.
- They are aimed at discouraging labor unrest and reducing the level of employee turnover in an organization.
- Employees expect sharing of benefits that come from productivity as they produce products at a lower cost and are conveniently available.
- Life insurance, health-care, disability and retirement schemes, and the like reduce the burden on the society and provide security to the employees against social risks.

Phasing out of welfare schemes is not a right step taken by Bata. This would further worsen the relationship with its employees. Rather than phasing out all the welfare schemes, Bata can follow the "cafeteria approach" in providing benefits to its employees. This approach lets the employees choose benefits from a variety of benefits made available to them. Each employee chooses the benefits that he or she prefers. Factors such as an employee's age, financial and family position, attitudes and lifestyle influence choice of employee benefits. Younger employees favor benefits like vacations, holidays, flexible working hours while older employees may prefer life insurance and retirement related benefits. Another step, which Bata can take, is to link all its welfare schemes with productivity. This will motivate employees to improve productivity and hence both the organization as well as the employee will reap the benefit.

Caselet 9

1. Basic Blue was founded on the principle that 'learning is an extended process, not a one-time event.' New managers were divided into groups of 24 members each. Each

[2] Some local parties were behind the unrest at Bata to derive narrow political gains.

group then entered the first tier of the Basic Blue program. The content for the first tier was delivered through IBM's Intranet. This tier was meant to improve fundamental skills required to be an IBM manager and offered 'just-in-time' performance support. In this tier, the managers were provided access to a lot of information including a database of questions, answers and sample scenarios called Manager QuickViews. He/she had direct access to materials on the computer's desktop for online reading. The material also highlighted other important web sites to be browsed for further information. IBM believed that its managers should be aware of practices and policies followed in different countries. Hence, the groups were formed virtually by videoconferencing with team members from all over the world.

The managers were provided with simulated situations as a part of the second tier. Senior managers trained the new managers online. The simulations enabled the managers to learn about employee skill-building, compensation and benefits, multicultural issues, work/life balance issues and business conduct in an interactive manner.

In the third tier, the members of the group started interacting with each other online. This tier used IBM's collaboration tools such as chats, and team rooms including IBM e-learning products like the TeamRoom, CustomerRoom and Lotus Learning Space. Using these tools, employees could interact online with the instructors as well as with peers in their groups. In this tier, the members of the group had to solve problems as a team by forming virtual groups, using these products. Hence, this tier focused more on developing the collaborative skills of the learners.

Though IBM believed that training through e-learning was very successful, it also accepted that classroom training was equally essential to develop people skills. Therefore, the fourth tier comprised a classroom training program known as 'Learning Lab.' In the fourth tier, the managers had to master the information acquired in the above three tiers and develop a deeper understanding and a broader skills set.

2. Having attained good results with the Basic Blue initiative, IBM extended training through e-learning to its sales personnel, as 'Sales Compass,' and experienced managers as 'Managing@ IBM.'

By implementing these programs, IBM was able to improve employee productivity significantly while reducing its training budget. In 2000, Basic Blue saved $16 million while Sales Compass saved $21 million. In 2001, IBM saved $200 million as its cost of training per-employee reduced significantly – from $400 to $135.

E-learning also helped managers gain a deeper understanding of the learning content. It also enabled the managers to complete their classroom training modules in lesser time, as compared to the traditional training methods used earlier. The simulation modules and collaboration techniques created a richer learning environment. The e-learning projects also enabled the company to leverage corporate internal knowledge as most of the content they carried came from the internal content experts.

Caselet 10

1. Broadly speaking, a PCMM certification helps organizations to

- Characterize the maturity levels of their workforce practices
- Build up a continuous workforce development
- Set up of priorities for immediate actions
- Integrate workforce development with process improvement and

- Establish a professional excellence culture at the workplace.

The implementation of PCMM is a 'weapon of choice against the brain drain' in organizations. Organizations, which used PCMM, found that they could easily address the issues of higher salaries and other workforce related issues. PCMM provides guidelines for improving the capability of workforce for initiating, diagnosing, establishing, acting and learning change in an organization. PCMM allows implementing maturity levels and process areas within each maturity level and practices within the process areas providing guidance to solve the problems or shortcomings in its workforce practices.

Companies can derive the following advantages by implementing PCMM:

- Makes the company more dynamic.
- Employees will be motivated as PCMM enables their creativity to be rewarded.
- Fosters leadership qualities in the employees.
- Streamlines costs and redirects the resultant savings into an incentive compensation.
- Improves systems so that employee skill levels are better utilized and productivity is increased.
- Reduces employee attrition rates and attracts the best talent in the industry.
- Increases awareness about one's own capability and competency and helps organizations plan strategies faster.
- Make decision-making process faster.
- Helps organizations present themselves well in the global markets. Prior to PCMM, companies were asked to present their recruitment procedures, retention and motivation etc. But with PCMM, the quality standards of the company become visible and it enables customer differentiation.

2. Wipro began preparing itself for the PCMM evaluation by conducting a gap analysis exercise, which helped it realize that many of the required practices were already in place. The company had training development programs and design processes that helped it fulfill the training needs of its employees. However, the program was a stand alone process and it was not integrated with the other processes at the Wipro. Though the company followed 360° performance appraisals, it was not integrated with the overall strategic HR policy of developing leadership qualities among the employees.

Wipro realized that to become HR No. 1, it had to integrate human resources management with the process. The top management began by educating employees about the PCMM and the benefits the organization and employees could derive from it. This campaign made the employees fully aware of the necessity of PCMM and its procedures thus making it easy for the organization to address their fears. The management identified 24 competency areas over the 5 levels and the behaviors at each level and procedure to address such behavioral issues.

Wipro went through 20 KPAs, which had around 6 observations per practice. According to company sources, there were over 400 practices, which covered around 6,000 employees. On an average, it was reported that there were around 7 observations per practice. Top Management took care of looking into minute aspects of the processes so that they could derive value.

The company established taskforces consisting of line managers as well as personnel from corporate HR to fix the various gaps that came in the way of the PCMM certification procedure. In December 2001, Wipro achieved the PCMM level 5 certification for which over 100 people had worked for over 2 years.

Caselet 11

1. The company decided to focus more on the Vision 2000 Stores, rationalize the retail network and maintain only Archies Galleries and the Paper Rose Shoppe in order to offer its customers a more focused and enhanced shopping experience. The exercise was also aimed towards strengthening the Archies brand equity further. In addition, the company could save on the margins to retailers, and price its products more attractively.

Similarly, the change to a C&F setup from the existing distributor network offered the following benefits:

- C&F margins were less than distributor margins
- Archies had better control over the inventory
- Archies could push all its products into the retail network

Though the above exercises drained the company's finances, it will not be correct to say that Archies' strategies in the initial years were faulty. For a small startup like Archies, franchising and distribution systems it adopted initially were undoubtedly the most practical ones. Now that the company has established itself, it can bear losses for a few years. These initiatives will definitely result in better margins and a stronger brand equity in the future.

2. Although the competition in the Indian social expression industry is expected to intensify with the entry of ITC and Manikchand, the fact is that it will take a long time for the new players to be able to compete with established players such as Archies and Vintage. Vintage had been able to build up a sizeable marketshare, and Archies had the 'first mover advantage' apart from being the leader in the segment.

Moreover, companies such as ITC and Manikchand are believed to be focusing only on greeting cards for the time being. Archies on the other hand, had realized that the greeting cards market growth was stagnating. That is why it decided to focus more on the gifts segment. Archies also planned to strengthen its corporate clientele base and integrate its online and physical businesses. These initiatives were expected to go a long way in helping the company sustain its competitive advantage in the future.

In addition, Archies expected its rationalization initiatives to stabilize in the future. When this happens, the company can be expected to derive higher margins than its competitors, have the largest retail network, the strongest brand equity and the widest range of products to help it sustain its leadership position.

Caselet 12

1. Hindustan Motors was one of the first companies in the Indian automobile sector, having started car production way back in 1949. Its cars went on to become very popular and the company acquired a strong brand image. HM's market share was as high as 50% till the mid-1980s. At that point of time, the automobile market was a producer's market rather than a consumer's market; therefore, the company was able to sell whatever it produced. Consumers used to wait as long as six months to take delivery of the vehicle. Some of the reasons for the company's success are:

- Lack of strong competition – the only other player was Premier Automobiles with its 'Padmini', a model from the Italian automobile major Fiat's stable
- A captive market in the form of the Indian government
- Immense popularity in the taxi segment

- A strong brand equity
- The 'strong-sturdy-safe' image.

However, things changed with the entry of Maruti Udyog Ltd (MUL) in 1984. MUL became the market leader thanks to its technologically superior and sleek cars. MUL soon acquired over 80% of the market share. With the liberalization of the Indian economy in the 1990s, a host of MNCs entered the market. HM could not withstand this onslaught and its market share dipped to 3.3% in 2001. The company's downfall can be traced to the following factors:

- **Technology**: Before multinationals entered the Indian market, HM was selling whatever it produced. After the entry of MNCs who bought in better technology and huge investments, the market dynamics changed. However, in spite of the growing popularity of technically superior cars, HM neither invested in upgrading its production plants, nor in technological improvements. The fact that the Ambassador launched in 1954 was upgraded only in 1990 shows the complacency and slackness on the part of the company. Analysts also remarked that the company took too long to decide on investing Rs. 750 million for the plant's upgradation.
- **Marketing:** Unlike MNCs, HM never went in for major product/corporate advertising campaigns. Apart from a few sporadic efforts, HM's marketing left a lot to be desired. HM also did not pay much attention to its distribution network and failed to ensure dealer participation, which had become very important after liberalization. HM also did not take care of its distribution system since a majority of its sales were to government departments and institutions. Therefore, the company did not invest much in strengthening its distribution network.
- **Human Resources:** HM's plant at Uttarpara was highly overstaffed, which caused a big burden on its financials over the years. According to analysts, the company had 14,000 employees, as against a requirement of just 3,000. Moreover, unionism was very strong at the plant as unions had patronage of the political parties. The militant nature of the unions was the main reason behind the failure of VRS offered by the management on various occasions.

Further, HM was very slow in introducing its models in the market. When competitors introduced models at regular intervals, HM's first new offering, the Lancer came only in 1998. Moreover, its RTV also failed because of technical problems. In the light of the above facts, it would not be too far-fetched to say that the company was responsible for its poor performance and loss of market share.

2. HM discovered that it needed to restructure its operations to survive in the industry and get out of its financial problems. The company appointed consultants McKinsey for a restructuring plan. The following were McKinsey's recommendations:

- Upgrade the technology
- Restructure the marketing and distribution network
- Improve productivity by reengineering on the shop floor
- Reduce employee costs
- Speed up the delivery process
- Explore new products and new markets

HM then tried to incorporate the recommendations. Some of its efforts were:

- A collaboration with Oka Motor Co of Australia, which led to the launch of the rural transport vehicle Trekker. Though the vehicle had some technical problems immediately after its launch, HM reportedly corrected these and relaunched the vehicle.

- In its bid to cut costs at the Uttarpara plant, HM introduced a VRS in April 1998 and again in November 1999. The company wanted to retain only 3,000 employees and retrench the remaining 11,000. However, the VRS met with severe opposition from the trade unions. The issue even went to the court. When the matter was finally resolved, HM still had 9,200 workers on its rolls. HM's request to curtail production at the plant in order to save costs was also turned down by the West Bengal state government.
- HM decided to explore the global auto components industry and established a unit at Indore to assemble engines and gearboxes. Analysts opined that with this move HM could hope to bring in extra cash, and also become a component supplier to both domestic and global auto manufacturers.
- HM sold its Earthmoving Equipment manufacturing division and used the sale proceeds to repay debts worth Rs. 2.25 billion, and decreased its interest burden.
- HM revamped its distribution by dividing the dealers into 3 tiers – red, blue and green according to their location and performance records. The Red-tier catered to the metros, the blue-tier catered to semi-urban areas and the green-tier catered to rural areas. This facilitated better dealer services.
- In its attempt to become customer-friendly, HM launched an online 'car customizing' service for the Lancer. For the first time in India, customers could choose the car color, interiors and accessories themselves.

3. As a part of cost-cutting exercise HM announced a Voluntary Retirement Scheme (VRS) for workers in April 1998 and again in November 1998, offering a Rs. 0.1 million package. The VRS was met with stiff resistance from employee unions backed by Center of Indian Trade Union (CITU) and the Indian National Trade Union Congress (INTUC). Unions demanded VRS package at par with VRS offered by the Fiat management at its Kurla, plant. The political patronage that the employee unions enjoyed worsened the situation.

Both the employee unions refused to accept the VRS offered by the company. The unions were pretty sure of the support from the West Bengal State Government, lead by a communist party. With employee protests getting intensified, HM approached the state government with a proposal to run the plant for only three days in a week, so that it could save Rs. 0.32 million every week. The company also promised that it would continue to pay the workforce full wages for an entire week.

But the rejection of HM's proposal by the government created more problems for it. As a result the company had to fight a legal battle. In January 1999, HM filed a writ petition in the Calcutta High Court, claiming that its decision was not prompted by industrial relations, but by the company's poor financial position. In a counter move, the state government filed an appeal before the division bench of the Calcutta High Court, claiming that HM had suppressed facts and figures during its meeting with them to settle the issue. The division bench directed that the matter be referred to the Industrial Tribunal. In July 1999, the Industrial Tribunal dismissed the company's proposal. HM again filed a writ petition against the Tribunal's order in the division bench of Calcutta High Court and the division bench upheld the Tribunal's order. In response to the division bench's order, HM moved the Supreme Court in July 1999. During all this time, productivity at the plant suffered considerably, which added to the company's woes. Thus, HM was severely affected by the political environment.

Caselet 13

1. For many years, Indian TV viewers were fed a staple diet of movie/sports/serial-based programs. Prior to the entry of Cartoon Network, TV viewers had very limited exposure to cartoons. Only a few cartoon shows were aired during limited time slots on Doordarshan and a few other satellite TV channels. This meant that adults as well as children were not familiar with the idea of a channel exclusively dedicated to cartoons. Cartoon Network realized the potential of this relatively untapped segment in the Indian TV industry. Since the channel's owners had successfully exploited the appeal of cartoons in many countries across the world, they were confident of building a market for cartoon shows in India.

The twin challenges before the channel were to build cartoon/animation viewership from scratch and then build its brand equity. The channel did not have much difficulty in accomplishing the above as there was virtually no competition in the same category in the industry.

To deal with competition from new entrants and increase its popularity, the channel decided to localize its content by dubbing its programs in local languages such as Hindi and Tamil. In addition to the above, Cartoon Network increased its viewer base through its website, cartoonnetworkindia.com. Through this website, children could see new cartoons, download games, access a scrap book, and send e-cards.

As a result of these initiatives, Cartoon Network became popular with children as well as adults within a short span of time. Its viewership, ratings, and advertisement revenues increased significantly during the late 1990s. By mid 2002, the channel had successfully established the children's entertainment segment of the Indian TV industry.

2. Cartoon Network adopted a 'localization' strategy in January 1999, to increase its user base and to counter competition from other channels. It dubbed its cartoons in Hindi and Tamil to appeal to people speaking these languages. This turned out to be a very effective measure for increasing viewership. Right from the first dubbed program, 'Toon Tamasha,' the audience response was phenomenal. Thereafter, the channel started offering Hindi versions of various other popular cartoons. By February 2000, Cartoon Network was offering nine hours of Hindi programming every day, besides the Tamil versions. As a result of these initiatives, the channel was successful in reaching an estimated 10 million homes in India, appealing to children between 4 and 14 years.

Gradually most of the cartoons were dubbed in Hindi and they formed a major part of the network's programs. This was opposed by many cartoon fans who felt that classic cartoon characters were not even half as entertaining/funny speaking in the Hindi-speaking versions as they were in the English-speaking versions. This seemed to indicate that though the channel's decision increased its reach, it also alienated a few die-hard cartoon lovers.

Moreover, quite a few parents stated that previously they permitted their children to watch Cartoon Network so that their children could learn a few English words and phrases. But as the volume of Hindi programs increased, parent's lost interest. Also, parents were concerned that the children were picking up inappropriate language from the Hindi translations. This happened because the Hindi dubbing was done by another media house, and translation into Hindi did not work out well in all cases.

Caselet 14

1. DD is the public service broadcaster of India with huge network, which reaches 90% of Indian population. But the sad state of affairs reveal a different picture. Corruption, poor technology, lack of discipline, poor administrative skills, lack of direction, and lack of quality have become synonymous with DD.

DD does not have rights over the programs it airs, independent producers produce programs for DD and they pay telecast fee to it for the broadcasting time and earn revenues from marketing their programs. Due to above mentioned reasons the corrupt and less motivated DD officials did not take care of content and technical quality. It was noted that corruption was rampant in the system. It was alleged that officials at CCU took bribes to pass the programs of the producers. There was no proper vigilant system prevailing in the organization.

Another major problem has been under-utilized infrastructure and improper investments in respect of studios and other setups. With employees of around 21,000, DD outsourced more than 50% of creative content from outside.

The financial management of the DD was also not up to the mark. Track record of DD in both payments to and collections from private parties has been poor. Over 50 companies owe around Rs. 18.2 million to DD. The political interference in DD has been most hurting factor for the broadcaster. The frequent changes at the top level of DD hampered the policy implementation and this led to the confusion in the respect of policy matters. There was no motivation for the employees and it affected on the working of DD staff.

The image of being a mouthpiece and propaganda machinery of Government eroded the creditability of DD and the news coverage was often alleged to be partial. DD lost viewership of News to the channels like Star News and Aaj Tak, which presented analysis of news items in a better way, and technically also transmission was ahead of DD's quality.

2. Though DD had incredible reach of 70 million homes it was lagging behind the private channels in terms of revenues. It faced the threat of privatization in the present scenario of depleting revenues and increasing expenditure. Government appointed a committee in 1999 to suggest steps regarding the revival of DD.

Committee felt that there was no need for the privatization of DD as the country like India needs a PSB but suggested major changes for its revival.

1. Committee felt that DD needs to define its positioning in order to ensure the desired content for each audience. According to the committee's recommendation – DD turned its DD- Metro channel as the Entertainment oriented to cater the needs of the youth.
2. A thorough review of systems and procedures to reduce bureaucracy, which would help to increase efficiency, innovation and creativity. DD management took steps to constitute a committee consisting of eminent filmmakers, actors, poets, writers and people from different walks to look into the content of the DD.
3. Committee also advised on review of HR policies in the DD, including cadre review, staff size and deployment, promotions, training, transfer policy, recruitment rules, reporting, organization and structure. DD did not take any steps regarding downsizing the staff. Regarding the recruitment policy changes suggested by the committee also DD could not act due to stiff opposition from the employees.

To improve the quality of its transmission DD sought help of BBC to digitize its channels and it entered into revenue sharing agreements with B4U, and for the distribution of some of its channels it entered into agreement with Modi Entertainment Network. DD decided to have its own peoplemeter project through a separate corporate entity in collaboration with some private channels and advertisers, because the viewer sample being used by the two firms doing the ratings – IMRB-Ac Neilsen and ORG-Marg were skewed towards C&S homes and hence did not accurately reflect the viewing habits of the Indian populace.

DD also appointed Accenture to suggest methods to revamp its financial, management and administrative systems to ensure proper control systems and weed out corruption from the DD.

Caselet 15

1. The merger between Citicorp and Travelers was expected to bring in a lot of synergies for both the entities and facilitate 'cross-selling' of each other's products in each other's territories. While Travelers had a limited presence overseas, it had one of the strongest distribution systems in the US. On the other hand, Citicorp had an extensive network in the overseas markets. Both these factors were expected to make the merger a perfect fit. But there were also many hurdles that would prevent the realization of these synergies. The hurdles were mainly related to the organizational culture of the two companies.

There was a difference in the compensation policies of the two companies. Travelers was known for its stingy benefits while Citicorp gave generous benefits. Though Citicorp paid low salaries, it rewarded long-time workers with good benefits.

Citicorp offered stock options to people it wished to retain. But employees were free to sell their shares. As a result, all the officers and directors at Citicorp owned less than 0.5% of the company's stock. In contrast, Travelers' employees and directors together owned 2.45% of company's stock.

The work culture in the two companies also differed. The compensation policy at Travelers encouraged teamwork. It was quite common for divisions to support each other in selling products. But Citicorp's talented, smart and ambitious young executives were very aggressive and enjoyed organizational politics.

There were also apprehensions regarding the arrangement of Co-CEO and Co-Chairman. Analysts felt that both Reed and Weill would not work well together as Co-CEOs as they had very different personalities. Reed was a loner and disliked the press, whereas Weill was gregarious and enjoyed speaking to people.

Though the merger had the potential to create a company with the scale, capital and ambition to make global retailing a reality, some analysts felt that size could prove to be problem when attempting to merge such different cultures.

2. Many analysts were apprehensive about the success of the merger and they doubted whether Weill and Reed could smoothly unify their companies. When the merger was announced it was agreed that there would be Co-Chairmen and Co-CEOs. However, analysts were skeptical about the success of such an arrangement, because they felt such arrangements rarely worked. Weill and Reed had two distinct personalities and different styles of functioning. Weill was a cost cutter for whom short-term profits and the stock price are paramount. He managed through personal relationships. He expected and received loyalty from his managers. Reed, however, had a long-term vision for the company and believed in spending money to realize it. He believed in memos and 'processes' for managing the organization.

Though the merger seemed to be smooth, there were signs of tension between Reed and Weill by mid 1999. Reed started feeling that sharing the top job was tough. Both men were anxious to show progress and in many ways the merger was going smoothly. However, Reed felt that the merged entity was yet to prove itself. Reed carried around a progress checklist of priorities for key areas such as the consumer bank, the corporate bank, and asset management. According to him only asset management made the grade.

By March 2000, it became clear that the Co-CEO structure of Citigroup was not working well. Its failure can be attributed to the different cultures of the two companies and the differing personalities of the two CEOs. At a board meeting in

March 2000, Reed announced his plans to retire as Co-CEO of Citigroup. Analysts felt that Reed may have left Citigroup before a successor had been identified because of problems created by the structure. The Co-CEO structure resulted in slow decision making as the two CEOs found it difficult to arrive at a consensus.

Caselet 16

1. Soon after the insurance sector was opened to the private players, LIC saw a spate of resignations. LIC saw these as the first signs of the trouble that lay ahead. The findings of a strategy consulting firm's report on the trends in the insurance sector after it was thrown open to private players, did little to allay its fears. The report said LIC would not have things easy in the future and that LIC's competitors would have substantial labor cost advantages. It suggested that LIC might find it difficult to retain good agents and that it would lose out on the new product development front.

Much before the insurance sector was formally opened up, LIC had taken steps to meet the threat posed by private players. The company put in place various measures to deal with competition from private players and to retain its position as the market leader. Analysts felt that LIC needed to improve services if it wanted to survive the onslaught of the private players. The speed and the quality of service would have to be improved. This was critical as a majority of the private players were expected to position themselves on the 'better service plank,' since they could not compete with LIC on the branch-network or reach aspects.

Market watchers said that private players would also try to capitalize on their superiority on the technological front. LIC's decision to integrate all its branches through WAN was a step in the right direction. LIC's plans to integrate all its branches across the country, to provide better services, to offer new products, to trade in government securities, to tie up with corporate agents and to increase its focus on global markets and IT initiatives were all welcome moves.

2. According to the findings of consultants KPMG on the insurance sector, the media had overplayed the impact of MNCs on the Indian insurance sector. Initially, reports that efficient officers were leaving LIC to join the private players suggested that LIC would have to face tough times. It would have to retain its best employees to retain its position. To do this, LIC started giving its agents extra benefits - the commission paid by LIC was one of the best in the industry.

LIC's distribution network was a crucial success factor. With 2048 branches and a network of 500,000 agents, LIC was in an envious position. Creating an infrastructure to match LIC's network would not be an easy task for the new players. According to analysts, the entry of new players would make the existing market bigger. Besides, the new players were expected to focus on the upper end of the market. This augured well for LIC, which was a key player in the lower and middle-end markets. With the gestation period in the insurance business being very long, the sustaining costs for the new entrants would be high.

New players would also find it difficult to match LIC's vast product range, which covered every segment of the population. Reports indicated that the products offered by the new entrants were not very different from the products offered by LIC. These factors were expected to help LIC retain its position as market leader. The fact that foreign players had failed to garner sizeable market share in other countries that had opened up their insurance sector, should also put LIC's fears to rest.

Caselet 17

1. In the early-1980s, most PC buyers did not have much knowledge about the microprocessor chip that drives the functions of the computer. Intel relied mainly on computer manufacturers (OEMs) to make end-users aware of its microprocessors and its advantages. This method was not very effective as end-users did not become aware of the availability or power of advanced processors. Though upgrading the PC to advanced processors translated into improved cost performance for customers, they could not benefit from this due to their lack of awareness about microprocessors.

As a result, Intel decided to focus on marketing activities. A small group of marketing personnel was formed to make customers aware of the advantages they could derive from using Intel processors. The customers were mainly IT managers that came to buy PCs for business purposes. This turned out to be a fruitful exercise for the company as it increased customer awareness which in turn led to increased sales.

Intel had licensed the use of its processor to another company AMD. Due to the increasing popularity of microprocessors (a direct result of its marketing efforts), consumers identified microprocessors with its numbers. AMD started to manufacture and market its products with the same processor numbers as that of Intel, but at cheaper rates.

Consequently, AMD captured 50% of the market share by 1990. Intel sued AMD for breach of contract. But the courts ruled that the processor numbers were not trademarks. This ruling prompted other companies to use Intel's processor numbers to market their products. Under these circumstances, Intel realized the need to devise a new marketing program and to patent its products/brands. Thus, in the early-1990s, Intel came up with a better and much more focused marketing gameplan.

2. After conducting marketing research on well-known companies (like Dolby, Nutrasweet and Teflon) that were supplying an ingredient of a finished product, Intel realized that it too could conduct marketing campaigns based on component branding techniques. During the early-1990s, a microprocessor was seen as just another component of a computer, no importance was attached to it despite the fact that it was the 'brain' of a computer.

Intel's marketing team therefore devised a component branding program that would work in the PC industry. This new marketing strategy involved direct communication with end users. However, this decision was eyed with suspicion by many industry observers, as it had never been tried out before by any 'technology intensive' company.

Intel appointed an advertising agency, Dahlin Smith and White, to design a campaign for its products. The company adopted a new tagline 'Intel. The computer inside' in July 1991. With the help of this campaign, Intel projected its products to be reliable, safe, and technologically advanced. A new logo was designed with 'Intel inside' written inside a circle. This logo suggested that the brand that had an implicit seal of approval. The campaign was designed to emphasize the importance of the role of a microprocessor. The campaign was an incentive based cooperative advertising program. For this program, Intel allotted 5% of the selling price of the microprocessors for advertising funds that was made available for all OEMs. The OEMs benefited from this scheme as they were able to increase their advertisement budget and they were also assured that their computers were powered by the latest technology.

Intel released its first TV advertisement in 1992. This ad, which took the viewers on a trip inside a computer, had the state of the art special effects. It featured the Intel logo along with a catchy animated jingle. Intel launched the Pentium and the Pentium Pro in a similar fashion in 1993 and 1994 respectively. This campaign was a huge success. Company research revealed that about 80% of the European PC Buyers were aware of the Intel Inside logo in 1992 and 94% in 1993 as compared to just 24% in 1991. Intel came out with one of the most well remembered campaigns in its history, the Stayin' Alive campaign in 1997 that featured bunny people dancing to the tune of the hit song by the Begees. Many other campaigns that the company launched, whether in print, electronic or outdoor media, attracted a lot of attention.

Caselet 18

1. Domino's entered India in late 1996, when Pizza Hut and McDonald's were already present in the market. The local players like Nirula's had a strong presence in the market. However, Domino's was able to establish itself quickly in the fast food segment in India. The success was attributed to its efficient delivery record and its localization efforts. The success of Domino's can also be attributed to its supply chain and logistics management.

When Domino's entered India, few players offered home-delivery in metros like Delhi. Thus, Domino's became very popular with its efficient delivery record. Also, Domino's gave a Rs.30/- off if the Pizza was not delivered within half-an-hour.

Another factor that determined Domino's success was its localization of the menu to suit Indian tastes. The menu was localized based on regions, as in India, food tastes vary from region to region. Domino's promotional campaigns like Pizza Mania also helped it to increase its sales. Supply chain was another area where Domino's did some changes. Domino's was able to reduce the prices of its Pizzas by more than 40% after it revamped its supply chain operations.

Domino's expanded fast in India after Chase, a venture capital firm acquired a 26% stake in late 1999. With both funding and logistics in place, in less than a year (from April 2000 to February 2001), Domino's opened more than 64 outlets, making the total to 101 outlets across all the major cities. Its tie-up with Richard Ellis helped Domino's to find locations, conduct feasibility studies, and manage the construction and designing of outlets. Domino's mode of expansion, where it leased its own outlets and employed its own people enabled it exercise control over quality.

Domino's 'Hungry Kya?' campaign, a part of its brand building exercise, was very successful. The sequence of ads with funny catchlines, coupled with the Hunger Helpline, the toll-free number across the country for ordering, increased the sales by 30-35%.

2. Pizza Hut entered India in June 96, a few months before Domino's. By 1999, Pizza Hut became a leader with a 46.42% market share. However, Domino's quickly established itself through its localization efforts, promotional campaigns, and supply chain and logistics management. Pizza Hut didn't concentrate on home delivery, while Domino's became popular through its 30-minute delivery promise. Domino's also expanded fast, after the venture capital firm Chase acquired a 26% stake in the company in late 1999. During 1996-99, Domino's opened more than 64 outlets, while Pizza Hut had only 10. Also till 1999, Pizza Hut didn't have an outlet in the potential market of Mumbai. All this contributed to its loss of market share.

In mid-2000, Pizza Hut chalked out a strategy to regain its share, with focus on:

Expansion: Pizza Hut planned to more than double the number of outlets in India to about 30 by end of 2001.

Take-away: In a bid to widen its customer base, Pizza Hut also identified 'take aways and delivery' as a separate business. Said Batra, "We have realized that take-away and delivery is a separate business and as much as 20% of sales can come from this channel alone." To grab a share of this business, Pizza Hut planned to offer Pizzas at lower price points by allowing customers to configure cheaper pizzas with fewer toppings.

Advertising: Pizza Hut planned to advertise on television. As a part of this, Pizza Hut launched its first campaign on television in July 2001.

Franchisees: Tricon decided to go only through the franchisee route for setting up new restaurants. The company converted three company-owned outlets in India into franchisee outlets.

Calling Kids: In an initiative aimed at wooing children, Pizza Hut planned to merchandise some of its international properties like stuffed toys and games in India. The Pizza Pooch menu and the birthday package were also a part of wooing the kids. Said Batra, "We recognize kids as a very integral segment of our target customers. In fact, keeping in mind, our overall image of being a family restaurant we think the introduction of a special package exclusively for kids is a logical extension."

Caselet 19

1. HLL took up many initiatives to increase the penetration and awareness levels of its products in the Indian rural markets. In mid-1998, the company launched 'Project Bharat,' a direct marketing exercise, which was the first rural home-to-home campaign to have ever been taken up by any company in India. The campaign addressed the issues of awareness, attitudes and habits of rural consumers and also increased the penetration level of its products.

This project aimed at attracting both potential and the first-time users. Some of the activities undertaken have been listed below:

HLL vans visited villages and sold small packs consisting of low-unit-price pack.

Company representatives explained to the people about the usage of products, accompanied by a video show.

HLL educated villagers about the superior benefits of using its products as compared to its competitors' products.

A follow-up program called 'Integrated Rural Promotion Van' (IRPV) was launched in villages having a population of less than 2000, to further increase the awareness about HLL's products.

Banked on the 'health and hygiene concept' through tie-ups up with Non-Governmental organizations like United Nations Development Programme (UNDP) and others.

Encouraged primary education in villages of Maharashtra through V-Sat connection to emphasize on health and hygiene.

Set itself a goal to reach 2,35,000 villages i. e 43% of the population.

Another initiative was undertaken in the form of a Rs 100-200 million nationwide Community Dental Health campaign in association with the Indian Medical Association (IMA) to promote its toothpaste Pepsodent.

HLL launched 'Project Millennium' in April 2000, which aimed at increasing its share in the tea market. In this programme the company test marketed a specifically designed product 'chai-ki-goli', (fully soluble ball) to comply with the taste buds of rural consumers and priced it at four for a rupee.

HLL participated in a rural communication programme called 'Grameenon ke Beech' (Amidst villagers) in August 2001. This campaign was launched by the Rural Communications & Marketing Pvt Ltd, (RC&M), an agency that specialized in rural advertising and marketing. The project covered 1,000 villages and 2,000 satellite villages in 22 districts of western UP and 13 districts of central UP over a period of six months.

Again in early 2002, HLL launched two massive rural campaigns to increase the awareness about two of its products 'Lifebuoy'-toilet soap and 'Vim'-a utensil-cleansing bar. All the above initiatives helped HLL to create awareness about its products as well as increase its rural penetration levels.

2. Traditionally (before 1998), HLL used a combination of wholesalers and retailers to penetrate the rural markets. However, HLL realized that the existing distribution structure was not sufficient to meet the requirements of its aggressive marketing efforts in future. Therefore, in 1998, HLL launched 'Project Streamline' in select states of the country.

HLL carried out this project in those places that lacked a good market development base, thus, making any kind of distribution difficult. For this, a rural distributor who had 15-20 rural sub-stockists was selected. The sub-stockists distributed their products in the neighboring villages using unconventional means like bullock carts and tractors. HLL also provided high quality value added services like regular supply of products at the retail stores, providing full line availability of the products and giving credit to the sub-stockists. This directly resulted in the increase in the number of brands as well as the SKU's stocked by the retailers. This resulted in increasing its reach in the rural markets from 25% in 1995 to 37% in 1998.

Another program called Self Help Groups (SGH) was launched in order to provide the villagers with Self-employment opportunities. It was targeted at villages which had a population of less than 2000. An SGH operated like direct-to-home distributors wherein groups of 15-20 villagers who were below the poverty line were provided with an opportunity to take micro-credit from banks. With this capital, the villagers could buy HLL products and in-turn sell them, at a profitable price. This not only served as a good employment opportunity for the villagers but also helped the company to increase the reach of its products, thereby, facilitating enhanced distribution of its products.

Another initiative was taken in the form of 'Project Shakti' in the state of Andhra Pradesh. The project was launched in late 2001 for a period of six months. The company provided villagers with micro-credit and entered into partnerships with these small self help groups acting as their distributors. HLL also rewarded them for growth and enterprise through shared profits. HLL conducted comprehensive experiments in training programs for these self help groups in association with NGO's and governmental bodies. By March 2002, HLL succeeded in achieving a 20% increase in consumption in the areas where the project was implemented. This success encouraged HLL to expand its initiatives to other states like Gujarat, Maharashtra and Madhya Pradesh.

Caselet 20

1. US-64's poor performance can be attributed to many factors. UTI's inability to come out of the purview of the Government and a lack of proper direction can be cited as the main reasons for the scheme's debacle. There were no proper internal controls over asset allocation. Also, US-64 did not have any fund manager. Investment decisions upto Rs 50 crore were taken by the Chairman and those above Rs 50 crore were referred to the Board of Directors. The Chairman of UTI was generally from the banking sector and according to analysts, lacked the expertise to analyse the equity markets.

The stocks in which UTI made investments fared badly on the bourses leading to erosion in US-64's reserves. A majority of UTI's investments in the mid 1990s were in Public Sector Units and other stocks that were faring badly because of political pressures. The Government used UTI as a 'shock absorber' for its disinvestment program. US-64's portfolio was more debt oriented till the 1992 Harshad Mehta's boom period, after which the fund went on to have around 70% of its investments in equity. UTI did not offload these stocks when the markets started declining, reflecting the poor management of funds.

UTI cannot be held solely responsible for the US-64 debacle. The controversy reflects a typical situation wherein political interference in the working of an organisation contributed significantly to the organisation's downfall. UTI had to invest in the stocks of the Public Sector Units that were making losses and it could not offload them when prices were falling, as it would hamper the disinvestment program of the government. The nexus between the industrialists and the top management of the UTI also resulted in the investments into the stocks, whose promoters were declared defaulters by the RBI and other credit rating agencies.

2. To restore investor confidence in US-64, UTI management in co-ordination with the Government appointed a committee under the chairmanship of Deepak Parekh. The committee studied the whole controversy and suggested remedies for the problems.

The committee suggested that US-64 should be brought under purview of the SEBI, which is the regulatory authority for the mutual funds in India. But the practical implementation of this suggestion was difficult, as it required amendments to the UTI Act by the Parliament. The amendment was kept in abeyance. The committee also recommended making the scheme NAV driven by February 2002. This was expected to exert pressure of redemptions on US-64, as NAV of the scheme was expected to be lower than the par value of the scheme.

The PSU stocks in US-64's portfolio acquired under the disinvestment program were transferred to a new scheme 'SUS-99.' UTI also took measures to remove the public perception that the Government was always behind the scheme and would bail it out as it was doing in the case of nationalised banks.

Another step was to constitute an independent Asset Management Committee for UTI's schemes. But as this required amendments to the UTI Act, UTI decided to constitute the Asset management committees with the fund managers for reviewing the investment decisions.

Caselet 21

1. Vividh Bharati started in 1960, developed into a major entertainment channel on AIR. Commercial broadcasting on AIR started in 1967. By the mid-1980s, commercials became a part of AIR programs. FM channels that were started by AIR in the late 1970s also became popular by the mid-1980s. AIR also operated a 24-hour, External Services Division for foreign audiences.

Following these initiatives, radio broadcasting became very popular in the country in the 1980s, and even acquired the status of the 'primary mass communication medium' in India. As a result of this popularity, AIR earned huge revenues through sponsorship fees and commercial advertisements.

However, with the advent of TV in the 1980s, radio's popularity reduced drastically during the late 1980s and the 1990s. Following this shift in audience preferences (from radio to TV), advertisers reallocated their advertising budgets, allocating a major share to TV. As a result, AIR's profits fell during the early 1990s. According to analysts, many factors contributed to the decline in radio's popularity in India –

- Negligence on the part of the government. Because the government failed to reform its broadcasting policies, radio programs did not adapt to audiences tastes and trends.

- Lack of creativity, good scripts and innovation in programming on radio.
- Inability of Indian advertising agencies to exploit radio's potential to its fullest.
- Absence of a monitoring system (which records the level of response to programs) for radio programs that could provide the agencies with information to approach clients (to recommend radio).

2. In 1993, because of the decline in radio's popularity and ad revenues, the government decided to allow private players into the radio industry. It allowed private players to provide programming content on AIR for FM transmissions. The entry of private players was expected to increase the revenues of AIR by way of license fees and provide variety in programming to listeners. Times FM and Radio Mid-Day led the private FM market during that period and attracted high advertising revenues. The growing popularity of private FM channels resulted in decreasing revenues for AIR as these FM channels attracted most of the ad revenues. Following this, in June 1998, Prasar Bharati cancelled the licenses of private FM channels in an attempt to improve AIR's revenues.

However, as part of its privatization drive in July 1999, the Government announced its decision to privatize FM broadcasts. In 2000, the government invited private players to bid for FM channel licenses. Following this, many media companies rushed to bid for FM licenses. But very few companies remained in the race on account of factors such as high license fees, restricted programming (not allowed to offer news and current affairs programs) and fixed number of slots per city.

Private companies got licenses to set up 37 FM stations in 19 cities by late 2001. Radio City FM91 was the first private radio station in India, launched on July 3 2001, in Bangalore by STAR and Music Broadcast Private Ltd. (MBPL). Other channels launched during 2001 included Radio Mirchi and Radio Mid-Day. Following these launches, many analysts felt that the growing activity in the radio sector would enable the radio industry to regain its popularity.

The marketing strategies of the players varied. Radio City focused on creating brand name and brand awareness among audience before developing specific target programming. The company identified music as a universal theme that appealed to all sectors of the community. Another major private channel Radio Mid-day chose car owners as its target audience as part of its marketing strategy. According to channel sources, car owners, who had to spend hours stuck in the traffic, would form a good audience base. The channel focused on entertaining this audience through various music and entertainment based programs.

On account of these strategies, private channels like Radio Mirchi and Radio City achieved a significant level of success. In 2001, Radio Mirchi was the biggest private FM broadcaster, operating in over five cities and entertaining over 7 million people. Radio City also registered similar success rates in Bangalore and Lucknow, where it operated.

AIR also revamped its programming during the late 1990s, as a result of which it was able to increase its listener base and its ad revenues by 2000. In view of these restructuring efforts at AIR and the marketing strategies of private players, analysts felt that the radio industry would regain its lost popularity.

Caselet 22

1. With the acquisition of MFIL, HLL had access to the manufacturing and distribution network of MFIL. The acquisition of MFIL would help HLL's entry into the high-end food business by giving it access to MFIL's production and distribution facilities.

HLL was already a prominent player in the high-end food business with its ready-to-eat chappatis and wheat flour. Thus, the procurement of raw materials such as wheat could be integrated for both HLL and MFIL.

This integration would lower procurement costs for both HLL and MFIL. HLL could also use MFIL's expertise to extend its brand into the bakery segment. HLL could also use its technology in MFIL's plants to improve capacity utilization.

2. In 2001, HLL set a two-year timeframe to turn around MFIL. The primary focus in the turnaround strategy was on quality. In this regard, HLL provided financial assistance to distribution channels and introduced better-quality bread ingredients. HLL pumped in around Rs. 200 million in MFIL by way of secured loans and corporate guarantees. HLL officials claimed that the results are coming in form of increased sales. The increase in sales came through increasing the number of outlets that sold MFIL bread. In Mumbai, the number of outlets increased to about 250 from 100, and crossed the 400-mark in New Delhi. HLL's strengths in areas such as wheat procurement, communication, treasury, and training also helped MF.

To reduce the labor cost, HLL introduced a voluntary retirement scheme in mid 2001, for employees of four units of MFIL that were closed and for its surplus employees at other locations. MFIL had a workforce of about 2000 of which 490 had applied for the VRS scheme introduced by the company in June 2001. Of the 520 applications for VRS, about 490 were cleared at a cost of an estimated Rs. 150 million to the company. MFIL's management also initiated talks with the employee federations to put in place a streamlined and productivity-linked incentive scheme for its workforce.

MFIL also planned to spread its manufacturing base and was aggressive in setting up ancillaries through arrangements with existing bakeries. The company was exploring the possibility of expanding in big towns, where MFIL did not have a presence, besides spreading to other smaller towns.

Caselet 23

1. Air India and Virgin Airways entered into a code sharing agreement in July 1999. In less than two years, the arrangement ran into problems with Virgin Airways threatening to pull out of India. The deal was expected to help Air India in many ways. As Air India did not have enough planes, it was able to operate only 10 out of the 16 weekly flights it was entitled to under the bilateral rights. Of the unutilized six, it allowed Virgin to operate three flights initially, and three later. Air India would get Rs. 100 million per flight per annum. The deal was expected to benefit customers as Virgin announced that it would offer much lower fares than its rival British Airways. Virgin also offered better services including manicure, beauty treatment etc on board.

In July 2000, Virgin started its operations in India with two flights a week on the Delhi-London route. Under the agreement, Virgin was to start the third flight from October 2000. Virgin started the operations with an introductory offer of Rs..31,000 for a return ticket on the Delhi-London route as against the normal Rs.42,598. However, prior to Virgin's entry, British Airways announced a special economy class fare with a Rs.27,635 round trip ticket. Virgin faced more problems when the GoI allowed British Airways to run three more flights per week to Britain from India, under a special arrangement outside the bilateral aviation agreement. From October 2000, Virgin had been asking for the third flight. A year after the agreement was signed, Air India had not yet given clearance for the third flight. Virgin wanted to fly the third flight on Mondays. Air India already had a flight on Monday morning, and so, it opposed Virgin's proposal. Virgin said that it would operate its flight at 2 p.m. in the afternoon, ensuring a gap of 6 hours between the two flights. This was not acceptable to Air India. Air India pointed out that their agreement did not allow this. Virgin was not in favor of operating its third flight on Fridays, a vacant slot, since it was operating on Thursdays and Saturdays.

Two flights a week was not commercially viable. Virgin Airways has been making losses on this sector. Analysts ruled out the chances of Virgin breaking even if the frequency was not increased. Virgin Airways threatened to stop its Indian operations if the frequency of operations was not increased. Virgin Airways also faced problems due to the downturn in transatlantic aviation business. The airline had to lay off 1200 workers to deal with the crisis following the September 11 attacks by terrorists in the US.

2. In the late 1990s, many major airlines were entering into tie-ups, in the form of code share arrangements, joint frequent flyer programs etc. The code sharing arrangement can range from space sharing to profit sharing. Air India and Singapore Airlines have a code share arrangement on the Singapore – Los Angeles route. Under this agreement, Air India undertakes to fill a certain number of seats every week on Singapore Airlines. Sometimes a strong airline ties up with a weaker airline; e.g. Bangladesh Biman and British Airways have a code share for the Dhaka-UK route.

Cargo co-operation is another form of a code share. This is used when a passenger airline does not have enough space for freight. Two airlines can also market their seats together using the joint flight numbers code share. An example of this would be Indian Airlines and Air India on the Gulf route. Both market the seats and only one of them runs the flight. Reciprocal frequent flier programs allow passengers to collect miles on one airline and redeem them on the partner airline. This is the deal between Jet Airways and KLM.

The alliances offer benefits for both the airline companies as well as the passengers. For the airline companies, such arrangements offer greater connectivity. Also, the joint purchasing, advertising, and promotions help them to save on costs and thereby increase profits. The code sharing arrangement between Air India and Virgin Airways was beneficial for Air India, as Air India did not have enough planes to fly the 16 flights it was entitled to every week under the bilateral agreement. The arrangement also brought in much needed funds for Air India.

Passengers too benefit from such alliances. It helps passengers to get connecting flights easily. In some tie-ups, single ticket covers flights on seven different airlines.

Caselet 24

1. CIL introduced the taste of chocolate to Indian consumers by launching CDM during the 1950s. During the 1960s, CIL launched a variety of new products that included Crackle, 5 Star, Gems, Butterscotch, Caramels, Tiffins and Nutties.

In 1972, CIL entered the sugar confectionery market by launching Eclairs chocolate (a chocolate with CDM filling in the centre). Eclairs, priced at 25 paise, was an instant success, even though it was priced higher than other sugar chocolates in the market during that period.

CIL concentrated on the marketing, distribution and promotion of its products, As a result, most of its products became market leaders in their segments. Product promotion activities aimed at increasing the visibility and availability of CIL products. The company also decided to make its products more affordable. It brought out products in various pack sizes, available at different price points.

CIL developed very focused advertisements for its products. Its advertisement campaigns generally targeted children. As a result of all the above measures, by the early 1990s, CIL enjoyed a near monopoly of the chocolate market. However monopoly status was challenged by the entry of Nestle into the chocolate segment during the early 1990s. CIL felt the need to strengthen its market position.

In an attempt to retain its market leadership and further increase the penetration of chocolates, CIL repositioned its flagship product CDM in 1994, targeting it at adults. The repositioning was successfully executed with the help of a new advertisement campaign that featured people 'celebrating life' with CDM.

By the late 1990s, chocolates were no longer regarded as children's products; they were openly consumed by adults. Analysts attributed this change in attitude to CIL's RTOL campaign. Following this, almost all of CIL's major brands registered over 20% volume growth.

2. Bharat Puri, Managing Director of CIL in 2002, changed CIL's vision from 'A Cadbury in Every Pocket' to 'Life Full of Cadbury and Cadbury Full of Life.' In line with this new vision, a change in CIL's strategies took place. He wanted CIL to focus on reinventing its major brands instead of launching new brands. As a result, CIL changed the positioning of its flagship product CDM.

Changing the positioning seemed to be the right move considering that CDM's previous advertisement campaigns had achieved their purpose. They had successfully persuaded adults to consume chocolate without feeling guilty about doing so. Having accomplished its objectives, CIL had to move on and reposition CDM, otherwise the brand could lose its freshness.

According to company sources, youth formed a sizeable portion of CDM's sales. (between 70%-80%). Hence, CIL decided to reposition CDM to appeal to young people also. The new advertisement campaigns appealed to all age groups but especially to the youth and adults. These advertisements positioned CDM as a companion that stays with the consumer through all the phases of his/her life.

Considering the growing market share and strong financial muscle of Nestle, it will not be easy for CIL to retain its leadership position in the market. The company's decision to focus on reinventing its major brands instead of launching new ones might prove to be a mistake, given the fact that consumers seek change and variety in products. CIL needs to restructure its strategies to focus equally on new product development and reinvention of its leading brands.

Caselet 25

1. Samsung launched its first corporate advertising campaign – Nobel Prize Series in 1997. The company tried to send a message that Samsung uses Nobel Prize Laureates' ideas for making its products. In 1999, it unveiled a new campaign in the US with a new brand slogan – *'Samsung DIGITall: Everyone's invited'*. Samsung re-designed its logo to convey its objective of making life filled with convenience, abundance and enjoyment through innovative digital products. In 2001, Samsung added word 'WOW' in its marketing campaigns. This was meant to indicate the admiration of the consumers for its innovative products like voice activated mobile phones cum MP3 players and their affordable prices. In 2002, Samsung took to Internet to reach the high-profile consumers. In 2002, its ads projected mobile phones, Colour LCD mobile phones, entertainment products and its future products like – Internet refrigerator, highlighting easy accessibility and usage of the products.

2. I think advertising has helped Samsung immensely. After 2001 global brand campaign consumer awareness about Samsung has increased from 83.7% in 2000 to 91.2 in 2001. In the US, brand awareness and preference for Samsung increased from 56.4% to 74.1% for the same period.

Caselet 26

1. The company wanted to project that Ayurvedic products address the complete body, and did so better than anything else as they were formulated with R&D support.

It wanted brand ambassdor to be warm, loving, and trustworthy. In our institution, the grandmother is associated with warmth. She is loved, trusted, and respected. But consumers think of Dadidma's contemporariness before accepting her advice. To clear cosnumers' apprehensions in this regard, the advertisements subtly indicated that 'Dadima' is a double-doctorate in molecular biology. Goodness of Ayurveda was projected by the warm and lovable Dadima who knew the present generation well. As a brand ambassador she spoke to a group of students, informed them about the contents of the capsules, and their effect on the body. She also spoke in English, a language with which youngsters are increasingly getting associated with. This carefully nurtured image led to excellent customer receptivity.

2. Himalaya Drug Company launched an advertisement campaign for its range of personal care products in 1999. Marketing research conducted by the Company revealed that most consumers perceived Ayurveda as an age-old branch of medicine, which was revered but not accepted as being reliable for treating ailments. Thus, the company faced two major tasks: to establish an image for itself, and to promote the message that Ayurveda was as modern and vibrant a science as any other. HDC also realized that it needed a campaign, which can destroy the commonly accepted notion of Ayurveda as something developed by 'sadhus'.

Caselet 27

1. Unlike commercial banks, which granted credit on the basis of collateral security, Grameen Bank did not demand any security for extending credit. Grameen Bank operates on principles such as mutual trust, supervision, accountability and member participation. It adopted an innovative **Group Lending Technique** for extending loans to the rural poor. Under this technique in the first stage around six to eight groups are formed. Each group consists of 5 women who are members of the Grameen Bank. All the members are given training for a week, which includes introducing them to the rules of the bank and the bank's social contract. It is mandatory for the members to abide by the social contract known as **Sixteen Decisions** for getting loans from Grameen Bank. Members of the group are mutually responsible for the payment of loans. This system creates peer pressure on people who have no plans to repay the loans, ultimately forcing them to meet their obligations. This system was primarily responsible for the success of the bank.

2. The Grameen bank model is quite popular among the researchers in the world. The bank consists of four tiers. Hierarchically, head office comes at the highest level, next zonal office, followed by area office, and finally at the lowest level comes the branch office. The branch office takes care of all ground activities of the bank such as organizing target groups, supervising credit process, and sanctioning loans to the members. A branch is set up to look after the needs of every 15-22 villages and run by a manager and his staff. Area office monitors nearly 10-15 branch offices. Program officers head area office to monitor the utilization of loans and their recovery. Zonal office supervises nearly 10-13 area offices and all zonal offices report to the head office in Dhaka.

Caselet 28

1. The process by which strategies are put into action is called strategy execution. programs, budgets and procedures are developed for this purpose.

As we can see in the case of Pfizer, ability to execute a strategy is a crucial factor in the success of strategy. A strategy must be centered on the strengths of the organization and the strategic advantage the firm seeks to pursue. Pfizer's strength lies in its sales and research functions. The company's sales people wield significant influence over physician prescriptions. Similarly, it has highest productivity in its research operations. It needs less than one third of industry average of 190 person-years of work to advance a compound from conception to clinical trials. Hence its logical for any strategist to concentrate on these specific strengths while formulating his company's strategy. In the above case, strategists are sure of firm's strengths and they are centering their strategy around these strengths (i.e: sales and research). This way the execution of strategy becomes relatively easy. And successful execution of strategy leads to success of the strategy.

2. Pfizer realized that doctors would prescribe its novel drugs only when they listen from well trained sales people. Subsequently it raised its US sales force from 1,500 in 1990 to 3,467 in 1997. It trained them in using information technology tools to optimize their sales effort. It ensured that top management also use information systems to plan the expansion of the sales force, track its performance, link that performance with compensation. As a result, Pfizer has one of the best sales forces in the pharma industry.

As a part of its research strategy, it hired many of the industry's best scientists by offering attractive compensation, and excellent opportunity to conduct leading-edge research. This research team created efficient management processes that include provisions for early feedback from marketing and committment to delivering practical results. All these steps taken as a part of firm's operational strategy produced returns of 35 percent a year between 1992 and 1997.

Caselet 29

1. In 1985, Yamaha Motor Company (Yamaha Motors) entered into a technical support agreement with Escorts Limited (Escorts), and started local production of Yamaha motorcycles. In 1995, Yamaha and Escorts signed another contract, establishing Escorts Yamaha Motor Ltd. (EYML) to manufacture and market motorcycles in India. Each company invested 50% of the capital for the Indian motorcycle venture.

The joint venture was expected to result in many synergies. Yamaha Motors was expected to build global capabilities, bring in new technology and offer a wide range of cost effective quality products. All this was expected to give Escorts an edge over its competitors. The company would also have the additional benefit of increasing its scale of operations by manufacturing and supplying products worldwide. On its part, Escorts would continue to provide a stronger base for manufacturing facilities, a countrywide dealership network and skilled manpower.

EYML had the largest countrywide network of over 500 dealers, supported by a wide base of sales & service outlets and spare parts stockists. Anil Nanda, chairman, EYML, said the Surajpur and Faridabad facilities would be modernized and upgraded with Rs. 3.75 billion budget. With the additional investments, volumes were expected to go up from 300,000 units in 1996 to 500,000 units by the year 2000. Sales turnover too was projected to rise from Rs. 9 billion, (including exports of Rs 1.2 billion) to Rs. 20 billion (including exports of Rs. 3 billion) over the same period.

2. Escorts planned to use the funds it generated from its equity divestment in the erstwhile EYML to bring down its dependence on loan funds. Escorts sold off its entire stake in the joint venture so that it could focus on new economy businesses and get out of low growth areas. Escorts would now focus on four core businesses:

agribusiness (tractors), telecom services (cellular telephony), IT and Internet services and healthcare services (cardiac healthcare). Of all its old economy businesses, only tractors was doing well. Naturally, Escorts retained this business. After pulling out of the joint venture, Escorts planned to invest in new areas. By divesting its stake in EYML, Escorts could raise cash to fund its acquisition of telecom circles. Escorts was planning to acquire a controlling stake in at least two circles – Madhya Pradesh and Gujarat. Escotel Mobile Communications, a 50:50 joint venture between Escorts and First Pacific of Hongkong, had earlier lost out on two acquisitions to Skycell in Chennai and Essar Cellphone in Delhi, as its bids were too low.

Caselet 30

1. During late 1990s, the leading South Korean car manufacturer, Daewoo Motors (Daewoo), was in deep financial trouble. The net loss after tax was $10.43 billion in the financial year ending 1999-2000. The company's revenues had dropped by 94 percent since 1999. The loss was regarded as South Korea's largest ever corporate loss. Apart from this, the company's domestic market share came down to 23 percent in 2000 from 33 percent in 1998. The company's domestic and foreign debt amounted to more than $16.06 billion by 1999. Therefore, these factors played a role in divestment decision of Daewoo Group by Kim Woo Choong (KIM), the founder of the Daewoo group.

To turnaround the company's fortunes, in 1999, Kim came up with a restructuring plan. He planned to sell about $7.5 billion worth of assets of other companies of the group and concentrate on the automobiles and finance business. He even planned to sell Daewoo Group's shipyards to a Japanese company and electronic business to Samsung Group. Based on this, we can say that the divestment decision plans falls under planned category.

The possible reasons behind Kim's decision to sell Daewoo Group's shipyards and electronics are:

Change in corporate goals

Change in corporate image

Poor business fit

Change in corporate goals- Generally, this is the common reason for companies to begin divestment programs. Most of the companies use the statement as a mask to divest any division. Kim also might have thought of using this statement as a mask.

Change in corporate image – In order to change its image, Kim might have brought in this divestment, because Daewoo's shipyards and electronic businesses do not have long-term potential as they are not Daewoo's core activities.

Poor business fit- One more reason for the divestment decision of the company's shipyards and electronics could be the divisions' inability to fit with the core divisions of the company.

2. GM was one of the largest automobile manufacturers in the world. It had presence in different continents which included manufacturing plants. There are many reasons for GM showing interest in Daewoo. By acquiring Daewoo, GM can establish a strong presence in the Asian market. GM can leverage on the marketing and distribution strength of Daewoo. GM will get access to the manufacturing plants of Daewoo and the distribution channels of Daewoo. All these can help GM to strengthen its position in the Asian market.

Daewoo will also benefit from being acquired by GM. Daewoo was in financial mess. The company needed a financially sound company to infuse capital and take Daewoo out of the mess. GM being one of the world's largest automobile company was in good financial health and could afford to infuse funds into Daewoo. Thus Daewoo needed a savior who could rescue the company from the financial trouble and the savior could be GM.

Caselet 31

1. Broadly, there are three types of mergers: horizontal mergers, vertical mergers and conglomerate mergers. Horizontal merger takes place between two firms operating and competing in the same kind of business activity. Vertical merger takes place between firms, which are in different stages of production. Conglomerate mergers take place between firms engaged in unrelated type of business activity.

Nissan is into automobile manufacturing business. Renault is also into automobile manufacturing. Therefore, the merger between Nissan and Renault is a horizontal merger, as both firms are operating and competing in the same kind of business activity.

Generally, horizontal merger takes place between two firms in order to form a larger organization and thereby benefit through economies of scale. Nissan was fast losing ground in its domestic market and was facing stiff competition in global market. The market of Renault was just confined to Europe after its retreat from U.S. in 1987. In Europe also, a third of selling was in France alone. Further, Renault in order to fulfill its objective of being the most competitive European car manufacturer, needed to produce quality cars at cheaper price. Therefore, both the companies merged to realize economies of scale.

However, not all small firms merge horizontally to achieve economies of scale. Generally, the governments regulate horizontal mergers. The reason being, horizontal mergers decrease the number of firms in an industry and may lead to monopoly. Further, horizontal merger has the potential to create monopoly power on the part of the combined firm, thus enabling it to engage in anticompetitive practices.

2. Cross border mergers take place due to varied reasons. For instance, if a firm wants to enter new geographic markets, it needs to merge at some stage, in case it alone cannot enter the new market. The possible reasons for the merger between Nissan and Renault are:

- Growth
- Technology
- Extend advantages in differentiated products
- Government policy
- Diversification

Growth – Merger takes place to achieve long-run strategic goals. Even market extension abroad and protection of domestic market share is possible. The need for economies of scale in order to compete effectively in global market could be the other reason for the merger.

Technology- Nissan was well known for its technological competence and Renault is considered strong in R&D and design. Therefore, by merging, both companies can exploit technological knowledge of each other and become a superior firm. By merging with Nissan, a superior technological firm, Renault can enhance its competitive position.

Extend advantages in differentiated products - There is a strong correlation between multi nationalization and product differentiation. Here, the reputation of each firm is going to be used in foreign markets.

Government policy- Generally, government protects its local markets by keeping barriers like tariffs, quotas, etc. International mergers, therefore, get encouraged due to such restrictions.

Diversification – International mergers enable diversification both geographically and by product line. Further, merging internationally will mitigate the earnings risk, which is dependent on the health of a single domestic economy. Therefore, Nissan and Renault can reduce risk because of the merger.

Caselet 32

1. The Exxon-Mobil merger created the largest private oil company worldwide. It was a combination of dissimilar but complementary companies. The two complementary businesses fit well in exploration and the production of petroleum chemicals. Exxon also expected to save $ 2.8 billion on operations as a result of the merger. A joint statement said, "This merger will enhance our ability to be an effective global competitor in a volatile world economy and in an industry that is more and more competitive." Gas marketing was Exxon's weakness. The merged entity would have enormous political power, with the ability to skew critical policy debates over matters such as labor standards, global warming, opening of the Arctic and other environmentally sensitive areas to oil exploration. Mobil also had shown a lot of enterprise, moving into the politically volatile central Asian region after the dissolution of the Soviet Union. On the other hand, Exxon's oil exploration production strategy was exclusively focused on the North Sea and North America. Exxon's strengths lay in finance and engineering, Mobil's strength was its industry's most accomplished dealmakers and marketers.

2. The merger made Exxon-Mobil a leader in both petroleum production and oil exploration. Its vast array of oil and gas properties, which were geographically diversified, gave it an edge over other companies. Another important factor that contributed to the success of the merger was the company's commitment to state-of-the-art technology. Said one analyst, "They have only one way of doing things: the most efficient, with least risk…." Analysts also felt that the company moved quickly to eliminate redundancy and capitalize on the economies of the scale. Further high prices of crude and natural gas and better profits from refined gasoline, also pushed up the earnings.

Caselet 33

1. In the early 1990s, Russia in its need of currency started dumping low-quality near-gem diamonds, violating its contract with the CSO (Central selling organization) of De Beers. The CSO reduced the price of this type of stone by 11% as a measure of retaliation. This led to losses for the Australian diamond producer, Argyle Diamonds. During 1992-96, Argyle Diamonds held back nearly 15% of its production to lower the CSO' carrying costs. In 1996, it decided not to renew its contract to sell its diamonds through the De Beers cartel. Argyle diamonds represented 6% of De Beer's input in terms of value, 40% of De Beers input in terms of volume. As a result of these developments, the market was flooded with cheap stones from Russia and Australia.

Similarly, the diamond market became weak due to the Asian Financial crisis in 1997. As the market was flooded with cheap diamonds, De Beers decided not to maintain control of the cheaper diamonds. This decision came as a shock to many Asian countries particularly to India. India lacked mining technology and financial muscle; hence it invited the world's mining powerhouses to carry out the exploration. Similarly, Namibia also took measures that encourage competition in diamond industry.

2. For decades, De Beers controlled world's diamond trade. It took advantage of its market power to keep the prices high. Thus, it benefited immensely. It thrived on artificially inflated prices, murky dealings in war zones, and strictly oral contracts. It also explains why diamonds though available in many parts of the world, were never mined. Hopefully, with the current developments customers will stand to gain.

Caselet 34

1. As one can see in the case, Narayana Murthy was from the beginning interested in the US, the world's most challenging market. Though he had no other alternative in the beginning, this US experience subsequently helped Infosys immensely in gaining global customers. Narayana Murthy always believed that Indian companies can and should export products in which they had a competitive advantage. He setup Infosys office in 1988-89, when Reebok of France was looking for a software system to handle its distribution management. Infosys grabbed this opportunity and developed the Distribution Management Application Package (DMAP)[3] for Reebok's French operations. Infosys hit upon a brilliant idea, that this package can be used to create a standard application package for similar operations of any company. Infosys also could manage to get a major project from Digital Equipment. Narayana Murthy also observed that the sharpest of Indian students were choosing software careers, unlike elsewhere. He believed that Indian software professionals of this caliber can deal with complex projects and Infosys can compete with major companies in the world. This conviction led to the success of Infosys.

2. The Global strategy had three attributes. The first attribute was the "global delivery model." The model is based on the belief that "producing where it is most cost effective to produce and selling where it is most profitable to sell." Cost effective production means developing software in India and profitable selling means selling in foreign markets, particularly the US.

The second feature of the strategy was "moving up the value chain". This needs getting involved in a software development project at the earliest stage of its life cycle.

The third attribute of the global strategy was the PSPD. First P stands for predictability of revenues; S stands for sustainability of the predictions; another P stands for profitability of revenues; and D for de-risking model. 'De-risking' means Infosys has limits on its exposure to businesses of various kinds. For example, Infosys set a limit that only 25% its revenues should come from Y2K projects. Because Y2K was a business that might disappear overnight. These are four fundamental tenets of any well-run business.

Caselet 35

1. Southwest Airlines and the entire airline industry in the US faced devastating losses after the September 11, 2001 terrorist attacks. In order to minimize their losses, these companies laid off approximately 16% of their workforces. However, Southwest avoided layoffs altogether and stuck to its mission of caring for its employees. This is all the more remarkable, when it was clear that avoiding layoffs would jeopardize Southwest's future. However, Southwest was willing to suffer damage to protect the jobs of its people. This no-layoff response was a reminder to its employees of the organization's tradition of caring for its people.

[3]DMAP integrated databases and data-crunching tools in forecasting, purchasing, warehousing, sales management, credit control, customer services, sales ledger, claims and disputes, operations and security, apart from finance and decision support systems.

2. Southwest chose point-to-point flight between cities rather than a hub-and-spoke network to meet its objective of providing safe, reliable and short duration air service at the lowest possible fare. It avoided a hub-and-spoke system because, it meant longer wait time for both passengers and airplanes, more planes, extra computer systems, extra salaries to ground staff and additional commissions to travel agents. Moreover, the airlines also have to pay rent for the gates, as the planes are kept idle at airports waiting for the connecting flights. To avoid these disadvantages, Southwest chose point-to-point flight system between cities. Though it could have been cost effective by deploying cheap labor and cheap equipment, it chose quicker turnaround of its aircrafts. Kelleher tried to build confidence in his employees to get things done faster. He also tried to convince his employees about the importance of 'quickness'.

Caselet 36

1. ITC realised that it was not getting the expected profit margins. There are several reasons for this. First, ITC lacked sufficient control over the supply chain of the agricultural produce. For example, soya farmers in Madhya Pradesh were generally located at far flung villages scattered throughout the state. In Karnataka, the roles of coffee planters (large and small), traders and agents were not clear. Hence ITC could not determine and control the quality of the products. Because of this inability it was not able to attract and retain international buyers. Lack of infrastructure for storage, handling and transportation of the produce, middlemen or intermediaries were other major hurdles. ITC was entirely dependent on the middlemen for obtaining good quality products. And the middlemen exerted influence on the farmers by concealing the prevailing market prices and other related information. Thus they made unreasonable profits for themselves by at the cost of ITC. These problems led ITC to choose 'E-choupal' initiative.

2. e-Choupal is a more efficient supply chain aimed at delivering value to its customers around the world on a sustainable basis. ITC faced many problems such as intermediary unrest, widespread illiteracy, outdated telephone exchange and sporadic electricity supply in implementing this initiative. However, the company found innovative ways to solve these problems. It upgraded the telephone lines using RNS kits (RAX Network Synchronisation) and in some cases, by using VSATs to by-pass the telephone lines completely. To address the problems related to bandwidth, ITC deployed specially devised technical solutions to manage data along with new imaging techniques. It used backup batteries to overcome the problem of sporadic electricity at various kiosks. To overcome government regulatory problems, ITC persuaded the state governments by telling political and bureaucratic leaders about the benefits of the project to the farmers and others who were involved in it. Though it was a challenge to familiarize the farmers in the remote areas with computers, the Internet and its usage, it could train the very first group of sanchalaks in just two hours rather than two days as it had initially planned for.

Caselet 37

1. To implement e-business strategy successfully, GE had to ensure smooth operations and build good relationships with customers. GE has a tradition of maintaining a large salesforce. With the introduction of e-business strategy, these sales people felt insecure about their jobs. They feared that by teaching their customers about how to place orders using GE's websites they are going to lose their jobs. To ease their fears, they were educated on how internet would benefit both them as well as customers. GE also allotted bonus to salespeople who encouraged customers to use GE's website to place orders. To facilitate online communication between the employees within the company, it setup an intranet. Internal newsletters and most of Welch's memos were kept online for viewing. GE also established computer kiosks on factory floors to familiarise its blue-collar workers with the internet. Even managers and executives including Welch were made to work on the Internet under the supervision of mentors for three to four hours a week. These measures eased employees' transition into an e-business friendly environment.

2. GE took measures such as e-business strategy to increase its customer base. But there is a possibility that it might lose its customers if its competitors use effective counter strategy. To minimise this threat, GE initiated project DYB (destroy your business). This project was aimed at defining a new business model for GE's existing businesses, without getting interference from those in the business who had been doing it in the old way. This project was meant to identify how a company can use internet to destroy GE's business. The concern was to identify economic model of that organization. To implement this project, GE created small cross-functional teams in all of GE's business units. These teams were expected to study its business unit from its competitor's point of view and find out the weak points. Once the weak points are identified, the necessary changes are to be made to eliminate these weaknesses and move the business to the web, and identify new e-business opportunities.

Caselet 38

1. As a part of this three-pronged approach, Barista plans to open espresso bars in various cities across the country, to target institutional areas, and to target the home segment. Barista, entered into an association with Tata Coffee to strengthen its presence in different areas such as hospitality, airline, catering and other allied business. In 2002, Barista opened its outlets in banks (ABN-Amro), movie theatres (PVR in Delhi), offices (HSBC and GE) airports and hotels. It was also developing the store-in-store concept by focusing on themes that complement coffee such as music, books and art. As a part of this, Barista entered into marketing tie ups with Planet M, Crossword and Ebony in 2002 to set up Espresso Corners at these places. Barista also entered the home brew segment with freshly grounded coffee. The company extended its product portfolio from roasted coffee range to single origin coffee under the umbrella brand Barista.

2. Barista entered into a strategic alliance with Tata Coffee in 2001. Both the companies are planning to leverage each other's strengths. This association would help Barista in strengthening its distribution network and provide it access to hospitality, airline, catering, and other allied businesses. The alliance will result in backward and forward integration of the coffee business with Barista and Tata Coffee offering a new concept in India: from bean to cup. This alliance would also enable Barista to set up coffee bars abroad. The two companies are also going to benefit from supply chain integration.

Caselet 39

1. A value chain is a linked set of value creating activities beginning with basic raw materials coming from suppliers, moving on to a series of value added activities involved in producing and marketing a product or service, and ending with the distributors getting the final goods into the hands of the ultimate consumer. The value activities can be divided into primary activities and supporting activities. The primary activities include research and development, production, marketing and sales and services. The supporting activities include firm infrastructure, human resource management, technology development and procurement.

Mallesh Sen Gupta has given lot of importance to procurement division, control systems and organizational structure and further spent huge amount on training salesforce. All these activities fall under supporting activities. Support activities provide inputs to the primary activities and include activities like materials management. The materials management function, for example, controls the transmission of physical materials through out the value chain, from procurement to production and distribution. The value creation here depends upon the efficiency with which the material management is carried out. Thus, Pioneer Electronics Ltd. is able to provide the right mix of goods to consumers, which increases the perception of value that consumers associate with it. Similarly, the human resource function also adds value to an enterprise ensuring the right mix of skilled people to perform value creating activities effectively. Therefore, training was provided for salesforce. A company's infrastructure performs the most important supporting function. Therefore, the company's infrastructure is important because it provides the basic framework within which all the other value creating activities take place. Organization structure, control systems and the culture of the company together comprise the infrastructure of an organization. Therefore, Mallesh shaped the infrastructure of Pioneer Electronics Ltd., and with it, the performance of all other value creating activities that take place within the company. Therefore, by giving importance to supporting activities, Pioneer Electronics Ltd. would be able to provide value to its customers.

2. Pioneer Electronics Ltd. can pursue the benefits by entering into long-term agreements or coalitions to gain certain advantages. Tie-ups related to technology licenses, supply agreements, joint ventures, and marketing agreements are formed with a long-term orientation. Through tie-ups, Pioneer Electronics Ltd. gets an opportunity to share its activities without entering new industry segments, geographic areas, or related industries. The coalition also bestows the cost and differentiation advantages of vertical linkages without the firm having to go in for vertical integration. This type of arrangement is beneficial because it does not involve coordination problems that are a characteristic of vertical integration. These coalitions involve long-term relationships, and a firm might find it easier to deal with its coalition partner than another independent firm. However, entering into a agreement is a laborious and time consuming process, which might involve many compromises and thus can nullify the advantages expected of the coalition. By sharing activities with marketing agencies with regard to after sales service, Pioneer Electronics Ltd. could be able to provide better services without incurring much cost.

Caselet 40

1. In order to develop a spirit of innovation in the organization, 3M realized that it should recruit people with a creative bent of mind. 3M felt that only a person with a creative mind could question the system or think of doing something different. So 3M always recruited people who were creative and had a broad range of interests. 3M sources pointed out that generally people with a broad range of interests were more creative and receptive to new ideas and new ways of doing things. 3M recruited people who were eager to learn new things and try out new processes. Since such employees were always prepared to take the initiative, 3M was able to develop a culture of innovation in the company.

3M also realized that rewards and recognition motivate people to excel. 3M not only developed good compensation plans, it also boosted employee morale by instituting various awards and recognitions schemes. These motivated employees to excel in their fields and achieve their goals. They also encouraged employees to set high standards for themselves and attain those standards – thus leading to the development of high quality products for the company. Though 3M was basically a technology company, it also rewarded its non-technical personnel by announcing alpha grants for innovative processes invented by them.

Employees were free to share their ideas and collaborate on new product development. Post it Notes were invented as a result of knowledge sharing between employees. Art Fry worked with Spencer Silver (who developed the adhesive) to invent Post it Notes, even though both belonged to different divisions at 3M. Due to the encouragement given to knowledge sharing, 3M could foster a feeling of belonging towards the company rather than individual departments.

The knowledge sharing culture also resulted in mentoring at 3M. Senior employees mentored young employees by sharing their knowledge and experience. This also helped new recruits understand 3M's culture and gave them a sense of belonging.

2. McNerney introduced measures to reduce cost. As a part of 3M Acceleration program, he cut down research projects from 1500 to 700. This was to ensure more productivity in research. McNerney also laid off around 6500 employees. However, these measures led to apprehensions and fears about the changing culture in 3M. In order to allay these doubts and fears he gave assurance that he would continue to invest 7% of annual sales in R&D, and he also emphasised the need to preserve the culture of innovation at 3M. He also set up the leadership development institute, to foster leadership qualities among employees. The institute offered a three-week development program, which provided participants real-life experience. McNerney also brought changes in 3M's pay structure. Earlier 3M had a seniority-based pay structure, under which employees who had put in more years of service were paid better. McNerney introduced a performance-based pay structure.

Caselet 41

1. RECC positioned Reva in a niche segment. The car was aimed at customers who intended to shift from two-wheelers to four wheelers. But such customers might not prefer Reva as it is a totally new concept in India and is also priced higher. Though the running cost of Reva is very low, the customer might prefer highly successful models like Maruti 800 available at almost the same price.

Reva was also positioned as a second car for housewives, students and office-goers, which seemed to be appropriate. As the running costs are low, many customers in this segment might prefer Reva. As it is easy to drive, Reva might be very successful with the students and housewives. Moreover, RECC also offered many attractive schemes to facilitate the purchase of the car.

RECC can popularize Reva by establishing more charging stations in the cities. For this, the company could tie-up with the petrol stations. RECC can also promote Reva as a taxi in tourist places as its running costs are low. Above all, Reva is the only zero-pollution car in the country and this could be its USP.

2. RECC is following some unique marketing strategies. It plans to rely on public relations than on advertising to promote its vehicle. Initially the company had showroom only in Bangalore, and planned to open showrooms in other cities subsequently. The company appointed dealers nationwide depending on the demand. In late 2001, RECC launched Reva in Goa. By January 2002, RECC appointed about 7-10 dealers in North India. In April 2002, Reva was launched in Delhi and Surat.

In order to promote the sales of Reva, RECC managed to obtain road tax and sales tax concessions from the state governments of Karnataka and Rajasthan. In September 2001, RECC entered into an agreement with ICICI to obtain loans for its customers. In 2002, Reva extended its agreement with ICICI for leasing the cars at a nominal cost. According to the agreement, Reva would take care of all repairs, and any customer could own the car on a pre-determined monthly amount. After three years, the customer could either retain the car or return it to the company. The insurance premium on Reva was also low and RECC offered to replace the car in case of repairs or accidents. In 2002, RECC introduced a new scheme under which it agreed to buy Reva back if a customer was not satisfied with its performance.

By employing these innovative promotional efforts the company hopes to succeed in the market.

Caselet 42

1. The new corporate identity plan was meant to pass control of the top management to the second generation: Dr Reddy's son-in-law and Chief Executive Officer, GV Prasad (Prasad), and son and Chief Operating Officer, Satish Reddy (Satish). As DRL was too closely identified with its founder, Dr.Reddy felt the need to make way for other professionals.

The new corporate identity was the result of the merger of DRL, Cheminor Drugs Ltd. (CDL) and American Remedies Ltd. The subsequent increase in the size of DRL and the company's global ambitions called for the creation of multiple leadership levels. This was an important factor as well for the creation of a new corporate identity.

DRL's strengths as a research and development company were well recognized, but its other attributes like professionalism and quality consciousness, were not so evident. The new corporate identity was designed to emphasize these attributes of DRL.

The objectives of the new identity exercise were: to bring energy to the workplace and change the way people perceived work, retain talent, and speed up the process of developing products based on the research they have undertaken. However, the main aim of the entire exercise was to establish DRL as a global pharmaceutical major.

2. As a part of this restructuring, DRL hired Enterprise IG (EIG), to implement its new corporate identity plan. This exercise involved nine stages and lasted for nearly one year, beginning with an across-the-board study of the perceptions of different stakeholders and ending in a brand manual that was to be implemented by the employees. Changes were carried out at two levels: institutional-implemented throughout the company, and at a more individual level surrounding the persona of the founder, Dr Reddy. The study undertaken prior to the formulation of the new corporate identity plan necessitated these changes.

Caselet 43

1. A structure can be described as the division of tasks for efficiency and clarity of purpose and coordination between the interdependent divisions of the organization to ensure organizational effectiveness. The structural choices available with HP are:

- Simple organizational structure
- Functional organizational structure
- Divisional organizational structure
- Strategic business unit
- Matrix organizational structure

Simple organizational structure – This structure generally prevails in small business units. In simple structure, all the strategic and operating decisions are under the control of the owner-manager. Further, responsibility is always vested in the hands of owner-managers. This model is suitable when there is low range of volume.

Functional organizational structure – This model exists in firms that concentrate on one or few related products or markets. Functional structure does grouping of similar tasks as a separate functional units. This structure encourages greater efficiency and refinement of particular expertise. However, coordination of separate functional units is the strategic challenge in this model.

Divisional organizational structure – This form is required for coordination and decision making in organizations which are diverse products and huge in size. This structure helps the management to delegate authority for the strategic management of a distinct business entity.

Strategic business units – Here, various divisions in terms of common strategic elements are grouped together. This form is used when the organization's operations increase in diversity, size and number of divisional units increase and it becomes difficult to evaluate and manage the various divisions.

Matrix organizational structure – This form has the advantage of both functional and product specialization.

In 1950s, HP followed a highly centralized organizational structure. However, with growing size of the company, it became difficult for the top management to monitor various operations and take quick decisions. Therefore, in 1960s the company adopted a divisional structure. However, the divisional structure did not work well in HP. In the case it has been clearly mentioned that there was complete lack of synergy between the various divisions during the regime of John Young. When Fiorina took over the mantle from Young, there was high level of bureaucracy in the organization. The bureaucracy was partly due to too many independent product divisions. Further, there was stagnant revenues and declining profit growth rate. This conveys that the existing decentralization was not suitable for the organization. For a company of HP’s magnitude, there should be clear cut responsibilities and decision-making power. And the existing bureaucracy can be removed only when there are lesser number of divisions and also synergy between the divisions.

HP can reorganize itself into strategic business units. Strategic business units are suitable for companies that are huge and have diverse products.

2. The structure of a company helps in tying up key activities and resources of the firm. The structure of a firm needs to be aligned with the strategies of the organization. In many cases, the structure of an organization does not match the requirements of strategy. This happens more in large organizations. Structural changes are required when an organization diversifies its products or markets.

Research on corporate stages of development can help understand the structure-strategy relationship better. Researchers are of the opinion that companies move through many stages as size and diversity increases. To compete effectively, they need to have different structures at various stages.

In the case also when Fiorina became the CEO of the company, she immediately realized that there is a need to bring certain changes in the existing strategy of the company. To implement new strategies, she realized that the existing organizational structure needs to be changed.

Part C: Applied Theory Questions

The applied theory questions in this section are intended to deepen the student's understanding of theoretical concepts and their practical implications. Students have to apply the theories they've learnt to a wide variety of business situations and come up with innovative solutions to the problems posed.

Part C: Applied Theory (Questions)

1. Industry structure determines competition and the strategies potentially available to a firm. With the help of an example, analyze the growth of any particular industry and comment on the environmental factors that contributed to its growth and competitiveness.

2. To help managers analyze the environment effectively, Michael E. Porter developed a framework known as the Five Forces model. These five forces play a vital role in shaping the company's future. Analyse an industry of your choice, by using the model.

3. According to Porter, if the rivalry among the firms is weak, the companies raise the prices and can earn great profits and if it is strong, there will be a price war or price competition. Discuss, with the help of a suitable example, how competition among the firms leads to price wars.

4. Strategic management is defined as a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. With the help of a suitable example, explain how strategic decisions impact the firms in the long run.

5. Market development allows firms to practice a form of concentrated growth by identifying new uses for existing products and new demographic, psychographic and geographic markets. With the help of a suitable example, explain how firms benefit from market development strategy.

6. Once the forces affecting competition in an industry and their underlying causes are diagnosed, the firm is in a position to analyze its strengths and weaknesses. To create a defendable position against the five competitive forces, an effective competitive strategy takes offensive or defensive action. Discuss, with the help of a suitable example, how firms adopt offensive and defensive strategies.

7. The elements of operating environment are competitive position, customer profile, reputation among suppliers and creditors, and accessible labor market. Customer profile is one of the significant elements because customers are the ones who generate profits for the manufacturer. Discuss, with the help of an example, how firms benefit by appropriate analysis and understanding of the customer profile.

8. A strategist is primarily responsible for creating and implementing strategic change. Anyone in the organization who controls key or precedent-setting actions can be called a strategist. Discuss, with the help of an example, the role the strategist plays in leading an organisation.

9. The cost position of a firm depends on the cost behavior of its value activities. It is influenced by structural factors. The cost of a given activity can be determined by the combination of several cost drivers. Location is one such cost driver. Discuss, with an example, how location acts as a cost driver.

10. Growth strategies involve organizational expansion in some major dimension. Product development is one such growth strategy. With the help of an example, discuss how the product development strategy works.

11. Intensity of rivalry is one of the important factors shaping the industry in Porter's Five Forces model. With the help of a suitable example, discuss, how intensity of rivalry influences a company's strategy.

12. In today's global environment, change rather than stability is the order of the day. Rapid changes in technology, competition, and customer demands have increased the rate at which companies need to alter their strategies and structures to survive in the marketplace. With the help of a suitable example, explain why change is necessary and how organizations manage change.

13. An organization's culture is the equivalent of an individual's personality. It is an intangible, ever-present theme that provides meaning, direction, and the basis for action. Discuss, with an example, how an organization promotes its unique culture.

14. Social environment is an important element in the external environment. Social environment has an influence on the organization as it creates threats and opportunities. With the help of an example, discuss how wrong assessment of the social environment can lead to problems for organizations.

15. Remote environment consists of a set of forces that originate beyond a firm's operating situation. These comprise political, economic, social, technological and industrial forces which create opportunities, threats and constraints for the firm. With the help of a suitable example, discuss the importance of remote environment in the success or failure of organizations.

16. Technology is one of the important elements of external environment. Successful forecast of technological changes brings in many advantages to a firm. With the help of an example, discuss how technology can create competitive advantage for an organization.

17. The decision-making hierarchy of a firm typically contains three broad levels: corporate level, business level and functional level. With the help of an example, discuss the strategic decision-making process at any two levels.

18. The role of marketing is to profitably bring about sale of products/services in target markets by using functional strategies. The single most important consideration in marketing is the functional strategy regarding price. Discuss, with an example the importance of pricing strategies and how they influence the firm and the industry.

19. Cost advantage is one of the three types of competitive advantages a firm may possess. Cost is considered highly critical as far as industrial prosperity is concerned. To increase its market share, a company should differentiate its cost from that of its competitors. With the help of an example, explain how companies can attain cost leadership.

20. A firm can differentiate itself from other firms by providing something unique. But if the differentiation strategy is not properly executed it may lead to severe losses for the company. With the help of an example, explain how a differentiation strategy not properly executed can erode the competitive position of a firm.

21. A value chain is a linked set of value - creating activities, beginning with basic raw materials coming from suppliers, moving on to a series of value-added activities involved in producing and marketing a product or service, and ending with the distributors supplying the final goods to the ultimate consumer. Discuss, with the help of an example, how activities pertaining to R&D and marketing and sales help in creating value?

22. A firm following a cost-leadership strategy outperforms competitors by manufacturing products or services at a low cost. But cost leadership strategy has many disadvantages as well. Explain, with the help of an example, the disadvantages of cost-leadership strategy.

23. Formulating strategies in international markets is a different ball game compared to formulating strategies in domestic markets. While entering international markets, an MNC has to adopt different strategies which suit the requirement of

each market. With the help of an example, explain the various issues involved in formulating and executing strategies in international markets.

24. Most mergers and acquisitions (M&As) aim at increasing market power, target competitors, suppliers, distributors, or businesses in related industries. There are three types of mergers: Horizontal, Vertical and Conglomerate. With the help of an example, discuss how vertical merger benefits the merged entity.

25. A joint venture can be defined as a cooperative business agreement between two or more firms that want to attain similar objectives. Joint ventures, like any other long-term contracts, are prone to difficulties. With the help of an example, discuss the difficulties faced in joint ventures that may even result in their break-up.

26. Rivalry among firms can be created by using tactics like price competition, advertising battles, product introductions and increased customer service and warranties. Discuss, with the help of an example, how rivalry among firms affects the industry resulting in the formulation and execution of new strategies.

27. A value chain is a linked set of value - creating activities, beginning with basic raw materials coming from suppliers, moving on to a series of value-added activities involved in producing and marketing a product or service, and ending with the distributors supplying the final goods to the ultimate consumer. Elaborate, with the help of an example, how service and support activities help in adding value to the product or service.

28. Economic environment is an important element in the remote environment which influences an organization's strategy formulation and execution. Discuss, with the help of an example, how economic environment influences the strategies of the companies.

29. In a strategic move, HLL decided to widen its distribution network and opened branches at small places like Srikakulum, RushiKonda, etc, in Andhra Pradesh. In another equally strategically important move, the company decided to foray into personal care products. Discuss the role played by strategy in the success of HLL.

30. Hero Honda, a two-wheeler company promoted by Munjals, faced severe competition from Bajaj's Boxer and Caliber, Kinetic Challenger, LML's Adreno, Energy, Yamaha's YBX and YD. The Japanese partner Honda, which shared technical expertise with the Munjals, opted out of the venture. Simultaneously, customers have become extremely price-conscious which is putting pressure on the company's profitability. Thus, Hero Honda is witnessing many problems in its operating environment. In this backdrop, discuss the importance of the operating environment in formulating strategies.

31. Narendra Menon was heading an SBU of a multinational company. In recognition of his abilities and the results he achieved, he was promoted to a corporate level position, with additional responsibilities. How is his role at the corporate level going to be different from that at the business level?

32. Elecpro Industries Ltd is involved in manufacturing industrial chemicals. In recent past, the company was in the news for all the wrong reasons. Environmentalists alleged that the company was flouting all environmental protection laws, and employees said that working conditions in the plant were hazardous. The management of the company appointed a high-level committee to build the image of the company as a socially responsible one. In this context, discuss the various stakeholders that the company needs to address to rebuild its image.

33. Healthyfood, a multinational company engaged in producing ready-to-eat food products, is planning to enter the Indian market. What are the socio-cultural issues that the company has to address.

34. Glamorworld is one of the New Delhi's leading fashion store chains. The company now wishes to enter the major cities of South India. A consultancy firm has been hired to study the economic feasibility of the proposed venture. Discuss the factors the consultancy firm has to consider.

35. Lambent one of the leading brands in the country, sells shirts through various multi-brand showrooms. To have more control on its suppliers the company decided to acquire a textile manufacturing unit. In another strategic move, the company purchased majority stock in a leading men's clothing and accessories retail chain. What is the strategy adopted by Lambent known as? Why do companies adopt such strategies?

36. A few years ago Raheja Fertilizers acquired Shilpa Chemicals, a firm engaged in manufacturing fertilizers and other chemicals. Initially, the merged entity performed well. However, after a couple of years, Raheja fertilizers recorded its first ever loss. The management decided to divest the chemical manufacturing units of Shipla Chemicals. Discuss the reasons that prompt companies to divest.

37. Sneha Books, a newly opened publishing house, publishes books for school and college students. The company has many distributors. Discuss how a budgetary control mechanism can be used in the strategy implementation process at Sneha Books.

38. Knowledge Management (KM) is a process through which organizations generate value from their intellectual and knowledge-based assets. It is often facilitated by off-the-shelf e-mail packages and sophisticated collaboration tools. With the help of an example, explain the Knowledge management initiatives that can be taken by a company?

39. Lack of co-ordination between, organizational structure and strategy leads to inefficiency, misdirection and fragmented efforts. All the activities, responsibilities and interrelationships of a company need to be organized in a manner that is consistent with its strategy. Give an example of an organization that conforms to this view?

40. An operating environment consists of factors like competitive position, customer profile, reputation among suppliers and creditors. With the help of an example explain how operating environment influences an organization's strategies.

41. Innovation need not be dramatic to bring success to an organization. Incremental improvements can add significant value to the organization. Describe an instance of incremental innovation.

42. Diversification is an approach by which a company looks to grow through the development of new areas that are clearly distinct from current businesses. Organizations, also often diversify to reduce the risk associated with single product or industry operations. With the help of an example, explain why and how firms choose this long-term strategy.

43. At functional level, managers develop short range objectives and strategies in areas such as manufacturing, operations, research and development, finance and accounting, marketing and human resources etc. These managers have the primary responsibility of implementing and executing the firm's strategic plans. Describe what determines a functional strategy, and how a manager implements it. What obstacles does he often face while implementing functional strategy?

Part C

44. Concentric diversification involves the acquisition of businesses that are related to the acquiring firm in terms of technology, markets or products. The selected businesses possess a high degree of compatibility with the firm's current businesses. Elaborate on this type of diversification by giving a suitable example.

45. A functional strategy is usually a short-term plan for a key functional area within a company. Such strategies clarify grand strategy which provides more specific details about how key functional areas are to be managed in the near future. Explain this strategy by giving a suitable example?

46. A firm that is the first to enter a market generally gets the opportunity to define the rules in the industry and attain market leadership. Give an example of the company that was the first to enter the market and attain market leadership. Explain what strategies it has adopted to carve a stable position for itself.

47. Policies guide the thoughts and actions of managers by indicating what is expected of the managers in certain decision areas. Policies frequently spell out important constraints. Demonstrate the importance of policies in an organization by giving a suitable example.

48. Many companies are outsourcing their non-core activities to enhance their competitiveness. With the help of an example how does a company expect to gain competitive advantage by outsourcing?

49. When a company, moves away from its present state toward some desired future state in order to increase its competitive advantage it is said to be making a strategic change. Re-engineering, restructuring, and innovation are part of strategic change. Explain with the help of an example how strategic change benefits an organization.

50. Production/operations is a core function in a business firm. Functional strategies in this function take into consideration the basic nature of the production and operations management system, location, facilities, design and process planning on a short-term basis. Illustrate how firms formulate their strategies keeping these aspects in mind.

51. Re-engineering is a fundamental rethinking and radical redesign of business processes to achieve improvements in cost, quantity and service. In re-engineering, the strategic managers make business processes the focus of attention. Describe a re-engineering effort at any Indian company.

52. Change involves actions based on a carefully thought-out process that anticipates future difficulties, threats and opportunities. The various steps in the change process are recognizing need for change, building awareness of need to change, fostering debate, creating consensus, assigning responsibility, and allocating resources. With the help of an example explain how a company can bring about change.

53. Innovation lends significant advantages to organisations. Some companies innovate to create new products, others search for processes that reduce cost and increase efficiency. Some organizations find new ways to channel their products to customers. Give an example of an organization that mastered the last type of innovation.

54. A firm is expected to adhere to the generally held beliefs about behavior in society. It is supposed to take into consideration ethical issues while doing business. How far do you think a company can compromise on ethics while looking after the interests of the shareholders? Make your agreement using a suitable example.

55. A firm derives competitive advantage from value creating activities such as designing, producing, marketing and delivering. Efficiency in these activities can lend either cost advantage or differentiation advantage to the firm. Give an example of an organization that has used efficiency in any of these activities to succeed in the marketplace. Explain how it could manage this success.

56. With the 21st century witnessing an increasing pace of change managers are facing conditions that that they have never faced before. Describe with the help of an example, in the context of new challenges of 21st century, how an organization's performance can be influenced by such factors. How can an organization overcome those problems?

57. Organizations and management face change on a continuous basis. Some changes are reactions to threats, whereas others are proactive attempts to seize opportunities. A recent change in many organizations is a foray into e-business. Do you think e-business is here to stay? Substantiate with an example.

58. Innovation is a process by which organizations use their skills and resources to create new technologies or products. Innovation can be classified into product innovation and process innovation. Describe a product innovation by giving an example?

59. Motivating and rewarding good performance are key ingredients in effective strategy implementation. Based on the organization's strategy, managers decide which behaviors to reward. Demonstrate by giving an example how a reward system can be used as an instrument of strategy.

60. Policies provide guidelines to make operating processes consistent with the firm's strategic objectives. HR policies play a key role in the success of strategy. Cite an example where improper HR policies led to serious problems for an organization.

61. Organizational culture is the set of important assumptions, (often unstated) that its members share in common. An organization's culture is equivalent to an individual's personality. It is an intangible, ever-present theme that provides meaning, direction, and the basis for action. Culture often makes the difference between success and failure. Using an example, examine the role of culture in the growth and success of an organization.

62. Restructuring is a strategy by which a company changes its business or financial structure. Firms use it in response to changes in the external and internal environment. In the light of rapid changes, restructuring is one of the best strategies for companies to create maximum value for their stakeholders. Elaborate further, with an example, on what motivates an organization to restructure itself, and how the strategy helps it solve problems.

63. The Securities and Exchange Board of India (SEBI) has decided to incorporate the corporate governance norms in the requirements for listing. Do you think it will make corporate India more professional in its approach to doing business?

64. In future, governance of corporations will be significantly different from what it is now. Fundamental change in the corporate ownership structure will probably, lead to changes in corporate governance. All over the world, particularly in developed countries, financial considerations are determining ownership and social interests. In the context of these important developments, some Indian organizations are revamping their corporate governance practices. With the help of an example, explain how an Indian company has brought about changes in its corporate governance practices.

65. Political forces influence legislations and government rules and regulations under which the firm operates. Every company faces political constraints in the form of antitrust laws, fair trade decisions, tax programs, minimum usage legislation, pollution and pricing policies, administrative activities and many other actions. When the government uses them to protect consumers and local industries, it greatly affects businesses. So, the government's actions are of great concern to every firm. Describe a recent incident where government interfered with the working of an industry quoting customer welfare, and how it affected the industry.

66. To grow, a company should take advantage of societal changes, changes in values, beliefs, attitudes, opinions and lifestyles. Cultural, demographic, religious, educational and ethnic conditioning of individuals affects the social environment. Describe an instance where societal demands influenced the functioning of an organization.

67. When companies face hostile takeovers, they resort to defense tactics. The target company can use many strategies to defend itself against a takeover attack. *Pac-man Defense* is one such strategy. In this strategy, the target companies make a counter-bid for the raider's company. *White Knight* is another strategy. It helps the target company take the assistance of a friendly buyer, who gives an assurance that the incumbent management will be retained. Elaborate with suitable examples defenses against takeover.

68. Organizations have to be receptive to the need for change. Factors such as general dynamics and uncertainty of economies, time horizon, quality, design, and service influence the level of change in the industry. Strategic change is the movement of a company from its existing state to a desired future state. Describe such a strategic change with the help of an example.

69. Joint ventures allow companies to own a stake and play a role in the management of the joint operation. They, require more direct investment and training, management assistance and technology transfer. The basic motive for starting a joint venture is sharing investment. Learning is the second biggest motive. Elaborate further, by giving an example, why firms enter into joint ventures and why they come out of them?

70. Planning should involve consideration of capabilities, missions, and environmental interaction from the standpoint of the firm and its divisions, and a proper recognition of the need for coordination and consistency. It plays a crucial role in the success or failure of an organization. Explain, with the help of an example, the importance of planning for the success of an organization.

71. Process innovation assumes significance in a maturing industry. Production and delivery systems that ensure low manufacturing costs get first preference at this stage of the industry. In the light of the above statement, what do you think is the relevance of process innovation in an emerging industry like IT? Give an example to support your point of view.

72. "The Indian financial system does not support a flourishing Leveraged Buy Out (LBO) environment." Do you agree? Give reasons. And do you think an LBO has inherent advantages over cash transactions? Justify your answer. Also explain, with the help of an example, how an LBO is structured?

73. A takeover refers to acquisition of a certain block of paid-up equity capital of a company to acquire control over the affairs of the company. In a friendly or negotiated takeover, the management decides to give away control of the company to another group on terms and conditions mutually agreed upon. In an open market or hostile takeover, a person or a group acquires shares of a company from the open market to take control of the company. Explain, with the help of an example, what prompts companies to attempt takeovers?

74. FIIs all over the world are increasingly getting entrenched into the corporate affairs of the organizations. In India also, FIIs are asserting themselves by determining how organizations are run. Give an example that corroborates this view.

75. Functional strategies clarify the grand strategy, and provide specific details about the future management of key functional areas. While most functional strategies guide implementation in the immediate future, financial strategies direct the use of resources in supporting long-term goals and annual objectives. Financial managers follow strategies with long-time perspectives in investment, use of debt financing, dividend allocation and the firm's leveraging posture. Illustrate how a financial strategy can be employed effectively.

76. With the entry of foreign players, Indian Insurance industry has become highly competitive. Analysts feel that, to remain profitable, insurance companies can use the generic strategies of cost leadership, differentiation and focus. Discuss how insurance companies can use the three generic strategies.

77. Gillette has always used differentiation strategy to increase its market share. It offered new products at regular intervals. Discuss how Gillette could differentiate its products from competition, and how it benefited by adopting the strategy.

78. The primary reason for firms opting for mergers and acquisitions (M&As) is their desire to increase their market power through synergies. One type of merger through which firms can increase their market power is geographic extension merger. Explain, with the help of an example, a geographic extension merger and how it leads to increased market power.

79. Very often, mergers and acquisitions do not yield the desired results due to problems that crop up after the merger. Managing such problems is a difficult task. Discuss, with the help of an example, the problems faced by a merged entity.

80. In the late 1990s and early 2000s, Indian industry has witnessed a remarkable increase in mergers and acquisitions. Discuss the reasons behind the spurt.

81. To consolidate its position in the Indian telecom market, Bharti Televentures Ltd decided to amalgamate its five subsidiaries (Bharti Cellular Ltd, Bharti Mobinet Ltd, Bharti Mobitel Ltd, Bharti Mobile Ltd and Bharti Telenet Ltd) into one entity. Discuss why Bharti Televentures took this step, and how it is going to benefit the company.

82. The competitive advantage that a company has may change over time due to changing market conditions, and, as a result, a company may have to drop a particular business. In some cases, past diversification programs of a company may have lost value, making it necessary for a company to refocus on its core competencies. Sometimes, divestitures are taken up to get rid of a loss-making unit. Thus, various reasons prompt companies to resort to divestitures. In the light of this statement, explain a divestiture program taken up by an Indian company.

83. A spinoff can be an effective way to minimize the execution risk of a divestiture, either due to third-party negotiations or due to changing market conditions. Sometimes, spinoffs are taken up also as a part of a M&A deal. With the help of a recent example, discuss how companies use spinoff as part of M&A activity.

84. Though companies enter into joint ventures for various reasons, many analysts feel that 50% of all joint ventures take place to acquire knowledge. Discuss, with the help of a suitable example, how companies acquire knowledge by entering into joint ventures.

85. A strategic alliance is a relationship between firms that allows them to create more value than they could individually. The firms come together to attain goals agreed upon, while maintaining their independence. Firms are increasingly opting for strategic alliances. With the help of a suitable example, discuss how strategic alliances help firms to create value.

86. Most countries today believe that both benefits and costs are associated with Foreign Direct Investment (FDI) -- benefits in terms of transfer of technology and creation of employment, and costs in terms of repatriation of profits and an adverse balance of payments position if the host country subsidiaries have to import many components from their parent companies. With suitable examples, discuss the effect of FDI on the recipient country's economy.

87. More and more countries are integrating economically by forming trading blocs to promote trade among themselves. But the integration helps only members of the trading blocs and forms a barrier to MNCs from other countries. How can MNCs benefit from economic integration? Discuss.

Part C: Applied Theory (Answers)

Answer 1

-
-
-
-
-
-

Answer 2

Answer 3

Part C

Answer 4

Answer 5

Part C

Answer 6

Answer 7

Answer 8

Part C

Answer 9

Answer 10

Part C

Answer 11

Answer 12

Answer 13

Part C

Answer 14

Answer 15

Part C

Answer 16

Answer 17

Answer 18

Answer 19

Part C

Answer 20

Answer 21

Answer 22

Answer 23

Part C

Answer 24

Answer 25

Part C

Answer 26

Answer 27

Answer 28

Part C

Answer 29

Answer 30

Answer 31

Answer 32

Answer 33

Part C

Answer 34

Answer 35

Answer 36

Answer 37

Answer 38

Answer 39

Part C

Answer 40

Answer 41

Answer 42

Answer 43

Answer 44

Answer 45

Part C

Answer 46

Answer 47

Answer 48

Answer 49

Part C

Answer 50

Answer 51

Answer 52

Part C

Answer 53

Answer 54

Answer 55

Answer 56

Answer 57

Answer 58

Part C

Answer 59

Answer 60

Answer 61

Part C

Answer 62

Answer 63

Answer 64

Part C

Answer 65

Answer 66

Answer 67

poison pill *white knight*

Part C

Answer 68

Answer 69

Answer 70

Part C

Answer 71

Answer 72

Answer 73

Answer 74

Answer 75

Part C

Answer 76

Answer 77

Answer 78

Answer 79

Answer 80

Answer 81

Answer 82

Answer 83

Answer 84

Answer 85

Answer 86

Answer 87

Part C

Part D: Model Question Papers with Suggested Answers

The model question paper consists of three parts – A, B, and C, Part A is intended to test the conceptual understanding of the students. It contains 30 multiple – choice questions carrying one point each. Part B consists of cases and carries 50 points. Part C consists of applied theory questions, carrying 20 points. Students should note that ICMR reserves the right to change the format of the question paper without notice. The faculty members of ICMR with a view to assisting the students have prepared the answers. These answers should not be regarded as the only possible answers.

Model Question Paper I

Time: 3 Hours **Total Points: 100**

Part A: Basic Concepts (30 points)

Answer all the questions. Each question carries one point.

1. _____________is a statement of means that indicates the method for achieving the objectives?
   a. A corporate strategy
   b. Strategy formulation
   c. A procedure
   d. A grand strategy

2. With which of the following generic strategies is the concept of the experience curve associated?
   a. Cost leadership
   b. Differentiation
   c. Focus
   d. Both differentiation and focus

3. Which type of organization allows specialization, thereby encouraging greater efficiency and refinement of a particular functional expertise?
   a. Matrix organization
   b. Divisional organization
   c. Functional organization
   d. Simple organization

4. Through which strategy does a business gain new strength by streamlining its operations and eliminating waste?
   a. Vertical integration strategy
   b. Turnaround strategy
   c. Divestiture strategy
   d. Liquidation strategy

5. Which of the following is an integral part of the internal financing of a firm?
   a. Capital allocation
   b. Dividend management
   c. Retrenchment
   d. Working capital allocation

6. Which type of budget provides an outline specific to expenditure for plants, equipment, machinery, inventories and other requirements needed during the budget period?
   a. Revenue budget
   b. Capital budget
   c. Expenditure budget
   d. Income budget

7. Technology licenses, supply agreements, marketing agreements and joint ventures are examples of _______.
   a. Industry scope
   b. Geographic scope
   c. Mergers
   d. Coalitions

8. Who creates and implements strategic change in an organization?
   a. Strategist
   b. Directors
   c. Consultants
   d. HR managers

9. Technological transfer, market sharing and investment sharing are seen in _________.
   a. Acquisitions
   b. Management contracts
   c. Turnkey operations
   d. Joint ventures

10. Which of the following is the main difference between a technology leader and a technology follower?
    a. A technology leader aims at differentiation, while a technology follower seeks to achieve cost leadership
    b. A technology leader aims at cost leadership, while a technology follower seeks to achieve differentiation

c. A technology leader aims at cost leadership and focus, while a technology follower seeks to achieve differentiation
d. A technology leader aims at differentiation and focus, while a technology follower seeks to achieve cost leadership

11. Which of the following management tools is referred to as an improvement philosophy?
a. Business process reengineering
b. Benchmarking
c. Balanced Scorecard
d. Integration

12. Excessive use of _________ can lead to the shifting of wealth from bondholders to shareholders.
a. Manpower
b. Debt
c. Shareholders money
d. ESOPs

13. According to the regulations framed by the Securities Exchange Board of India (SEBI), promoters who hold ownership rights between 15 and 75 percent can increase their stake at a slow pace. This is often referred to as _________.
a. Sleeping acquisition
b. Creeping acquisition
c. Slow acquisition
d. Crawling acquisition

14. What type of benchmarking is used by companies to improve their processes or activities by benchmarking with other companies from different business sectors or areas of activity but involved in similar functions or work processes?
a. Internal benchmarking
b. Competitive benchmarking
c. Process benchmarking
d. Generic benchmarking

15. In__________, the incumbent management of a company buys out all or a majority of the shares of the company.
a. A spin off
b. A leveraged buy out
c. Management buy-outs
d. Joint venture

16. Which of the following is not a part of strategic management?
a. Providing and organizing the resources required
b. Analyzing a company's options by matching its resources with the external environment
c. Identifying the most desirable strategy
d. Setting long term objectives

17. Which of the following is the second stage in turnaround management?
a. Response initiation
b. Decline
c. Transition stage.
d. Outcome

18. Henry Mintzberg classified strategic decision-making into three modes. Which of the following is not one of them?
a. Functional mode
b. Adaptive mode
c. Planning mode
d. Entrepreneurial mode

19. A ___________ depicts the quantity and quality of its financial, human and physical resources.
a. Company's mission
b. Company's vision
c. Company's objective
d. Company's profile

20. The _________ of a company is not an organizational element that helps institutionalize its strategy.
a. Structure
b. Leadership
c. Control
d. Culture

21. _______________is the most commonly used technique for environmental scanning.
a. A BCG matrix
b. A SWOT analysis

c. Market research
d. A GE Nine Cell matrix

22. ________ level strategic decisions are often risky and expensive, but have huge profit potential.
a. Corporate
b. Business
c. Functional
d. Industry

23. Which type of firm is suitable for the planning mode of strategic decision-making?
a. Large sized firm
b. Medium sized firm
c. Small sized firm
d. Both a and b

24. Which of the following is not a requirement of strategy implementation?
a. Programs
b. Budget
c. Procedure
d. Policy

25. _________ refers to the process of logically identifying the ends an organization pursues and determining the means by which those ends are achieved.
a. Rational planning
b. Organizing
c. Controlling
d. Decision-making

26. Which of the following is used to reveal the capability of an organization in view of the resource profile?
a. Market research
b. Internal analysis
c. Financial analysis
d. External analysis

27. Name the major functional area in an organization, which contributes to the development of innovative products and services.
a. Advertising
b. Marketing
c. Research and Development
d. Customer service.

28. Which of the following helps external stakeholders influence a company's strategies?
a. Resource dependence
b. Involvement in implementation
c. Expertise
d. Internal links

29. What determines the direction of the influence of culture on organizational behavior?
a. Clarity of ordering
b. Content of the culture
c. Symbols of power
d. Representation in powerful position

30. The ___________ strategy aims at creating a product that is perceived as unique in the marketplace.
a. Cost leadership
b. Differentiation
c. Focus
d. Innovation

Part B: Caselets (50 points)

Caselet 1

In May, 1998, Daimler-Benz and Chrysler Corporation, two of the world's leading car manufacturers, agreed to combine their businesses in what they claimed to be a "merger of equals." The merger resulted in a large automobile company, ranked third in the world in terms of revenues, market capitalization and earnings, and fifth in the number of units (passenger-cars and commercial vehicles combined) sold. DCX generated revenues of $155.3 billion and sold 4 million cars and trucks in 1998. Schrempp and Eaton jointly led the merged entity, as co-chairmen and co-CEOs.

DCX's success depended on integrating two starkly different corporate cultures. Daimler-Benz was characterized by methodical decision-making while Chrysler encouraged creativity. Chrysler valued efficiency, empowerment, and fairly egalitarian relations among staff; whereas Daimler-Benz seemed to value respect for authority, bureaucratic precision, and centralized decision-making. These cultural differences soon became manifest in the daily activities of the company.

Another key issue at DCX was the differences in pay structures between the two pre-merger entities. Germans disliked huge pay disparities and were unlikely to accept any steep revision of top management salaries. But American CEOs were rewarded handsomely: Eaton earned a total compensation of $10.9 million in 1997. Complications would arise if an American manager posted at Stuttgart[1] ended up reporting to a German manager who was earning half his salary. Chrysler could cut pay only at the risk of losing its talented managers.

Germans and Americans also had different working styles. The Germans were used to lengthy reports and extended discussions. On the other hand, the Americans performed little paperwork and liked to keep their meetings short. Americans favored fast-paced trial-and-error experimentation, whereas Germans drew up painstakingly detailed plans and implemented them precisely. In general, the Germans perceived the Americans as "chaotic" while the Americans felt that the Germans were stubborn "militarists."

Chrysler managers believed in spotting opportunities and going for them. However, post merger, they were trapped in the German style of planning, constantly being told what to do. Steve Harris, Chrysler's former communications chief (who defected to General Motors) commented, "The Germans played literally by the book—theirs. You'd go into a meeting and have to turn to Volume 7, Section 42, page 597." The Germans prided themselves on analytical research that produced a plan, while the Americans reached for the impossible and kept coming up with new ideas to achieve these "impossible" goals.

Before the merger, Daimler-Benz was known for its top-down management approach. Chrysler, by contrast, seemed to be a humble collection of colorful consensus managers. DCX claimed that the merger process would be complete in twelve months. However, analysts felt that the authoritarian German management methods would prove foreign to the non-hierarchical style at Chrysler making the integration of the two cultures difficult.

Questions for Discussion:

1. Daimler-Benz and Chrysler Corporation, two of the world's leading car manufacturers, merged recently. Describe briefly, the culture of Daimler-Benz?
2. Describe briefly, the culture of Chrysler corporation and give your opinion on what culture the merged entity should follow to succeed in competitive automobile industry?

Caselet 2

Dharampalji Sugandhi (Dharampalji) set up the Dharmapal Satyapal Group (DS Group) in 1929, as a manufacturer of fragrances. In 1935, it diversified into flavored chewing tobacco. By 1950, it had introduced many varieties of chewing tobacco. In 1965, it launched the first branded chewing tobacco in India. This was the first saffron flavored chewing tobacco in the world. In 1979, the DS Group launched Tulsi Zafrani Zarda (tobacco powder) and Rajnigandha gutka (tobacco powder mixed with beetle-

[1] Headquarters of Daimler-Benz.

nut powder). By the mid 1980s, the DS Group became a leader in tobacco-based products with brands like Baba, Tulsi and Rajnigandha.

In 1983, the DS Group entered the food and beverages market when it acquired the Noida-based Hi Tech Foods Ltd., (Hi Tech). In 1987, Hi Tech created a niche market for tabletop salt with its 'Catch Salt Shaker.' Satyapal, the then proprietor of the DS Group, felt that branded free-flowing table salt was exactly what many Indian homes were looking for.

DS Foods aimed to become a Rs.5 billion company by 2002. To achieve this, DS Foods launched many variants under the Catch brand name. Aggarwal said, "Catch enjoys high brand equity but negligible volumes when compared to kitchen salt brands such as Tata Salt and Captain Cook." DS Foods planned to launch Catch salt in lined cartons for the kitchen segment and hoped the product would exploit the suburban markets.

DS Foods also planned to launch tea and edible oil in different pack sizes, sachets and pouches to cater to all market segments – larger packs for middle and upper classes and affordable, small pouches for daily wage earners. Aggarwal said, "Neither branded tea nor edible oil is available in small packs for the daily wager. They buy loose tea and oil." DS Foods planned to use its cold chain for the natural spring water and the proposed iced tea and flavoured water.

However, some analysts felt that the strategy might not be successful. A few years back, Nestlé had failed to push its Paloma brand of iced tea.[2]. Some analysts also felt that DS Foods' natural spring water, at Rs 25 per litre was unlikely to find a market. Although they claimed that the product was different from bottled mineral water, Catch was likely to face a stiff competition from Parle's Bisleri, a Rs.3 billion brand in a Rs.5 billion market. DS Foods was looking at hotels, embassies, clubs and restaurants to begin with, and hoped for sales of Rs 250 million in the next two years.

In December 2001, DS Foods announced plans to enter the ready-to-eat snacks market by the end of the month. Six varieties of Catch snacks were to be initially available – jumbo corns (in two variants) chana dal, cashew etc. The products were claimed to have a shelf life of a minimum of six months as compared to other brands, which had a shelf life of around two to three months. The USP of the newly launched products was that no oil was used to prepare it.

The company, which had a growth rate of 10% during 1999 had set an internal growth target of 35% in the next three years. Analysts felt that if it achieved the target that it had set itself, the foods and beverages venture will be highly successful. By 2006, the group aimed to achieve a target of Rs.5 billion in the Food and Beverages business alone.

Questions for Discussion:

1. DS foods is trying to exploit its Catch brand name. Describe briefly how it is following product development strategy?
2. Analysts feel that this product development strategy might not be successful? What do you say?

[2] Nestle planned to create a market for iced tea in India and launched Paloma iced tea in India in the late 1980s. The company was not successful. Analysts felt that the idea of having a beverage cold was not acceptable easily in India, as Indians traditionally liked to have a beverage hot.

Part C: Applied Theory (20 points)

1. The government's actions are of great concern to every firm. Firms analyze them and develop complementary plans that can help them in exploiting opportunities. Thus, political forces influence the organization both positively and negatively. Political activity also influences three additional functions, viz. the supplier function, the customer function and the competitor function. Illustrate how government plays a crucial role in the success or failure of an organization.
2. Acquisition is defined as the purchase of a controlling stake in a firm, generally via a tender offer for the target shares. Organizations go for acquisitions due to lack of resources, such as capital and technology, or in pursuit of synergies. Time also can be a determining factor in an emerging industry. The acquirer might have all the resources, but it might miss potential opportunities in building the competencies that are necessary to exploit those opportunities. To avoid this situation, firms acquire other firms which already have the needed competencies. Illustrate this situation.
3. A grand strategy is a statement of means that indicates the methods to be used to achieve the company's objectives. This is a unique package of long-term strategies. The grand strategy provides the framework for the entire business of the firm. Describe, with an example, why firms formulate grand strategies and how they operate according to them.

Model Question Paper I

Suggested Answers

Part A: Basic Concepts

1.d	2.a	3.c	4.b	5.b	6.b	7.d	8.a	9.d	10.a
11.a	12.b	13.b	14.d	15.c	16.a	17.a	18.a	19.d	20.c
21.b	22.a	23.a	24.d	25.a	26.b	27.c	28.d	29.b	30.b

Part B: Caselets (Guidelines)

Caselet 1

1. Daimler-Benz was characterized by methodical decision-making. Daimler-Benz people were used to lengthy reports and extended discussions. They drew up painstakingly detailed plans and implemented them precisely. Daimler-Benz was known for its top-down management approach. It valued respect for authority, bureaucratic precision, and centralized decision-making. People at Daimler also dislike huge pay disparities and are unlikely to accept any steep revision of top management salaries.

2. Chrysler encouraged creativity. It valued efficiency, empowerment, and fairly egalitarian relations among staff. Its CEOs were rewarded handsomely: Eaton earned a total compensation of $10.9 million in 1997. People at Chrysler performed little paperwork and liked to keep their meetings short. They favored fast-paced trial-and-error experimentation. Chrysler's managers believed in spotting opportunities and going for them.

Coming to which culture is appropriate for the merged entity, if the company is operating in Germany where majority of its people are comfortable with Daimler's type of culture, it should adopt that type of culture. Similarly, it can adopt Chrysler's culture while operating in the US. In the long-term it can go for a unique culture which is acceptable to people from both the companies.

Caselet 2

1. DS foods entered food and beverages market by acquiring the Noida-based Hi Tech Foods Ltd in 1983. In 1987, it created a niche market for tabletop salt with its 'Catch Salt Shaker.' Thus Catch brand name became popular. When the company wanted to increase its sales to 5 billion, it introduced many variants under Catch brand name.

In December 2001, DS Foods entered the ready-to-eat snacks market. It introduced Six varieties of Catch snacks– jumbo corns (in two variants) chana dal, cashew etc. DS Foods also planned to launch tea and edible oil in different pack sizes, sachets and pouches to cater to all market segments – larger packs for middle and upper classes and affordable, small pouches for daily wage earners. It has also plans for using its cold chain for the natural spring water and the proposed iced tea and flavoured water. By 2006, the group aims to achieve a target of Rs.5 billion in the Food and Beverages business alone.

2. Analysts say that this product development strategy will not be successful. They quote Nestle's failure to push its Paloma brand of iced tea to support their hypothesis. A few years back, Nestlé had failed to push its Paloma brand of iced tea. They also feel that DS Foods' natural spring water, at Rs. 25 per litre might be too expensive a product to find a market. They claim that the product was different from bottled mineral water, but Catch will face a stiff competition from Parle's Bisleri, a Rs.3 billion brand in a Rs.5 billion market.

In the light of all these facts, I would say that the company will face lot of obstacles on the road to successful expansion of product portfolio. It can however succeed if there are management committment, and adequate financial reserves to back up.

Part C: Applied Theory (Answers)

Answer 1

In 1998, investors of Unit Trust of India's (UTI) Unit Scheme-1964 (US-64) were shaken by media reports claiming that things were seriously wrong with the mutual fund[1] major. For the first time in the 32 years of its existence, US-64 faced depleting funds and redemptions exceeding the sales. Between July 1995 and March 1996, funds declined by Rs. 3,104 crore.

US-64's poor performance can be attributed to many factors. UTI's inability to come out of the purview of the Government and a lack of proper direction can be cited as the main reasons for the scheme's debacle. There were no proper internal controls over asset allocation. Also, US-64 did not have any fund manager. Investment decisions up to Rs. 50 crore were taken by the Chairman and those above Rs. 50 crore were referred to the Board of Directors. The Chairman of UTI was generally from the banking sector and, according to analysts, lacked the expertise to analyse the equity markets.

The stocks in which UTI invested fared badly on the bourses, leading to erosion in US-64's reserves. A majority of UTI's investments in the mid-1990s were in public sector units and other stocks fared badly because of political pressures. The Government used UTI as a "shock absorber" for its disinvestment program.

A former UTI executive said, "Every chairman of the UTI wanted to prove himself by collecting increasingly larger amounts of money for US-64 and declaring high dividends." This seemed to have resulted in US-64 forgetting its identity as an income scheme, supposed to provide fixed, regular returns by primarily investing in debt instruments. Even a typical balanced fund (equal debt and equity) usually did not put more than 30% of its corpus into equity. A *Business Today* report claimed that, eager to capitalise on the 1994 stock market boom, US-64 had recklessly increased its equity holdings. By the late 1990s, the fund's portfolio comprised around 70% equity. While the equity investments increased by 40%, UTI seemed to have ignored the risk factor involved in it. Most of the above investments fared very badly on the bourses, causing huge losses to US-64.

UTI alone cannot be blamed for the US-64 debacle. The controversy reflects a typical situation wherein political interference in the working of an organisation contributed significantly to the organisation's downfall. UTI had to invest in the stocks of the public sector units that were making losses, and it could not offload them when prices were falling, as it would hamper the disinvestment program of the government. The nexus between industrialists and the top management of the UTI also resulted in

[1] An enterprise that pools funds from customers and invests them in a portfolio of securities theoretically in keeping with the goals and principals stated in its prospectus.

investments in stocks whose promoters had been declared defaulters by the RBI and other credit-rating agencies.

Answer 2

The Mumbai-based IndiaWorld was established by Rajesh Jain in 1994. It provided web-based solutions and India-based content to non-resident Indians. The company operated popular portals, such as samachar.com, khel.com, dhan.com, bawarchi.com, khoj.com etc. These portals recorded a total of 13.5 million page views during October 1999. IndiaWorld was the only dotcom in India that earned profits consistently for three years prior to being acquired by Sify. Its profits were meager, but at that time very few companies in the global dotcom industry earned profits.

Sify planned to integrate IndiaWorld's numerous websites into its own portal, www.satyamonline.com. In 1999, Sify was one of the largest ISPs with a subscriber base in excess of 100,000 spread over 30 cities. Sify also had popular websites like walletwatch.com, carnaticmusic.com, carstreet.com which provided content and e-commerce solutions to resident Indians. IndiaWorld, with its large overseas audience, provided Satyam an ideal opportunity to extend its services to the NRI segment. The merger also provided Sify 13.5 million page views per month (of IndiaWorld) in addition to its own 13 million page views.

Sify had acquired IndiaWorld for strategic reasons. IndiaWorld would be a perfect complement to Sify's website. The deal would allow Sify to exploit cross-selling opportunities within its own portal and ISP service and provide ready access to the existing customer base and content of IndiaWorld's portal. IndiaWorld was the second largest portal in India in 1999. Sify was following a strategy similar to that used by America Online (AOL) in the US. AOL had consistently acquired leading content and service providers to retain its customers.

Sify was confident about the benefits of this expensive acquisition. Ramaraj, the chief of Sify, said that though Sify could have invested the funds raised through the ADR issue to set up its own websites, it would have taken a very long time for these websites to record the page views that IndiaWorld attracted. Moreover, the websites of IndiaWorld had good brand equity and enjoyed a high level of popularity among overseas Indians. He said that the acquisition was in line with Sify's overall objective of providing total Internet solutions to customers.

Answer 3

ICICI chose universal banking as its grand strategy. It provides a clear example of pursuit of grand strategy. ICICI planned to tap the opportunities in the financial sector by providing superior financial products and services to companies as well as the retail sector. The strategy is to focus on growth by maintaining and enhancing strengths in corporate banking, building a strong retail franchise, emphasizing risk management practices and, consequently, enhancing the overall asset quality.

But to achieve its long-term objectives, the company has used the acquisition route. First, it merged with group company SCICI and, later, it acquired ITC Classic and Anagram Finance. The SCICI merger increased its size of operations. Acquisition of ITC Classic and Anagram enabled it to target the retail segment as a beginning to build a huge retail franchise. ICICI also promoted ICICI Bank and entered the insurance sector. The management's intention is to be a conglomerate in the financial sector.

ICICI is looking at diversifying its income from operations in a major way. For FY 01, ICICI's approvals increased by 29% to Rs.561 bn compared to Rs.435 bn during the previous year. 61% of the approvals have been made for corporate finance

(58% in the previous year), 15% to manufacturing projects (12%), 14% to infrastructure projects (21%) and 8% to hydrocarbons (2%). 32% of the approvals have been made to AAA rated clients compared to 25% in the previous year.

With the government allowing companies to tap foreign markets for funds, and the foreign-based financial institutions having access to the Indian financial markets, cheaper funds are available. The new sources of funds have created more competition to the FIs, forcing them to improve.

In the past decade, most of the big foreign banks have entered the Indian markets. These banks have been very aggressive right from the beginning. They brought along with them their deep understanding of customers, and technology to serve the customers. By applying technology, these banks provided better service at cheaper rates to their customers. They have forced FIs like ICICI to improve their quality of service.

Model Question Paper II

Time: 3 Hours **Total Points: 100**

Part A: Basic Concepts (30 points)

Answer all the questions. Each question carries one point.

1. _________ refer(s) to a statement of intentions of what a company is trying to achieve within its pre-defined operational area.
   a. A plan
   b. Policies
   c. Strategies and tactics
   d. A mission

2. Which of the following is not a risk involved in the use of a cost leadership strategy?
   a. Technological change
   b. Risk of imitation by late entrants
   c. Unexpected inflation
   d. Change in the tastes and preferences of customers

3. _______________ can be compared with dials and indicators in an airplane cockpit.
   a. Re-engineering
   b. Reverse engineering
   c. Benchmarking
   d. Balanced scorecard

4. The matching stage of the analytical framework for strategy formulation is also called __________.
   a. Corporate portfolio analysis
   b. Business portfolio analysis
   c. Multinational Portfolio analysis
   d. Industry portfolio analysis

5. A/an___________ can be considered if moving or consolidating operations does not remedy the situation.
   a. Joint venture
   b. Leveraged buy-out
   c. Divestiture
   d. Acquisition

6. Which program involves changes in the relationship between divisions and functions?
   a. Restructuring
   b. Reengineering
   c. Innovation
   d. Recruiting

7. What should be the plan of action of a firm which requires massive organizational change?
   a. Technology upgradation
   b. Change of strategy and policy
   c. Reformulation of strategy
   d. Innovation

8. Which of the following is not a generic strategy?
   a. Cost leadership
   b. Differentiation
   c. Focus
   d. Forward integration

9. What type of benchmarking is used by companies to compare their positions with respect to the performance characteristics of their key products and services?
   a. Strategic benchmarking
   b. Competitive benchmarking
   c. Process benchmarking
   d. Generic benchmarking

10. In the __________ voting system, a stockholder can accumulate votes and cast them for less than the total number of directors being elected.
    a. Majority
    b. Proxy
    c. Minority
    d. Cumulative

11. In the __________stage of the industry life cycle, new or small

firms are the targets for related or conglomerate mergers.
a. Growth
b. Maturity
c. Decline
d. Both growth and maturity

12. Which of the following strategies is adopted by firms, when they feel their shares are undervalued in the market or when they have surplus funds?
a. Spin off
b. Exchange offers
c. Buy-back of shares
d. Divestiture

13. Which of the following gives importance to the development of projection, to enable firms to select the most promising strategic alternative?
a. Strategic decision making
b. Strategic planning
c. Strategic management
d. Strategic evaluation

14. _______ reflect(s) or state(s) the basic beliefs, values, aspirations and guiding principles that the strategic decision-makers are committed to emphasize in their management of the firm.
a. The mission statement of a company
b. The values of a company
c. The philosophy of a company
d. The image of a company

15. Which of the following is not an entry barrier for a firm trying to enter a new market?
a. Economies of scale
b. Product loyalty
c. High advertising expenses
d. Market imperfections

16. ___________ refers to a firm's formal role configuration, procedures, governance, control mechanisms and authority, and decision-making processes.
a. Organizational structure
b. Organizational culture
c. Organizational hierarchy
d. Organizational intent

17. _________ is a voluntary contract in which the stockholder who is bought out agrees to abstain from making further investments in the target company for a specified period of time.
a. A standstill agreement
b. An anti takeover amendment
c. A proxy contest
d. A premium buyback

18. Which of the following is not a form of corporate restructuring?
a. Employee layoffs
b. Sell-offs
c. Expansion
d. Changes in ownership structure

19. Well-established and formalized procedures are called _________.
a. Budgets
b. Structured procedures
c. Standard operating procedures
d. Formal procedures

20. A ___________ refers to an asset whose value in a production process depends on its combination with other assets or a specific technology.
a. Complementary asset
b. Supplementary asset
c. Variable asset
d. Fixed asset

21. The book building process and Dutch auctions are different methods of ________.
a. Spin off
b. Exchange offers
c. Management buy-out
d. Buy-back of shares

22. What links the organization to the external environment?
a. Superior customer service
b. Research and development
c. Advertising
d. Marketing

23. Which of the following ratios reveals a firm's financial risk statement?
    a. Leverage ratio
    b. Liquidity ratio
    c. Activity ratio
    d. Profitability ratio
24. Which of the following organizational structures accommodates a varied and changing project and increases the efficient use of a functional specialist?
    a. Divisional structure
    b. Matrix structure
    c. Functional structure
    d. Simple structure
25. Which of the following provides direction, serves as a standard for evaluating performance, and motivates members of the organization?
    a. The mission of the organization
    b. The values of the organization
    c. The objectives of the organization
    d. The goals of the organization
26. Which of the following terms best describes the strategy which directs a firms resources to the attainment of growth of a single product, in a single market, with a single dominant technology?
    a. Concentration
    b. Market Development
    c. Conglomerate Diversification
    d. Concentric diversification
27. What indicates the attractiveness of the markets served by each of the businesses in a corporation's portfolio of business?
    a. Market sales
    b. Market movements
    c. Market growth rate
    d. Market stability
28. In which of the following restructuring strategies are shares distributed primarily to existing shareholders (the parent company does not gain monetarily)?
    a. Divestiture
    b. Merger
    c. Spin off
    d. Acquisition
29. The sale of a part of a wholly-owned subsidiary's common stock to common investors is known as___________.
    a. Equity carve out
    b. Divestiture
    c. Spin off
    d. Split up
30. __________ provide(s) holders of one or more classes of securities, the right or option to exchange part or all of their holdings for a different class of securities of the firm.
    a. The buy-back of shares
    b. Exchange offers
    c. A management buy-out
    d. A leveraged buy-out

Part B: Caselets (50 Points)

Caselet 1

In February 2001, Infosys Technologies Ltd. (Infosys) was voted as the best managed company in Asia in the Information Technology sector, by Euromoney's[1] Fifth Annual Survey of Best Managed Companies in Asia. Infosys was started in 1981, with

[1] *Euromoney* is one of the world's leading financial magazines

an equity capital of Rs.10,000 brought by seven[2] professional entrepreneurs led by Narayana Murthy, Chairman and CEO of Infosys. By 2000, Infosys' market capitalization reached Rs.11 billion. By 2001, Infosys was one of the biggest exporters of software from India.

From the beginning, Narayana Murthy focused on the world's most challenging market - the US. He had two reasons for this. First, there was no market for software in India at the time. He believed that Indian software companies should export products in which they had a competitive advantage. In 1987, Infosys entered into a joint venture with Kurt Salmon Associates (KSA), a leading global management consultancy firm. KSA-Infosys was the first Indo-American joint venture in the US.

In 1988-89, Infosys set up its first office in the US. Reebok of France was looking for a software system to handle its distribution management at the same time. Infosys bagged the contract and developed the Distribution Management Application Package (DMAP)[3] for Reebok's French operations. Infosys decided to use this package to create a standard application package for similar operations of any company. In 1989, Infosys bagged another major contract from Digital Equipment.

In the early 1990s, with the opening up of the Indian economy, many export-oriented software companies were set up in India that created the momentum: Infosys leveraged this very successfully. By mid-1990s, Infosys was competing not only with Indian software majors like Tata Consultancy Services, and Wipro, but also with overseas players like Cambridge Technology Partners and Sapinet, which offered software solutions. Narayana Murthy believed that Indian software professionals had the ability to deal with complex projects. Analysts felt that unlike elsewhere, India's sharpest minds were heading for a career in software, and the best of these aspired to be at Infosys. Infosys also competed with consultancies such as Anderson Consulting and Ernst & Young, which positioned themselves as information management specialists.

In 1994, the joint venture with KSA was dissolved. In 1995, Narayana Murthy created Yantra Corp.[4] in Acton, Mass. US. Around the same time, Infosys entered into a joint venture with Satyam Computers and DCM.[5]

During 1998-99, Narayana Murthy planned to position Infosys as a true global company – global clients, global operations, global staff and a global brand image. In 1998, to support his global ambition, Narayana Murthy listed the shares of Infosys on Nasdaq through American Depository Receipts (ADR) issue worth US$75 million. With this, he took the Indian software industry global.

Narayana Murthy's global strategy comprised three features. The first one was the "global delivery model." The model emphasized on "producing where it is most cost effective to produce and selling where it is most profitable to sell." Cost effective production meant doing as much of the software development work in India and profitable selling meant focusing almost exclusively on foreign markets, particularly the US.

The second feature of the strategy was "moving up the value chain" – which meant getting involved in a software development project at the earliest stage of its life

[2]Nandan Nilekani, S.Gopalakrishnan, K. Dinesh, S.B.Shibulal, N.S.Raghavan, Ashok Arora (left Infosys in 1983)

[3]DMAP integrated databases and data-crunching tools in forecasting, purchasing, warehousing, sales management, credit control, customer services, sales ledger, claims and disputes, operations and security, apart from finance and decision support systems.

[4]Yantra helps companies to unlock value from multi-enterprise trading networks. Yantra solutions enable companies to sell complementary products and services, reduce inventory, coordinate outsourcing partners etc.

[5]DCM provides design services in the areas of ASIC & FPGA, Communication Software and Web Applications.

cycle. However, analysts felt that for this, Infosys would have to compete with big companies like Cambridge Technology Partners or even Andersen Consulting, and that could be tough. Agreed Narayana Murthy, "Yes, it is not going to be easy. But we don't have to be unduly concerned about unmitigated success. We may succeed in some and not in others – which is not to say that we will not succeed as consultants."

The third feature of the strategy was the PSPD. According to Narayana Murthy, there are four fundamental tenets of any well-run business. One: predictability of revenues; two: sustainability of the predictions; three: profitability of revenues; and four: a good de-risking model. 'De-risking' meant that Infosys had put limits on its exposure to businesses of various kinds. For instance, it limited its exposure to Y2K projects to less than 25% of its total revenues because this was a business that could disappear overnight and Infosys didn't want to take the risk.

Questions for Discussion

1. Infosys is one of the biggest exporters of software from India. Describe briefly, how Infosys reached this enviable position?
2. Narayana Murthy tried to position Infosys as a true global company. What are different features of the global strategy he used in this positioning effort?

Caselet 2

In the 1990s, the US economy went through a phase of consolidation, in which many major companies acquired or merged with weaker companies to strengthen their own position in the market (as seen earlier, WorldCom happened to be one of the key acquirers in this phase). The share prices of companies play a vital role during mergers and acquisitions. Therefore companies try to 'maintain' the prices of their shares (that is, keep them sufficiently high). If they fail to do so, they can easily become targets for takeover/acquisition.

Moreover, if a company wishes to raise capital from the market, its performance on the stock exchange is considered to be very important. The companies are generally valued on the basis of cash flows they could generate in future. As the financial performance of a company is one of the most important (and direct) factors affecting its share price, companies were under constant pressure to show positive revenue streams.

However, this was easier said than done. Not only was the US economy facing a slowdown during the late 1990s, industries such as IT and telecommunications were going through one of the worst downturns ever. As a result of the dotcom bust, many big companies lost millions of dollars in a short span of time. The old-economy industries were not faring very well either. In these conditions, many companies resorted to a process called 'backing in'[6] to project increased profits despite low growth rates.

WorldCom was also among one of these companies that were trying to take an 'easy way out' to project healthy financial growth despite the adverse market conditions. To provide Internet access to customers, the company had built up a huge infrastructure, anticipating that the demand for services on broadband[7] networks would grow

[6] In this procedure, instead of the profit figure emerging as the end result of accounting procedures, it becomes the starting point. Beginning with a level of profit necessary to meet 'market expectations' and maintain or increase the share price, companies worked backwards to manipulate the financial statements to attain that goal.

[7] Broadband refers to a high-speed interactive data transmission service, wherein the technique used is such that several data channels can be carried over a common wire using a wide band of frequencies. Information can be sent on many different frequencies or channels within the band concurrently, allowing more information to be transmitted in a given amount of time.

significantly. However, by 2000, the Internet infrastructure had lost much of its attractiveness and the demand for broadband services was lower than expected.

Moreover, the long-distance telecom sector was severely hit by growing competition from local phone companies. Prices fell drastically. With the introduction of mobile telephony, customers were increasingly relying on email and mobile phones for long distance communication. As a result of the above factors, by late 2000, WorldCom was struggling to retain its position in the market. In spite of the tough competition from mobile telephony, WorldCom decided to stick to basic telephony only.

WorldCom responded to the changing business conditions and 'earnings pressure' by resorting to illegal measures. The objectives behind these adjustments were to illegally inflate the reported earnings and meet the expectations of security analysts, thereby concealing the company's actual financial position.

In a scheme that had reportedly been accepted by its senior management, WorldCom covered its true operating performance through improper accounting that overstated its income during 1999-2002. Ordinary operating costs (telecommunications system maintenance expenses) were characterized as capital expenditure. The company also reclassified certain line cost expenses[8] (operational costs) as capital expenditure. As a result of understating the revenue expenditure, the company was able to overstate its operating cash flows and overall profits.[9] The amount involved in such reclassification was $ 3.055 billion for 2001 and $ 797 million for the first quarter of 2002.

Questions for Discussion:

1. WorldCom has been one of the most successful companies in the recent past. It was considered to be a socially responsible firm. Then why did it choose to be unethical?
2. What did WorldCom do to conceal its actual financial position? Do you think what it did is acceptable in the harsh circumstances it was forced to face.

Part C: Applied Theory (50 Points)

1. Firms engaged in financial restructuring often sell some of their assets or acquire other assets. Some firms change their capital structure and their dividend policy. Ownership structure and management compensation schemes also alter. Changes affect the risk of a firm. These firms can be valued against the backdrop of major changes in investment and financing policy, with future cash flows reflecting the new business and the level of financial risk in the firm. With the help of an example, explain the financial restructuring process undertaken by any company.

2. The strategist should clarify the mission and objectives of the organization, define the corporate strategy and establish and manage the organization's structure. He also influences the organization's culture and values, which are key determinants of the ways in which strategies are created and implemented. With the help of an example, explain the role played by a strategist.

---

[8] Line costs represented the fees WorldCom paid to third-party telecommunication carriers for accessing their network facilities. As per the accounting standards followed in the US, the Generally Accepted Accounting Principles (GAAP), these fees have to be reported as an expense by the paying company.

[9] Operating expenses are charged to a company's income statement and subtracted from revenues in the period in which the expense is incurred or paid, resulting in the company's net income for that period. Capital expenditures, on the other hand, are not subtracted from revenues and are not reflected on the income statement. They are reported as capital assets in the balance sheet.

3. A firm derives competitive advantage from value-creating activities, such as designing, producing, marketing, delivering, and supporting. Efficiency in one, or more than one, of them can lead to competitive advantage. A competitive advantage has strategic relevance only when customers find a difference between the company's product and its competitor's. This perceived difference should be in variables that influence their buying behavior. Give the example of a company that is trying to attract customers by creating this perceived difference.

Model Question Paper II

Suggested Answers

Part A: Basic Concepts

1.d	2.d	3.d	4.a	5.c	6.a	7.c	8.d	9.b	10.d
11.a	12.c	13.a	14.c	15.d	16.a	17.a	18.a	19.c	20.a
21.d	22.d	23.a	24.b	25.c	26.a	27.c	28.c	29.a	30.b

Part B: Caselets (Guidelines)

Caselet 1

1. As one can see in the case, Narayana Murthy was from the beginning interested in the US, the world's most challenging market. Though he had no other alternative in the beginning, this US experience subsequently helped Infosys immensely in gaining global customers. Narayana Murthy always believed that Indian companies can and should export products in which they had a competitive advantage. He setup Infosys office in 1988-89, when Reebok of France was looking for a software system to handle its distribution management. Infosys grabbed this opportunity and developed the Distribution Management Application Package (DMAP)[1] for Reebok's French operations. Infosys hit upon a brilliant idea, that this package can be used to create a standard application package for similar operations of any company. Infosys also could manage to get a major project from Digital Equipment. Narayana Murthy also observed that the sharpest of Indian students were choosing software careers, unlike elsewhere. He believed that Indian software professionals of this caliber can deal with complex projects and Infosys can compete with major companies in the world. This conviction led to the success of Infosys.

2. The Global strategy had three attributes. The first attribute was the "global delivery model." The model is based on the belief that "producing where it is most cost effective to produce and selling where it is most profitable to sell." Cost effective production means developing software in India and profitable selling means selling in foreign markets, particularly the US.

The second feature of the strategy was "moving up the value chain". This needs getting involved in a software development project at the earliest stage of its life cycle.

The third attribute of the global strategy was the PSPD. First P stands for predictability of revenues; S stands for sustainability of the predictions; another P stands for profitability of revenues; and D for de-risking model. 'De-risking' means Infosys has limits on its exposure to businesses of various kinds. For example, Infosys set a limit that only 25% its revenues should come from Y2K projects. Because Y2K was a business that might disappear overnight. These are four fundamental tenets of any well-run business.

---

[1]DMAP integrated databases and data-crunching tools in forecasting, purchasing, warehousing, sales management, credit control, customer services, sales ledger, claims and disputes, operations and security, apart from finance and decision support systems.

Caselet 2

1. 1990s, were characterized by a phase of consolidation. Many large companies acquired or merged with weaker companies to strengthen their own position in the market (WorldCom itself happened to be one of the key acquirers in this phase). Mergers and acquisitions to a great extent depends on the share prices of companies. Hence, companies try to 'maintain' the prices of their shares (keep them sufficiently high) failing which they may be become targets for takeover/acquisition. In addition, if a firm wants to raise capital in the market, it should show good performance in the stock market. Good performance in stock market depends on how the company is expected to generate cash flows in the future. As a result companies are constantly under pressure to deliver positive revenue streams.

In the aftermath of dotcom bust, industries such as IT and telecommunications were into the worst downturn ever. In these circumstances, companies like WorldCom took recourse to a process called 'backing in'[2] to project increased profits despite low growth rates.

2. WorldCom concealed its true operating performance. It did this by improper accounting that overstated its income during 1999-2002. It characterized Ordinary operating costs (telecommunications system maintenance expenses) as capital expenditure. It also reclassified certain line cost expenses[3] (operational costs) as capital expenditure. As it understated its revenue expenditure, it was able to overstate its operating cash flows and overall profits.[4] Amount involved in these instances were $ 3.055 billion for 2001 and $ 797 million for the first quarter of 2002.

Part C: Applied Theory (Answers)

Answer 1

Telco had posted a huge loss in the FY 2001-02. To restore its image and investors' confidence, the company adopted a turnaround strategy aimed at improving its financial performance, operating margins, and market share in all vehicle segments, and at increasing its operational efficiency.

Financial restructuring was undoubtedly the most important aspect of the strategy. It concentrated on cutting down the size of its balance sheet, improving the working capital cycle, restructuring expensive foreign debt, reducing costly debt and improving capital expenditure.

For rightsizing the balance sheet, Telco concentrated on eliminating the flab. Its efforts were focussed on identifying non-core investments and reducing the size of

---

[2] In this procedure, instead of the profit figure emerging as the end result of accounting procedures, it becomes the starting point. Beginning with a level of profit necessary to meet 'market expectations' and maintain or increase the share price, companies worked backwards to manipulate the financial statements to attain that goal.

[3] Line costs represented the fees WorldCom paid to third-party telecommunication carriers for accessing their network facilities. As per the accounting standards followed in the US, the Generally Accepted Accounting Principles (GAAP), these fees have to be reported as an expense by the paying company.

[4] Operating expenses are charged to a company's income statement and subtracted from revenues in the period in which the expense is incurred or paid, resulting in the company's net income for that period. Capital expenditures, on the other hand, are not subtracted from revenues and are not reflected on the income statement. They are reported as capital assets in the balance sheet.

fixed assets. The company divested its investments in its subsidiaries - Tata Technologies, H V Transmission and Telco Automation - which generated a cash inflow of Rs. 4.03 million. It sold its stake in Mercedes Benz, which resulted in a cash inflow of Rs. 840 million.

Telco also sold off some UTI units, generating additional cash worth Rs. 1.34-1.45 billion. It sold off 0.4 million sq.ft of real estate for around Rs. 4.5 million, and used this money to repay debt. It also cancelled its GDRs and Yankee bonds, which enabled it to save interest amounting to Rs. 1.18 billion in FY 2001-02. Telco adopted cost-cutting measures (value engineering, e-sourcing and zero-based budgeting) which enabled it to enhance productivity and reduce direct costs.

Telco wrote off assets and expenses of around Rs. 11.80 billion against its securities premium account (SPA), which reduced its reserves by 40% and net worth by 36%. The expenses included product development and employee separation costs.

Analysts argued that Telco was ensuring its future profits against the mandatory write-offs. However, the market interpreted this move only as an accounting adjustment because all outstanding expenses are generally set off against the reserves during balance-sheet analysis. But some raised questions regarding the timing of the write-off. They asked whether the write-off would have a healthy effect for shareholders who had subscribed the rights issue of the company at a premium. Analysts felt that the SPA account could have been utilized for offering a bonus to the shareholders. However, Telco defended the write-off and stated that it was done in the interest of shareholders.

Company sources, on the other hand, stated that if the amount of amortization was carried out for the subsequent 4-5 years, the company would be forced to pay a very low dividend. Telco also stated that it had received the approval of shareholders and the court before proceeding with the write-off.

Answer 2

In the financial year 2000-01, due to the global economic slowdown and reduced IT spending by organizations all over the world, Cisco posted its worst-ever financial performance. Though the company's revenues increased by 17%, for the first time in its history it reported a net loss of $1 billion. Moreover, the market capitalization of Cisco came down to $135 billion in March 2001, compared to $531 billion in March 2000.

John Chambers, the CEO realized that the immediate objective for Cisco was to focus on profitability. He, therefore, announced a six-point plan on January 15, 2001. Chambers initiated a series of measures in accordance with the plan. He believed that by implementing the plan he would be able to improve the net income, cash flows from operations, market share and productivity.

In March 2001, Chambers announced the layoff of 8,500 employees accounting for 17% of Cisco's workforce. He thereby expected to save $800 million. In April 2001, Chambers announced that he would reduce his own salary to just $1 for the year 2001. He also reduced by 40% the travel expenses of Cisco's employees, including those of board members. A part of the excess inventory, worth $2.5 billion, was also written off.

- Chambers took the following key decisions to bring CISCO on to the right track:
- Slowing of head-count growth and discretionary spending.
- Aligning the company's resources with major growth opportunities.
- A new focus on profit contribution.
- Leveraging e-applications to gain productivity.

- Assuring that all Cisco employees focused on their own areas of improvement.
- Remaining focused on Cisco's breakaway strategy of capturing a bigger market share once it spotted new market transitions.

Chambers decided to restructure Cisco in August 2001. He centralized the engineering and marketing functions to serve customers better. Prior to the restructuring, Cisco's operations were divided into three divisions—the enterprise division, the service provider division and the commercial units division. Under the new framework, the divisions were restructured into two – engineering and marketing. The engineering division focused on eleven areas – access, aggregation, IOS technologies, Internet switching and services, ethernet access, network management services, core routing, optical, storage, voice and wireless. Chambers believed that these areas had good potential for growth, and hence required special attention. Instead of his earlier strategy of acquiring companies, he decided to strengthen Cisco's R&D capabilities in these product areas. Chambers also divested 10 product lines of Cisco where he felt that the business potential was limited.

The steps yielded results. The annualized revenue per employee increased by 22% from $442,000 per employee in June 2001 to $540,000 per employee in June 2002. The company also reduced its expenses significantly. This reflected positively in the financial performance of Cisco for the financial year 2001-02. The company reported a net income of $1.89 billion on revenues of $18.9 billion.

Answer 3

By 2000, Mercedes Benz United States International (MBUSI), builder of the high-quality M-Class sports utility vehicle (SUV), had established itself as a company that also delivered superior customer services. One such service was the delivery option, whereby the customer could take delivery of the vehicle at the factory in Alabama, US.

The program, called the Factory Delivery Reservation System (FDRS), enabled MBUSI to create and validate 1800 orders per hour. FDRS also automatically generated material requirements and Bills of Material[5] for 35,000 vehicles per hour. The Customer Relationship Management (CRM) solution that made FDRS possible was based on Lotus Domino[6] and IBM Netfinity[7] server[8].

The FDRS program implemented by MBUSI enabled its customers to take delivery of Mercedes M-Class Sports Utility Vehicle at the factory. The program also offered customization of accessories of the car, private factory tours and a test ride on the factory test track. FDRS enabled MBUSI to coordinate the logistics effectively. It ensured that the delivery slots were unique i.e., multiple customers did not opt for a limited number of delivery slots. FDRS allowed retailers to give customers the possible delivery dates and time slots at the factory. After the customer selected a date and time, the FDRS created a slot for the customer. FDRS then coordinated this reservation with all other Mercedes Benz US computer systems so that the vehicle

[5]Bill of Material keeps track of all raw materials, parts, and sub-assemblies used to create a finished product.

[6]A product of IBM Corp., Lotus Notes and Domino R5 are the industry's leading client/server combination for collaborative messaging and e-business solutions.

[7] The IBM Netfinity server offers solutions for file-and-print and application computing needs.

[8]A computer or device on a network that manages network resources. For example, a file server is a computer and storage device dedicated to storing files. Any user on the network can store files on the server. A print server is a computer that manages one or more printers, and a network server is a computer that manages network traffic. A database server is a computer system that processes database queries.

was ready on time at the right location. The program also completed all other internal record keeping.

MBUSI also leveraged its FDRS solution by expanding its range of services. An advanced platform was built for MBUSI to communicate with its dealers. The FDRS was also used to communicate with its suppliers. MBUSI gave its feedback on the quality of supplies it received from suppliers. Further, MBUSI planned to use FDRS for transactional applications, such as ordering materials and checking the order status on the Net.

With its innovative use of the new program, MBUSI not only managed to improve its customer relations by providing the best service but also demonstrated its commitment to customers by making them an integral part of the process. Customers were, in a way, linked directly to the factory floor – which was a powerful sales tool.

Model Question Paper III

Time: 3 Hours **Total Points: 100**

1. What forms the basis for product development?
   a. Market research
   b. Sales forecast
   c. Market forecast
   d. Market analysis

2.

a. Portfolio approach
b. Strategic approach
c. Managerial approach
d. Balanced approach

10. Which of the following is not a reason for a divestiture?
a. Change in corporate goals
b. Change in corporate image
c. Market saturation
d. Launch of a new product

11. The __________ strategy assumes that a firm can serve a strategic target market more effectively than competitors who are serving much bigger markets.
a. Cost leadership
b. Focus
c. Differentiation
d. Innovation

12. The _________ approach of reengineering seeks a fundamental re-thinking of the way in which a product or service is delivered, and designs new processes from scratch.
a. Systematic
b. Planned
c. Clean sheet
d. Clean chit

13. Which of the following is not a question that a balanced scorecard answers?
a. How do customers see us?
b. What must we excel at?
c. How do competitors see us?
d. How do we look to shareholders?

14. In the _______ method of takeover, the acquirer tries to put pressure on the management of the target firm by threatening to make an open offer.
a. Tender offer
b. Street Sweep
c. Bear Hug
d. Strategic Alliance

15. In the _________ approach of capital structure, it is assumed that there is an optimal capital structure and that the firm can increase its total value through the judicious use of leverage.
a. Modern
b. Traditional
c. Net operating
d. Dividend policy

16. Who develops the short range objectives and strategies for production, operation, marketing, etc?
a. Corporate level managers
b. Business level managers
c. Functional level managers
d. Multi-business level managers

17. _________ protect(s) the existing management by consolidating the company's holdings and the promoter's stake in the company.
a. A spin off
b. Exchange offers
c. A management buy-out
d. The buy-back of shares

18. Which of the following is not a factor on which the success of an alliance depends?
a. Partner selection
b. Alliance structure
c. Managing the alliance
d. Financing the alliance

19. __________ cultures are those that are innovative and encourage and reward initiatives taken by middle and lower level managers.
a. Strong
b. Adaptive
c. Inert
d. Innovative

20. Which of the following components of the marketing function ensures that customers are provided with quality products and services?
a. Product component
b. Process component
c. Packaging
d. Product accessories

21. _________ are directives designed to guide the decisions and actions of managers and their subordinates in the implementation of organizational strategy.
    a. Objectives
    b. Rules and regulations
    c. Policies
    d. Functional strategies

22. Efficiency gains and refocus, information effect, wealth transfers are some of the reasons for the use of the _________.
    a. Spin off
    b. Merger
    c. Acquisition
    d. Divestiture

23. Legal issues and government rules and regulations are a part of the __________environment.
    a. Economic
    b. Political
    c. Social
    d. Legal

24. Which of the following terms refers to a partnership between two or more firms to carry out a specific project in a specific area of a business?
    a. Joint Venture
    b. Merger
    c. Partial Acquisition
    d. Takeover

25. In a/an_________, firms come together to meet agreed upon goals, while maintaining their independence.
    a. Strategic alliance
    b. Acquisition
    c. Joint venture
    d. Merger

26. The biggest hurdle to going private is __________.
    a. Economical
    b. Sociological
    c. Political
    d. Psychological

27. Which of the following is the fourth stage in the process of an LBO?
    a. Reverse LBO
    b. Taking the company private
    c. Arranging finance
    d. Restructuring

28. Which of the following types of alliances is made between a weak company and a strong company to help the weak company improve its competencies?
    a. Alliance of complementary equals
    b. Disguised sale
    c. Bootstrap alliance
    d. Alliance of the weak

29. A ___________ describes what it is trying to do and to become.
    a. Company's vision
    b. Company's mission
    c. Company's profile
    d. Company's objective

30. The _______ strategy involves the identification of a segment of the declining industry that will not only offer a stable market but also high returns.
    a. Leadership
    b. Niche
    c. Harvest
    d. Quick divestment

Part B: Caselets (50 Points)

Caselet 1

The Japanese photo major, Fuji Photo Film (Fuji) first entered the US market in 1964 as a supplier of private label film and established its first subsidiary in 1965. Since the beginning, Fuji focused on providing quality and innovative products to its US consumers. Fuji felt that it made more strategic sense to follow the New York based, Eastman Kodak Company's (Kodak) lead, avoid attracting Kodak's attention, and not take any steps that would provoke Kodak's retaliation. The company focused on building its marketshare in the US by adopting strategies to get the share of weaker US competitors rather than that of Kodak. Slowly but steadily, Fuji entered the professional market and also made efforts to build its credibility in the larger amateur market. In 1970, Fuji introduced a faster film with brighter colors, which was what professional and serious amateur photographers were looking for. In 1972, Fuji began to market its film under its own brand name in several camera stores. In an attempt to gain more market recognition, Fuji provided buyers of Japanese cameras with free film rolls.

In 1976, Fuji introduced the 400-speed color film that was faster than any of the films made by Kodak during that time. In the following year Fuji reduced the prices of its print paper. In 1978, Fuji expanded its distribution to drugstores, supermarkets and discount chains.

In 1983, Fuji brought out a new high-resolution film in two speeds. Kodak responded by introducing a similar film and offering it in four speeds. By now, Fuji realized that it would be unable to outsmart Kodak. However, the company believed that by building its reputation for quality products and offering products at prices lower than that of Kodak, it could gain significant marketshare in the long run. The important element of Fuji's strategy was to ensure that its products were 100% compatible with Kodak cameras and Kodak film, thereby allowing price-conscious consumers to substitute Fuji film for Kodak.

The Japanese threat began to mount when Fuji became the official film for the 1984 Summer Olympics in Los Angeles, California. This sponsorship agreement helped Fuji gain international recognition. After it lost the sponsorship agreement, Kodak realized that Fuji could be a potential threat to it. Accepting Fuji's challenge, Kodak also engaged itself in constant price wars with Fuji to gain valuable marketshare in the US. Kodak took the challenge a step further by strengthening its presence in Japan, the world's second largest market for photographic products after the US.

Fuji took considerable interest in pursuing research and development to introduce new technology that would enable it to produce innovative products to drive sales further. The company spent 7% of its revenues on R&D annually. This helped Fuji to maintain its competitive advantage as it was able to introduce new products that customers needed. In 1986, Fuji became the first company to introduce one-time-use cameras. Kodak did not offer a similar product thus giving Fuji the image of a company that introduced more consumer-oriented and innovative products. In the early 1990s, Fuji steadily gained marketshare as more consumers preferred to use Fuji's film, as the color was brighter and the processing speed was faster.

In 1997, Fuji reduced prices by 50% on its multiple roll film packs and even sold four rolls of film for just $4.99. Fuji's prices were three times lower than those of Kodak for the same product. This reduction in prices resulted in drop of Kodak's marketshare in the US from 80.1% in 1996 to 74.7% in 1997.

In response to this move, Kodak also slashed its prices. However, the company once again could not cut its prices steeply as this reduced its profit margins from its most profitable business of films. During the late 1990s, Kodak's top management was in great dilemma whether to reduce prices significantly to match Fuji's levels and thus risk the profitability of its most lucrative films business or to keep quite and see its marketshare continue to erode. However in 1988, Kodak grabbed the opportunity to sponsor the Olympics resulting in the sponsorship battles and marketing rivalry between Fuji and Kodak

Though Kodak entered the Japanese market in 1905, the company never took the Japanese market seriously. In the early 1980s, Japan emerged as the second largest market in photographic products. Due to the rising competition from Fuji in the US, Kodak decided to strengthen its competitive position in Japan.

In 1977, Kodak strengthened its control over the distribution and marketing efforts of its Japanese arm Nagase & Co. In the following year, the company formed a joint venture company named Kodak-Nagase. Later, Kodak converted the import division of Nagase into its own subsidiary and was renamed as Kodak-Japan. Tying up with the Japanese partner helped Kodak to have access to 60,000 camera stores up from the initial 30,000 stores in Japan. It gave Kodak access to more shelf space to display its products. However, Kodak could not get into the stores, which marketed Fuji products exclusively.

In the late 1970s, Kodak formed several joint ventures and strategic alliances with many Japanese partners. One such company was Bandai, a leading Japanese toy manufacturer, with which Kodak established a co-branding arrangement to sell single-use cameras. Kodak set up its own R&D center and opened a technical assistance center to help customers. The company conducted an annual Kodak Symposium in which the audience included university professors and researchers and the major customers and companies with which Kodak had strategic alliances in Japan.

In 1980, Kodak came out with the concept of "minilabs" at certain retail outlets in Japan. Kodak entered into an agreement with the world's leading manufacturer of minilabs equipment, Noritsu Koki. In the early 1980s, Kodak introduced many new products in the Japanese market and also reduced the prices of some of its products as a challenge to Fuji's leadership. Kodak introduced the "panoramic disposable camera," which was not present in Fuji's product range. Kodak aggressively marketed the panoramic camera, as the Japanese were fond of taking pictures in large groups. A group photograph outdoors was not possible with the help of conventional cameras in those days.

In the mid-1980s, Kodak increased efforts to gain greater control over the distribution of its own products. Fuji's products were sold through 216,000 retail outlets. Approximately, 15% (33,000) retail outlets accounted for 75% of Fuji's sales. By 1985, Kodak controlled around 150 labs for photographic paper in Japan whereas Fuji controlled 250 labs.

In 1986, Kodak advertised heavily in the media to increase its popularity. The company constructed a huge yellow sign symbolizing Kodak's name, which took many years to complete and put it in downtown Tokyo. In August 1986, Kodak leased the only available blimp in Japan and decorated it with bright yellow color with its trademark and name. It was placed in front of the Fuji headquarters in Tokyo.

In the late 1980s, Kodak introduced waterproof disposable cameras. Initially, the consumers complained about certain shortcomings in its design. Kodak employed a team of engineers, finance and marketing people to rectify the problems.

In 1994, Kodak came out with a new product, a single-use camera, called Falcon. The product was so named because Kodak's development team wanted it to resemble a bird of prey attacking rival products. Kodak advertised this product rather unconventionally in the Japanese market.

In 1999, Kodak and Fuji had the same marketshare of 70% in their respective home countries and had an almost equal marketshare in the rest of the world (each had 1/3 of the world marketshare). In 1999, Fuji had 18.8% marketshare in the US while Kodak's share in Japan was hovering around 7%. It remains to be seen how well Kodak and Fuji would be able to sustain their respective marketshares in the future.

Questions for Discussion:

1. Examine the strategies adopted by Fuji to enter and build its presence in the US market. Analyze the reasons for Fuji's success in the US.
2. Examine the strategies adopted by Kodak to counter Fuji in Japan. What were the reasons for Kodak's poor performance in Japan?

Caselet 2

The idea of Iridium was conceived in 1987 by three engineers-Ray Leopold, Ken Peterson and Bary Bertiger-who were working for the US-based electronics major Motorola. They pioneered the concept of a satellite-based, wireless personal communications network that could be accessed from anywhere on earth. In 1991, Motorola incorporated Iridium to develop and deploy the satellite network system. Besides Motorola, which held a 20.1% stake in the venture, some of the other major partners included Germany's Vebacom with 10%, Korea Mobile Telecommunications-4.4%, Sprint Corporation-4.4% and Italy's STET with-3.8% stakes respectively. Motorola was the prime contractor for supplying satellites, gateways and communication products for Iridium.

By 1997, Iridium launched 49 of the proposed 66 satellites successfully into the orbit. The same year, the company entered into strategic agreements with Kyocera to develop and market its wireless phones and with AlliedSignal to develop wireless telecommunication products for aircraft passengers and the crew. In the same year, Iridium came out with its IPO (Initial Public Offering) of $240 million and obtained $800 million in debt financing.

Iridium's venture into the upcoming Mobile Satellite Services (MSS) market marked a new beginning in the field of personal communications. Soon, many players including Globalstar, Odyssey, and Inmarsat-P/ICO entered the MSS market seeing the strong growth potential. These companies employed different technologies like LEO, MEO and GeoSynchronous satellites to deliver MSS services to customers.

Iridium had invested lot of money in R&D, building, deploying and maintenance of its satellite constellation. Though Motorola realized the fact that the venture would involve substantial time and cost outlays and was very risky, it was perturbed when the venture consumed more time and money than expected.

By 1999, Iridium found itself in deep financial trouble with a huge amount of outstanding debt to be repaid to its bankers and creditors. Chase Manhattan, Iridium's lenders had already given three extensions for repayment of loans by August 1999. Analysts remarked that the company's troubles were not due to the concept of satellite telephones, but due to its faulty strategies.

Iridium had to spend a couple of million dollars every month just to maintain its infrastructure. In addition to the 66 satellites being used, Iridium was incurring heavy expenditure to maintain the spare satellites as well (to be launched in case any of the 66 satellites failed). Moreover, the company planned to offer its services to a broad customer base so as to make the business viable.

The company needed at least a million subscribers to get close to the break-even point. This necessitated the maintenance of a dozen gateways, making the infrastructure involved very complex.

From the very beginning, Iridium faced problems in building up a sizeable subscriber base. Iridium targeted global business travelers and certain high-end customers. But this market was not large enough. Customers were not interested in using Iridium's services for various reasons. First, Iridium's subscribers' had to essentially buy the specially designed Motorola handsets. Consumers were not happy with the bulky handsets that weighed almost a kg. Second, handsets were also priced on the higher side at about US $2500 to US $3000, which was as a major deterrent. To attract customers, Iridium reduced the price to $1000. In September 1999, Iridium's main competitor, Globalstar launched its satellite telephone services with handsets initially priced at $1000 and later reduced to $700. This added to Iridium's problems.

Iridium's initial service charges were $7 per minute, which was later reduced to $2 to $4 per minute depending on the location (depending on the country they were used in

– for example, in Japan, users paid an initial fee of $77 and a monthly charge of $50, plus actual call charges that ranged from $2.67 per minute to $6.59 per minute). To address the criticisms of high service charges, Iridium slashed its call rates to $1.50 - 2.50 per minute for domestic phone calls, and $3 per minute for international calls in June 1999.

Iridium faced another setback when it encountered technical problems during the launch of its services to customers. Moreover, customers could not get the services according to the schedules announced by the company. There were many technical glitches as well. The company's phones did not work indoors, because they could not catch the signals relayed by the satellites.

All the above factors landed the company into deep financial problems. In the fourth quarter of 1998, Iridium posted a loss of $ 440 million and in the first quarter of 1999, Iridium reported a higher net loss of $505 million on revenues of only $1.45 million. The company could signup only 10,294 customers as against a projection of 57,000, as stipulated in the terms of the $800 million loan taken by the company. The company's sorry state of affairs prompted some of its major investors to file an involuntary Chapter 11 petition against it. Iridium's strategic partners began discussions to work out a financial restructuring plan for the company. However, they were not able to reach a consensus.

The company asked its key partners for investments but it did not get any positive replies. Even Motorola refused to invest more money into the failing company. However, it agreed to provide full operational support and a significant amount of technical, sales and marketing support. The company decided to file for Chapter 11 bankruptcy in August 1999.

Things changed dramatically for Iridium in late 2000 when a pioneer in the cellular telephone industry Dan Colussy, came to the rescue of the company. He formed Iridium Satellite LLC (Iridium Satellite) and made a bid of $25 million, out of which $6.5 million was paid in cash, to acquire Iridium's business. This included purchasing all of Iridium's existing assets, its satellites and the satellite control network. In November 2000, the US Bankruptcy Court for the Southern District of New York approved Iridium Satellite's bid to purchase Iridium's operating assets.

Following this, Colussy took many constructive steps towards positioning Iridium as the best mobile satellite service in the market. Iridium Satellite entered into a contract with aviation major Boeing to operate and maintain the 66-satellite constellation instead of Motorola, which now only provided subscriber equipment. He then introduced closely monitored plans to ensure a successful re-launch of Iridium's services.

Having learnt its lessons the hard way, Iridium Satellite was careful not to repeat its mistakes Iridium had committed earlier. Iridium Satellite decided to make its satellite communications services affordable to customers and refocused on its target customer base. It decided to target all those industry segments that had a particular need for satellite communications like the government, military, humanitarians, heavy industry, maritime, aviation and adventure. Along with voice communications, Iridium also launched a series of data services, Simple Messaging Service (SMS) and paging services for its customers. The company started offering several value-added features that include:

- Flat rates for calls from/to anywhere in the world.
- Unlike cellular services where customers had to use different phone numbers for different locations, Iridium proposed to give its customers the facility of using only one phone number worldwide.
- Introduction of SIM cards and a host of other Internet-enabled features.

In December 2000, Iridium Satellite got the much needed boost when the US Department of Defense (DoD), awarded a $72 million contract to the company for providing satellite communications services for the next two years. By the end of March 2001, Iridium Satellite had re-launched its commercial services.

In late 2001, Iridium Satellite also changed the design of its handsets. The company launched handsets weighing less than 400 grams that were as light and small as regular cellular phones. The cost of calls had also become cheaper than that of calls made on GSM mobile phones. Iridium charged a flat rate of $1.50/minute to call any other phone in the world, without any constraint on the duration of the call made. Reportedly, Iridium also claimed to have attained the status of being able to provide 100% global coverage.

The company also took steps to enhance its customer service and support by setting up 24/7-customer support call centers. This improved its acceptance in the market and enhanced its goodwill.

With all these favorable developments, it seemed that Iridium was resurrected and was on the road to success. The company had come a long way into becoming the most advanced telephone and paging service till date.

Questions for Discussions:

1. What were the reasons for Iridium's failure during the first phase of its launch despite substantial support from banks, creditors and suppliers? Explain in detail.
2. Dan Colussy revived Iridium, which had been written off as a bankrupt company with his turnaround strategy. What was the turnaround strategy adopted by Colussy? Which elements of the strategy in your opinion, were critical to the revival of the company and why?

Part C: Applied Theory (50 Points)

1. The external environment consists of all the conditions and forces that affect an organization's strategic options and define its competitive situation. Some factors in the external environment, such as political, legal and governmental rules and regulations influence the firm's choice of direction and action. With the help of an example, explain the role played by the external environment in shaping a company's operations in India.

2. Organizations have started building social criteria into their strategic decision-making. Human rights issues and healthy environmental practices are no longer seen as compromising on profitability. The firms with good reputation in these areas are regarded highly by the public and are often able to sustain profits even under adverse circumstances. Give an instance where a company has handled its social responsibility in a noteworthy manner

3. Diversification is the process of entering different industries either to exploit untapped potential or to minimize the risk of changing business trends. If a firm acquires firms with operations in related industries, it is called concentric diversification. The objective of such diversification is to exploit synergistic possibilities. Give an example of an organization that has used concentric diversification strategy to further its business interests.

Model Question Paper III

Suggested Answers

Part A: Basic Concepts

1.a	2.b	3.c	4.d	5.c	6.c	7.a	8.c	9.a	10.d
11.b	12.c	13.c	14.c	15.b	16.c	17.d	18.d	19.b	20.a
21.c	22.d	23.b	24.a	25.a	26.d	27.a	28.c	29.a	30.b

Part B: Caselets (Guidelines)

Caselet 1

1. Fuji entered the US market as a supplier of private brand films in 1964. The company established its first subsidiary in the US in 1965. Initially, Fuji concentrated on providing quality services to the US consumers. Sometimes, Fuji outpaced Kodak in technological terms. Fuji was also able to introduce products, which were not already present in Kodak's product portfolio. Fuji made consistent efforts to strengthen its position in the professional photographic film markets. It also started to build its credibility in the amateur photographic film market.

Fuji came out with different innovative products. One was the introduction of the faster film with brighter colors in 1970. In 1972, to gain more market recognition, Fuji started to market its film under its own brand name. One of Fuji's strong points was that it always conducted adequate research and development to find out what consumers needed and wanted. Fuji spent 7% of its profits on R&D annually. This enabled Fuji to give consumers what they needed.

In 1976, Fuji introduced the 400-speed color film that was faster than any of the films made by Kodak during that time. Fuji became very popular among consumers because of its greater speed. Following this launch many photo finishers began to switch to Fuji's photographic paper and other photo processing supplies.

Fuji offered its products at a lower cost than that of its competitors. Kodak’s products were 15-20% more expensive than those of Fuji. Fuji was able to gain considerable marketshare in the US by reading the prices of its products. However, Kodak could not engage in price cuts for long since it resulted in reduced profit margins.

Fuji also adopted the sponsorship strategy to enter the US market. Fuji was selected as the official film for the 1984 Summer Olympics in Los Angeles, California. This sponsorship agreement helped Fuji to get international recognition especially in US.

In 1986, Fuji was the first company to launch one-time-use cameras. Kodak could not come out with a similar product. Thus Fuji maintained a competitive advantage over Kodak by providing consumers with innovative products. Following this launch, Fuji became the leader in one-time-use cameras.

Fuji’s marketshare increased from less than 10% in 1993 to 17% in 1998. Thus due to its innovative products, intelligent sponsoring and advertising, aggressive marketing, technological excellence and low pricing Fuji became successful in the US.

2. Though Kodak had entered Japan in 1905, it took the Japanese market seriously only when the country emerged as the second largest market in photographic products after the US. With rising competition from Fuji in the US, Kodak decided to strengthen its competitive position in Japan. Kodak decided to strengthen its control over the distribution and marketing efforts of its Japanese arm Nagase & Co. In the following year, the company formed a joint venture company named Kodak-Nagase. Later, Kodak converted the import division of Nagase into its own subsidiary and was known as Kodak-Japan.

After setting up a subsidiary, Kodak increased its workforce to 4500 from a mere 12. Kodak tied up with a Japanese partner that helped it to access shelf space to display its products in 60,000 camera stores in Japan. However, Kodak could not get into stores, which marketed Fuji products exclusively.

Kodak also introduced several innovative and technologically superior products in Japan. In 1980, Kodak came out with the concept of "minilabs" at certain retail outlets in Japan. For this purpose, Kodak entered into an agreement with Noritsu Koki, the world's leading manufacturer of "minilabs" equipment. Even though the price was a little high, "minilabs" gave Kodak a competitive advantage over Fuji since films could be processed much faster at "minilabs" than in conventional photo processing laboratories.

Kodak also introduced the "panoramic disposable cameras," a product which was not available in Fuji's product range. Kodak's research pointed out that the Japanese liked to take pictures in large groups and moreover a group photograph through conventional cameras was not possible during those days. Kodak aggressively marketed the panoramic camera and it became a huge success in Japan.

In response to Fuji's price-cutting strategies in the US, Kodak also decided to slash the prices of some of its products in Japan. Kodak sold its new range of photographic film named Kodacolor VR at 38.3% less than the market price of other available films in Japan. In the late 1980s, Kodak introduced waterproof disposable cameras.

Kodak also advertised heavily to develop brand awareness among the Japanese consumers. The company leased the only available blimp in Japan and painted it yellow and flew it the busiest markets in Tokyo.

However, in spite of all its efforts to increase its marketshare, on the whole the company failed to get good retail acceptance and faced problems like low trial rate and low brand recall among the Japanese consumers. Kodak had a mere 7-9% marketshare in Japan. One of the main reasons for Kodak's failure to build a significant share in the Japanese markets was the closed Japanese distribution system for photographic films and other products, which favored Fuji. Another important reason, according to some analysts, was the Japanese government's trade barriers, which had prevented Kodak from competing effectively in Japan.

Caselet 2

1. Iridium filed for Chapter 11 bankruptcy to overcome its financial problems. The company had huge outstanding debts to pay. From the very beginning, Iridium had problems with its satellite telephone systems venture. The company conducted a 10-year research before it launched its satellite services. Iridium invested billions of dollars in the project. It had to bear huge recurring costs every year in the form of maintenance of the satellite constellation and other ground infrastructure.

After taking into account the gestation time of the project, initial and recurring costs, Iridium had no option but to recover its high investment by pricing its services on the higher side for the customers. Moreover, commercializing its services was also not an easy task. As a result, Iridium priced its handsets at $3000 each and charged as much as $7 per minute per call. These prices were exorbitant and failed to attract enough buyers and hence the company was not able to build a sizeable customer base.

There were other problems as well. Iridium's target market segment was the high-end business travelers. Such people were always on the move and preferred sleek and easy carry phones. Iridium's handsets were very bulky (each weighing as much as 1 kg) at the time of their launch.

There were many technical glitches in the system and bugs, which had to be fixed because of which the actual launch of the services was postponed by 5 weeks. This kept the customers waiting for Iridium's services.

2. Dan Colussy took several steps to revive the ailing company and relaunch its services to customers. Since the company was acquired at only $25 million, compared to the $5 billion being spent initially, he was not under any cost pressures. The Chapter 11 filing allowed the company to put in place a financial restructuring plan and reduce its debt pressures.

Dan Colussy first entered into a contract with Boeing to keep up and maintain the 66 satellites in orbit. Next he made Iridium's services more affordable to its customers. Iridium adopted many strategies for this. The company charged flat rates of only $1.5/minute as service charges from its customers. Even the price of handsets came down to $1000 and less. The handsets were also made lighter (less than 400 grams) and easier to use.

Initially, Iridium offered only voice communications. After the re-launch, it introduced other services like data services, paging services and SMS. The concept of SIM cards many Internet enabled features were introduced for better user control.

Iridium also expanded its markets and started focussing on different segments like the government, military, humanitarians, heavy industry, maritime, aviation, and adventure that needed satellite communications. These market segments had a more practical use of the satellite telephone systems. Iridium also enhanced its customer services (after-sales also) by setting up a 24/7 customer support call centers.

Part C: Applied Theory (Answers)

Answer 1

The external environment can be broadly classified into two categories: remote environment and operating environment. Remote environment consists of a set of forces that originate beyond a firm's operating situation. These are political, economic, social, technological and industrial forces which create opportunities, threats and constraints. The operating environment involves factors that create many of the challenges a particular firm faces when attempting to attract or acquire resources or trying to market profitably its goods and services in a competitive environment. These factors could be competitive position, customer profile, reputation among suppliers and creditors and accessible markets. By considering conditions in the operating environment, business can be planned.

In India, Enron faced a difficult situation because it came here soon after the government announced an economic liberalization program. Any country which went down this road had to go through a lot of changes before things stabilized. Enron knew it was going to be difficult from day one, and worked hard to get approvals and permits. After the project was cancelled, Enron worked hard to put it back on course again because it thought that it was the right thing to do.

The Indian Electricity Act had laid down certain rules and regulations for signing the PPA. Enron was not interested in going through the bureaucratic hassles. It pressurized the bureaucrats and the politicians to clear the project. Eventually, Enron succeeded in getting the clearance. But the story did not end there. Enron was also a victim of political uncertainties. The project was initially cleared under the Congress-I rule in Maharashtra. Subsequently, when the BJP-Shiv Sena combine came to power in 1995, the project was cancelled on grounds of impropriety and lack of transparency. Enron once again lobbied strongly and persuaded the government to renegotiate. In the renegotiations, it got the upper hand and the project was made binding upon the MSEB.

The operating environment also played a role in shaping Enron's business in India. MSEB was Enron's sole customer. Its financial position was weak and, keeping in mind the problems that could arise on the payment front, Enron enforced various agreements to ensure that it would get its payments. Again, when Enron realised that procuring gas supplies would be difficult, it decided to break the project into two phases and went back on the proposal to use LNG.

Thus, it is clear that the external environment influenced Enron's strategy. Enron's operations in India are a good example of how the external environment can be a stumbling block to a business. However, it also proves that the external environment can be used to one's advantage.

Answer 2

In 1982, many people died in the US after taking Johnson & Johnson (J&J) Tylenol capsules which were poisoned with cyanide. Analysts felt that the product would be out of the market within days. Tylenol's market share fell to a mere 7% from 37%. However, within six months, Tylenol regained 32% share of the US analgesics market. This dramatic turnaround was attributed to J&J's proactive and effective public relations campaign.

Immediately after J&J got the news of the deaths, it started recalling all Tylenol products. Many companies in the industry considered the recall as a "business suicide." The company also stopped production and distribution of the medicine. It released full-page newspaper ads publicizing the recall and the deaths. It also allowed consumers to exchange bottles for Tylenol that wasn't tampered. By the end of the crisis, 31 million bottles of Tylenol had been recalled. However, after testing 8 million recalled capsules, it was found that only eight bottles had been tampered with, and 75 capsules had been laced with cyanide.

J&J maintained an open policy throughout the crisis and was ready to answer any question. The company said that it wanted to save lives, not its stock prices or the brand name. It also offered a reward of US $100,000 for the capture of the killer. From the beginning, the company also cooperated with the media and federal investigators.

J&J conducted a public opinion survey which revealed that more than 90% of the public thought that it was not the company's fault. At the same time, Tylenol's market share fell to 7%. To regain its share, J&J quickly launched a comeback campaign:
Firstly, J&J designed a tamper-proof container.

The company favoured federal legislation making tampering a felony. It also persuaded legislators to make tamper-proof packaging a requirement for all OTC products.

J&J held from New York a video teleconference covering 30 cities wherein the CEO and other company officials spoke for 90 minutes. They showed their new packaging and also gave free samples to every reporter.

To allay the public's fear of Tylenol, J&J installed a toll-free number and invited old customers to seek free bottle in the new packaging. Analysts remarked that this measure increased the company's costs as the callers were not required to prove that they had purchased a bottle. So, anybody could just call and request for a free bottle. However, the company was only keen on getting back its customers.

J&J placed "Thank You, America" ads in Sunday newspapers. The clipping could be exchanged for a US $2.50 discount on Tylenol products. J&J sent 50 million capsules to doctors for free distribution to instill faith in patients about Tylenol's safety. The company thanked the media for its support. These steps helped J&J regain its customers' trust and also its market share.

Answer 3

Ramoji Group, one of the premier business houses, used diversification strategy to exploit synergies in operating in different businesses. Ramoji Rao, the founder of the business house, is good at spotting opportunities. Most of his businesses created niche markets. The group started with Margadarsi Chit Fund Co. in Hyderabad, which gained the trust of millions of people by 2000. As he realized that there were no good hotels in Visakhapatnam, he started the Dolphin Hotel chain. Similarly, he found that there was no newspaper in Visakhapatnam and started Eenadu. Eenadu was a related diversification, as Ramoji Rao was already in the print medium with his "Annadata" magazine aimed at educating farmers. With the number of working women increasing, Ramoji Rao launched a scheme for manufacture and sale of readymade pickles. Later, the brand was also extended to culinary powders and pastes. Also, through Priya Pickles, he created employment opportunities for hundreds of women from weaker sections of society.

Many of his other businesses like Ushakiron Movies, Mayuri Film Distributors, Mayuri Audio, ETV network and Ramoji Film City were all related diversifications. When Ramoji Rao entered the film industry, he established a distribution company and a audio cassettes company. He did not depend on any other distributors or marketing firms for his films. Similarly, he established the Film City that reduced costs of making films and content for the ETV network. All serials for ETV are shot in the Film City.

Analysts felt that one of the main reasons for the success of the group was the synergy the businesses derived from one another. There was synergy between the TV and film business and the Film City. The Film City offers all post-production facilities for a film like audio dubbing and editing. It is an asset to the group's films and electronic media business. The color lab of the Film City is also one of the best studios in the world. Most of the films produced by Ushakiron Movies are shot at the Film City.

The content for the ETV network, including ETV-Telugu, ETV-Bengali, ETV-Kannada, ETV- Marathi and ETV-Urdu, is produced at the Film City. This reduces the costs considerably for the ETV network and Ushakiron Movies. Similarly, there is a synergy between Dolphin Hotels and the Film City. The hotel chain is extended to the Film City also. All the hotels in different segments in the Film City are a part of the Dolphin Hotel Chain. Thus, the success of the group can be attributed to shrewd use of synergies between its businesses to exploit opportunities.

Supplement

Part A: Multiple – Choice Questions

1. Which of the following is not a feature of a fragmented industry?(d)

a. Low overall entry barriers

b. Absence of economies of scale

c. No firm has significant market share

d. **Low transportation costs**

2. Technological innovations, emergence of new consumer needs and shifts in relative cost relationships result in the creation of a/an _______________ (c)

a. Fragmented industry.

b. Mature industry.

c. **Emerging industry**.

d. Declining industry.

3. Technological and Strategic uncertainty are common in a/an _________ (d)

a. Declining industry.

b. Fragmented industry.

c. Mature industry.

d. **Emerging industry.**

4. Which one of the following factors does a firm not consider when deciding to become a technology leader? (d)

a. Sustainability of the technological lead

b. First-mover advantages

c. First-mover disadvantages

d. **Success of the same technology in the past.**

5. Which of the following does not determine the level of output that can be obtained from an investment made in technology (c)

a. The company's management

b. The company culture

c. **The company's reputation in the market**

d. The company's organizational structure and systems

6. Which of the following statements is true? (a)

a. **Technology diffusion varies from industry to industry.**

b. Technology diffusion varies from company to company

c. Technology diffusion varies with the product life cycle

d. Technology diffusion never takes place in most industries

7. Which of the following strategies does a firm adopt when it is unable to exploit technology to sustain its position in the market because of lack of skills and resources? (c)

a. Technology selling

b. Technology hiring

c. **Technology licensing**

d. Technology sharing

8. Which of the following strategies brings in additional revenues for a firm in the form of royalties? (c)

a. Patenting the technology

b. Imitating the technology

c. **Licensing the technology**

d. Improving the technology

9. A first mover may be in a position to enjoy high profits __________ (a)

a. **For a limited period of time.**

b. For a very long period of time.

c. Forever.

d. For a short period initially, then it may face losses.

10. Which of the following management tools lays emphasis on the improvement of given business operation or a process through the exploitation of 'best practices'? (d)

a. Reengineering

b. Reverse engineering

c. Balanced Scorecard

d. **Benchmarking**

11. ___________ means comparing one's organization or a part of it with other companies.(b)

a. Balanced Scorecard
b. **Benchmarking**
c. Reengineering
d. Reverse engineering

12. Which of the following benchmarking processes involves examining the core competencies and product/service development and innovation strategies of companies? (a)

a. **Strategic benchmarking**
b. Competitive benchmarking
c. Performance benchmarking
d. Process benchmarking

13. Which of the following is not a part of a typical benchmarking exercise ?(d)

a. Planning
b. Data collection
c. Adaptation
d. **Recruiting**

14. Which of the following stages in benchmarking takes more time to complete? (b)

a. Planning
b. **Data collection**
c. Data analysis and reporting
d. Adaptation

15. Which of the following management tools involves redesigning operational processes, maximizing the value-added content, and minimizing all production-related costs?(a)

a. **Re-engineering**
b. Reverse engineering
c. Benchmarking
d. Balanced Scorecard

16. The management of human resources, accounting and finances, and management of information systems are part of which process in re-engineering? (a)

a. **Enabling process**
b. Strategic process
c. Operational process
d. Functional process

17. Which of the following approaches is based on the assumption that significant performance improvements can be achieved only by doing the work in a different way? (c)

a. Systematic approach
b. Planned approach
c. **Clean Sheet approach**
d. Clean Chit approach

18. Reverse engineering involves _________ (a)

a. **understanding how an existing product was developed.**
b. using traditional and old technologies of production.
c. discarding all the old methods of developing a product.
d. attending workshops and conferences to learn old product development processes.

19. Which of the following management tools helps organizations obtain customers perspectives regarding their processes? (d)

a. Re-engineering
b. Reverse Engineering
c. Benchmarking
d. **Balanced Scorecard**

20. Which of the following statements is true about the balanced scorecard? (d)

a. It gives eight different perspectives to senior managers while preventing an information overload by limiting the number of measures used.
b. It gives two different perspectives to senior managers while preventing an information overload by limiting the number of measures used.
c. It gives four different perspectives to senior managers by using the maximum possible measures.
d. **It gives four different perspectives to senior managers while preventing an information overload by limiting the number of measures used.**

21. The balanced scorecard ________ (a)

a. brings together many elements of a company's strategy in a single management report.

b. gives different reports for different strategic elements.

c. gathers information on the important activities of a firm.

d. rates the performance of individual workers.

22. Which of the following statements is true about the internal and external control mechanisms of a company? (d)

a. Both internal and external control mechanisms are used simultaneously.

b. The objectives of external and internal control mechanism are completely different.

c. Internal control mechanisms are more popular because of the failure of external control mechanisms.

d. **When internal control mechanisms don't yield the expected results, external control mechanisms are used.**

23. In which of the following situations is an outsider preferred as CEO? (b)

a. When the board has an equal number of inside as well as outside directors

b. **When outside directors are in a majority on the board**

c. When the board has many full time directors as its members

d. When the inside directors have complete control of the board

24. The relationship between a firm's market adjusted share performance and the likelihood of a change in the CEO is often (b)

a. direct

b. **inverse**

c. indirect

d. There is no relationship between a firm's share performance and the likelihood of a change in the CEO

25. The range between the upper and lower limits of a bonus plan is known as _____ (a)

a. **incentive zone.**

b. income zone.

c. earnings zone.

d. bonus range.

26. Which of the following statements about stock options is false? (d)

a. Stock options are the rights that are given to managers to purchase a certain amount of stock in the company at a fixed price.

b. Stock options can be compared to ownership, as they provide ownership-like incentives to managers.

c. If the share price of the company increases as a result of better performance of the managers, the managers can benefit by selling the stock at higher prices.

d. **Stock options are simply performance incentive given to managers; they do not confer any ownership right on the beneficiary.**

27. What type of relationship exists between firm size and managerial ownership? (a)

a. **Negative correlation**

b. Positive correlation

c. Perfect correlation

d. No relationship exists

28. Higher levels of fixed capital intensity and R&D intensity are associated with ____ (b)

a) higher level of managerial ownership.

b) **lower level of managerial ownership.**

c) no managerial ownership.

d) complete managerial ownership.

29. The cumulative voting system and the majority voting system are used to ________ (a)

a. **elect the directors of a company.**

b. elect the CEO of a company.

c. choose the top management team of a company.

d. elect the shareholders' representatives to the board of the company.

30. In which voting system can minority shareholders elect a certain number of directors? (b)

a. Majority voting system.

b. **Cumulative voting system**

c. Both majority and cumulative voting systems.

d. Dual voting system

31. The management may reduce the number of directors on the board to _____ (a)

a. **Prevent minority shareholders from choosing directors.**

b. Allow minority shareholders to choose directors.

c. Prevent majority shareholders from choosing directors.

d. Increase its shareholding in the company.

32. How can a proxy contest be a threat to the management?(a)

a. **Outsiders can seize control of the company**

b. No insider can get a place on the board

c. Shareholdings' of managers can come down

d. Managers' voting rights can be curtailed

33. In what type of takeover, does a person or group acquire the shares of a company from the open market to take control of the company?(d)

a. Negotiated takeover

b. Friendly takeover

c. Bailout takeover

d. **Hostile takeover**

34. In what type of takeover, is a financially sick company taken over by a profit-making and financially healthy company ?(c)

a. Negotiated takeover

b. Friendly takeover

c. **Bailout takeover**

d. Hostile takeover

35. In which takeover method, does the acquirer make an offer publicly and directly to the firm's shareholders to buy their stock at a price well above the current market price?(a)

a. **Tender offer**

b. Street Sweep

c. Bear Hug

d. Strategic Alliance

36. In which hostile takeover method, does the acquirer accumulate a large amounts of stock in the target company before making an open offer.(b)

a. Bear Hug

b. **Street Sweep**

c. Strategic Alliance

d. Brand Power

37. In a Bear Hug, what strategy does the acquirer adopt?(c)

a. The acquirer gets in touch with financial institutions to purchase their shares in the target company

b. The acquirer tries to purchase the shares from the open market

c. **The acquirer puts pressure on the management of the target firm by threatening to make an open offer.**

d. The acquirer purchases shares in the target company in an aggressive manner.

38. What is the effect on the value of shares of the target company when news regarding its takeover spreads in the market?(B)

a. It decreases

b. **It increases**

c. It remains constant

d. It decreases initially, but increases within a short period of time.

39. The value of an acquisition is ________ (a)

a. **equal to the future benefits discounted at the opportunity cost of capital**

b. more than the future benefits discounted at the opportunity cost of capital

c. less than the future benefits discounted at the opportunity cost of capital

d. more than the future benefits without discounting the opportunity cost of capital

40. The role of financial institutions in takeover deals is crucial because _________ .(a)

a. **they hold large blocks of equity in several companies**
b. they act as intermediaries between the companies
c. they finance takeover deals
d. they intend to buy some stake in the merged entity

41. Which of the following is not a public policy issue in a takeover process? (d)
a. Transfer of shares
b. Powers of financial institutions
c. Proxy wars
d. **Role of regulatory authorities**

42. In which of the following takeover defense strategies does a company make a separation provision in the employment contract to compensate managers for loss of jobs as a result of change of control?(c)
a. Super majority amendments
b. Poison Put
c. **Golden Parachutes**
d. Poison Pill

43. In which takeover defense strategy does the target company issue bonds which encourage holders to cash in at a high price? (b)
a. Classified boards
b. **Poison Put**
c. Fair price amendments
d. Poison Pill

44. In which of the following takeover defense strategies, does the target company provide its holders with special rights that can be exercised only some days after a takeover attempt?(d)
a. White Squire
b. Poison Put
c. Golden Parachutes
d. **Poison Pill**

45. Which of the following takeover defense strategies is also known as greenmail? (C)
a. Fair price amendments
b. Super majority amendments
c. **Targeted Share Repurchase**
d. Standstill Agreements

46. Which of the following statements is true about a standstill agreement? (a)
a. **A standstill agreement is a voluntary contract in which the stockholder who is bought out, agrees to abstain from making further investments in the target company for a specified period of time.**
b. A standstill agreement is a voluntary contract in which the stockholder who is bought out, agrees to make further investments in the target company for a specified period of time.
c. A standstill agreement is a forced contract in which the stockholder who is bought out, agrees to abstain from making further investments in the target company for a specified period of time.
d. A standstill agreement is a forced contract in which the stockholder who is bought out agrees to make further investments in the target company for a specified period of time.

47. What is a Pac-man takeover defense strategy?(b)
a. The target company spreads negative publicity about the raider's company.
b. **The target company makes a counter-bid for the raider's company.**
c. The target company offers to sell the stake to the raider at a very high price
d. The target company purchases its stock from financial institutions.

48. In which takeover defense strategy, does the incumbent management of the target company take the help of a friendly buyer, who assures the company that the incumbent management will be retained? (c)
a. Poison Pill
b. Crown Jewel
c. **White Knight**
d. Poison Put

49. In which takeover defense strategy, does the target sell off attractive

divisions/assets so that the bidder is left with no desire to take over the company? (d)

a. Asset stripping
b. Gray Knight
c. White squire
d. **Crown Jewels**

50. Which of the following statements about arbitragers is false?(C)

a. They have no interest in holding the stock of the target firm for a long duration.
b. They are not interested in the long-term financial position of the target firm.
c. **They are worried about the operating risk and the market risk of the target firm.**
d. They are only worried about whether the merger will take place and the price at which the transactions will be settled

51. Insider trading information is _______ (c).

a. available to the general public.
b. often published in the newspapers.
c. **not available to the general public.**
d. available only on the company website.

52. Which of the following persons is not an insider? (d)

a. A senior management executive
b. A financial analyst
c. A company lawyer
d. **A primary stockholder**

53. When the trading window is open, the directors, officers, and designated employees of the company have to take prior permission from _________ to trade in the shares/securities of the company. (c)

a. company registrar
b. company auditor
c. **compliance officer**
d. company lawyer

54. A person who is connected or deemed to be connected with a company and who has access to unpublished price sensitive information by virtue of this connection is known as _____ (c)

a. an informer.
b. a trader.
c. **an insider.**
d. an investor.

55. Which of the following is not price sensitive information?(d)

a. Any major expansion plan or entry into a new line of business.
b. Acquisition, merger, demerger, amalgamation, restructuring, spin off or setting up of divisions by the company, or takeover of the company
c. Issue of any class of securities by way of public issue/ rights/bonus, etc.
d. **Appointment of a new company lawyer or auditor**

56. The compliance officer, responsible for the preservation of price-sensitive information and the pre-clearing of trading in securities of designated employees and their dependents is ____________.(C)

a. the company auditor.
b. nominated by SEBI.
c. **a senior company official.**
d. a nominated board member.

57. Details regarding dealings in securities by employees, directors and officers have to be furnished to the MD/CEO/committee on a/an_______.(a)

a. **monthly basis.**
b. weakly basis.
c. annual basis.
d. biannual basis.

58. Which of the following leads to an increase in the agency costs of a firm?(b)

a. When the firm recruits many new employees
b. **When the firm takes up risky projects**
c. When a firm appoints multiple agencies to handle its advertisement and promotion.

d. When a firm appoints a new agency to handle its advertisement and promotion.

59. The concept of _______ is used analyze situations in which the agency cost of debt is likely to be high and the debt/equity ratio is likely to be low.(b)

a. elasticity

b. **plasticity**

c. complementarity

d. probability

60. Which of the following is not an assumption made by most theories of capital structure?(d)

a. There are no corporate and personal income taxes, and no bankruptcy costs.

b. The debt-equity ratio of a firm is altered by issuing debt to repurchase stock or issuing stock to pay off debt.

c. The firm has a policy of distributing 100% of its earnings in the form of dividends.

d. **The firm has to pay half of its earnings in the form of taxes.**

61. Assume the net operating income of a firm is Rs 5000, and it has to make interest payments of Rs 500. What would be the return on equity if the total value of the firm is Rs Rs 33,335 and the market value of its stock is Rs 28,335? (b)

a. 13.5%

b. **15.9%**

c. 14.5%

d. 18.7%

62. According to Modigliani and Miller (MM), the net operating approach explains the relationship between ___________.(c)

a. Cost of Capital and dividend

b. Cost of Capital and debt

c. **Leverage and cost of capital**

d. Equity and debt

63. Which of the following is not an assumption made by Modigliani and Miller? (D)

a. Capital markets are perfect and investors have free and ready access to information.

b. There are no transaction costs and all the securities are infinitely divisible.

c. Investors are rational and act accordingly.

d. **There is a heavy corporate tax burden on firms.**

64. The Modigliani-Miller position contradicts ________. (b)

a. the modern approach to capital structure.

b. **the traditional approach to capital structure.**

c. the net operating approach to capital structure

d. the dividend policy theorem.

65. Which of the following is the most common agency problem for shareholders ?(C)

a. Dealing with agents handling a public issue.

b. Keeping in touch with other shareholders

c. **Monitoring the managers**

d. Receiving dividends late

66. Which group insists managers to invest in high-risk projects?(d)

a. Bondholders

b. Company Creditors

c. Financial Institutions

d. **Shareholders**

67. _____________ have a limited liability in a particular company. (c)

a. Financial institutions

b. Debenture holders

c. **Shareholders**

d. Managers

68. What type of investors will a firm with a low growth rate attract? (A)

a. **Investors seeking income in the form of dividends**

b. Investors who do not look for income in the form of dividends

c. Investors who would like to take a control of the management

d. Investors who would like to hold a position on the board

69. Which of the following is not a valuation method?(d)

a. Discounted cash flow
b. Comparables approach
c. Option value
d. **Net operating approach**

70. Which of the following statements regarding the discounted cash flow approach is true?(d)

a. It takes into account the profits and losses of a project
b. It takes into account only the cash flows of a project
c. It takes into account the profits along with the assets and liabilities of a project
d. **It takes into account the amount, timing and risk involved in the future cash flows of a project**

71. The discounted cash flow method is not sensitive to which of the following variables? (c)

a. Economic forces like inflation, interest rates, and money supply.
b. Industry forces like competitive rivalry, supplier and buyer power, and the availability of substitutes.
c. **Internal company forces like strategy, management, and capacity.**
d. The ownership structure of the firm.

72. What affect do patents or product options, which do not produce any current cash flows, have on the value of a firm? (a)

a. **The true value of the firm would be understated.**
b. The true value of the firm would be marginally overstated
c. It would have no affect on the firm value
d. The true value of the firm would be highly overstated.

73. What is the major problem in applying the discounted cash flow valuation model to private firms? (c)

a. Valuing liabilities
b. Valuing current assets
c. **Measurement of risk**
d. Aggregating the long term and short term debts.

74. In which of the following valuation methods are all the side effects of the financing pattern included in the discount rate?(C)

a. Comparables approach
b. Discounted cash flow
c. **Net present value approach**
d. Option value

75. If R stands for the required rate of return and K for the cost of capital, what is the mathematical equation for economic profit?(b)

a. Economic Profit (EP) = Investment Capital * (R+K).
b. **Economic Profit (EP) = Investment Capital * (R-K).**
c. Economic Profit (EP) = Investment Capital / (R-K).
d. Economic Profit (EP) = Investment Capital / (R+K).

76. Which valuation method relies heavily on the market, to interpret the effects of expected growth and profitability on value? (d)

a. Option value
b. Discounted cash flow
c. Net Present Value Approach
d. **Comparables approach**

77. Which valuation approach is normally used for the financial derivatives?(c)

a. Net Present Value Approach
b. Economic Profit Approach
c. **Real Options Approach**
d. Comparables Approach

78. Which of the following is not a method of capital budgeting?(D)

a. Average rate of return method
b. Payback method
c. Internal rate of return method
d. **Discounted cash flow method**

79. Suppose a new machine is installed in a company. The average earnings for a five-year period is Rs 4200. If the cost of the machine is Rs 30,000 and the

installation expenses are Rs 6000, what is the average rate of return.(C)
a. 14.2%
b. 8.57%
c. **11.67%**
d. 7.14%

80. Which capital budgeting method emphasizes the number of years taken to recover the initial cash investment in the project?(b)
a. Average rate of return.
b. **Payback**
c. Internal rate of return
d. Net present value

81. Hofstede's Model is used to reveal __________. (b)
a. currency fluctuations
b. **cultural differences across countries**
c. interest rate difference among countries
d. a decrease in the deficiencies in the operational systems of the host country

82. According to Geert Hofstede, which of the following is not a dimension for measuring cultural difference across countries ?(c)
a. Power distance
b. Masculinity vs. Femininity
c. Uncertainty acceptance
d. Individualism vs. collectivism

83. Power distance, a dimension of Hofstede's Model for determining cultural differences, refers to _________. (a)
a. society's attitude toward physical and intellectual inequalities
b. ego clashes between the top management within the subsidiary of an MNC
c. ego clashes between the management of a subsidiary and that of the parent organization
d. the relationship of the subsidiary's top management with the political leadership of the host country.

84. The tendency to regard one's own culture as superior to that of others is known as________ .(b)
a. ethnoculturism
b. Ethnocentrism.
c. cultural supremacy
d. Egocentrism.

85. Which of the following is not an instrument of a trade policy.(b)
a. Tariffs
b. Interest rates
c. Subsidies
d. Quantitative restrictions

86. On whose request are Voluntary Export Restraints (VER) imposed on exports?(a)
a. Importing country
b. Exporting country
c. Host Country
d. The company.

87. Which of the following is not an objective of GATT?(d)
a. To maximize the use of resources
b. To expand world production and international trade
c. To ensure full employment
d. To harmonize the banking system of the world

88. The purpose of an e-business blueprint is to _________. (a)
(a) map a course for creating an integrated enterprise
(b) provide a course of action for implementing an e-business strategy
(c) to help strategists formulate an appropriate strategy
(d) to create value for customers

89. Which of the following is not a part of e-business blueprint planning?(d)
(a) Prioritizing blueprints
(b) Identifying business cases for action
(c) Implementing applications
(d) E-business environment scanning

90. There are three types of E-business projects. Which of the following is not a type of e-business project?(d)
a) Incremental

b) Breakthrough

c) Platform

d) Random

91. Which one of the following actions does not promote quick project implementation? (c)

a) Coordinating work among cross-functional teams

b) Ensuring agreement and proper understanding of objectives

c) **Developing a business case**

d) Seeking active top management participation in the project

92. Which of the following is not an example of a platform project? (c)

a) e-commerce

b) ERP

c) Startup

d) SCM projects

93. Which of the following is a benefit of a business case?(D)

a) Establishes project direction

b) Integrates the e-business plan

c) Prioritizes blueprint

d) **Ensures breakthrough improvements**

94. Which one of the following is not part of the team that develops the e-business case?(b)

a) Chief Financial Officer

b) Non Executive Directors of the Board

c) Chief Information Officer

d) Operating vice presidents

95. The following are key elements of an e-business case, except(d)

a) Justification of the project

b) Assessing preliminary scope

c) Project assessment

d) Integration

96. The Justification of the project involves __________?(a)

a) Strategic justification.

b) Identification of the functional factors that outline business functions.

c) The use of high level application architecture.

d) Assessment of scope.

97. Once the top management is convinced about the business case it needs to generate support within the organization. Which of the following obstructs or delays the process of gaining consensus?(b)

a) Being brief

b) **Providing detailed information to the executives**

c) Providing non technical information

d) Addressing cost , risk, and benefit aspects of the project

98. Which of the following decisions does an execution blueprint rarely consider ?(d)

a) The sequencing of projects

b) The role of senior management in the project

c) The organization of projects

d) The creation of a cross-functional architecture team

99. Which of the following capabilities is not required for the execution of customer relationship management ?(b)

a) Quick responsiveness

b) **Capability to change customer expectations**

c) Distinctive applications

d) Flexible configuration

100. Companies without effective blueprint management face several challenges. Which one of the following problems is not caused by weak blueprint management? (b)

a) The company takes on more profits than it can handle

b) The company has to redefine jobs

c) The company has to deal with aged infrastructure

d) The company experiences a strain on available resources

101. Which of the following is rarely a benefit of blueprint planning?(d)

a) Helps the company decide on the type of projects to undertake

b) Helps the company choose an appropriate mix of projects

c) Helps the company apportion resources to projects

d) Highlights the cost, risk, and benefit aspects of the project

102. Which one of the following is not a quality of top-down analytic planning?(b)

a) Data-rich

b) Customer driven

c) Numbers-driven

d) Analytical

103. What is the critical aim of companies which foray into e-business?(a)

a) To offer what the customer wants without incurring the costs of running a traditional business

b) To offer customers convenience while not paying much attention to price

c) To offer integrated solutions to customers

d) To offer products that are technologically superior and fulfill customer needs

104. Which of the following is not a requirement for continuous planning?(c)

a) A clear vision regarding customer needs

b) Planners should also be able to identify the capabilities needed to meet customer needs

c) Successful execution

d) Communicating "what needs to be done?" to the employees of the firm

105. Which of the following is not a benefit of continuous planning?(b)

a) Setting priorities

b) Capability evaluation

c) Establishing target areas for improvement

d) Allocating resources for the most important projects

106. Trigger point planning helps senior managers make difficult decisions, set priorities and eliminate many activities. Which of the following tenets should this type of planning not adhere to ?(c)

a) It must be seen as a tool and as a means to an end

b) It must involve people from across the organization

c) It must lay more emphasis on customers than on employees

d) It must concentrate on capturing existing activities instead of adding more activities

107. In the past, small Japanese companies have successfully challenged much larger, richer US companies. According to Hamel & Prahalad, what was the secret of success of these organizations? (d)

a) These firms had incremental differences in operational efficiency

b) These firms had incremental differences in institutional factors such as cost of labor

c) These firms were not driven by financial goals

d) These firms had the ability to find new ways to accomplish more with less

108. Japanese firms made substantial commitments to the following skill areas (far before the markets for the end-products emerged), except _________ (c)

a) optical media

b) financial engineering

c) marketing

d) miniaturization

109. Which of the following characteristics does a Laggard (slow moving organization) not have? (c)

a) Protect past legacies

b) Take industry structure as given to them

c) Create a fundamentally different competitive space

d) Imagine markets when the products exist

110. In their seminal work "*Competing for the Future*," Hamel and Prahalad proposed_________(d)

a) That firms must not be encouraged and driven by the goal of transforming the industry.

b) That being incrementally better is always preferable

c) That firms should spare a thought for the future to have no chance to determine what the future will be like

d) That strategy should provide a framework for competence building than tracking relative competitive advantage

111. According to Hamel and Prahalad, the single-minded pursuit of restructuring did more harm than good. What led them to this conclusion?(b)

a) Increasing profiability led to complacence on the part of organizations, nullifying their desire to compete

b) Restructuring led to improvements in many cases, but also destroyed the livelihood and hopes of many people

c) Too much of anything is bad just as too much of effectiveness is

d) Restructuring brought about improvements which were not sustainable in the near future

112. In traditional organizations, efforts are made to ensure a "fit" between existing resources and emerging opportunities. But, the concept of strategic intent calls for the creation of a "misfit" between resources and aspirations. Why is such a "misfit" beneficial in organizations?(b)

a) A fit between resources and aspirations leads to predictability and complacency

b) A misfit encourages employees to explore the new and perform better

c) Strategic intent creates a sense of discovery and motivates employees to perform better.

d) A misfit propels organizations to action

Part B: Caselets

Caselet 31

The 'Leadership Through Quality' program introduced by Kearns revitalized the company. The program encouraged Xerox to find ways to reduce their manufacturing costs. Benchmarking against Japanese competitors, Xerox found out that it took twice as long as its Japanese competitors to bring a product to market, five times the number of engineers, four times the number of design changes, and three times the design costs.

The company also found that the Japanese could produce, ship, and sell units for about the same amount that it cost Xerox just to manufacture them. In addition, Xerox's products had over 30,000 defective parts per million – about 30 times more than its competitors. Benchmarking also revealed that Xerox would need an 18% annual productivity growth rate for five consecutive years to catch up with the Japanese. After an initial period of denial, Xerox managers accepted the reality.

Following this, Xerox defined benchmarking as 'the process of measuring its products, Services, and practices against its toughest competitors, identifying the gaps and establishing goals. Our goal is always to achieve superiority in quality, product reliability and cost.' Gradually, Xerox developed its own benchmarking model. This model involved tens steps categorized under five stages – planning, analysis, integration, action and maturity.

The five-stage process involved the following activities:

- **Planning:** Determine the subject to be benchmarked, identify the relevant best practice organizations and select/develop the most appropriate data collection technique.
- **Analysis:** Assess the strengths of competitors (best practice companies) and compare Xerox's performance with that of its competitors. This stage determines the current competitive gap and the projected competitive gap.
- **Integration:** Establish necessary goals, on the basis of the data collected, to attain best performance; integrate these goals into the company's formal planning processes. This stage determines the new goals or targets of the company and the way in which these will be communicated across the organization.
- **Action:** Implement action plans established and assess them periodically to determine whether the company is achieving its objectives. Deviations from the plan are also tackled at this stage.
- **Maturity:** Determine whether the company has attained a superior performance level. This stage also helps the company determine whether benchmarking process has become an integral part of the organization's formal management process.

Xerox collected data on key processes of best practice companies. These critical processes were then analyzed to identify and define improvement opportunities. For instance, Xerox identified ten key factors that were related to marketing. These were customer marketing, customer engagement, order fulfillment, product maintenance, billing and collection, financial management, asset management, business management, human resource management and information technology. These ten key factors were further divided into 67 sub-processes. Each of these sub-processes then became a target for improvement. For the purpose of acquiring data from the related benchmarking companies, Xerox subscribed to the management and technical databases, referred to magazines and trade journals, and also consulted professional associations and consulting firms.

Having worked out the model it wanted to use, Xerox began by implementing competitive benchmarking. However, the company found this type of benchmarking to be inadequate as the very best practices, in some processes or operations were not being practiced by copier companies. The company then adopted functional benchmarking, which involved a study of the best practices followed by a variety of companies regardless of the industry they belonged to. Xerox initiated functional benchmarking with the study of the warehousing and inventory management system of L.L. Bean (Bean), a mail-order supplier of sporting goods and outdoor clothing.

Bean had developed a computer program that made order filling very efficient. The program arranged orders in a specific sequence that allowed stock pickers to travel the shortest possible distance in collecting goods at the warehouse. This considerably reduced the inconvenience of filling an individual order that involved gathering relatively less number of goods from the warehouse. The increased speed and accuracy of order filling achieved by Bean attracted Xerox. The company was convinced it could achieve similar benefits by developing and implementing such a program.

Similarly, Xerox zeroed in on various other best practice companies to benchmark its other processes. These included American Express (for billing and collection), Cummins Engines and Ford (for factory floor layout), Florida Power and Light (for quality improvement), Honda (for supplier development), Toyota (for quality management), Hewlett-Packard (for research and product development), Saturn (a division of General Motors) and Fuji Xerox (for manufacturing operations) and DuPont (for manufacturing safety).

Questions for Discussion:

1. Benchmarking is the process of measuring a company's products, services, and practices against its toughest competitors, identifying the gaps and establishing goals? Why did Xerox chose to go for benchmarking?
2. Xerox developed its own benchmarking model. This model involved tens steps categorized under five stages – planning, analysis, integration, action and maturity. Describe these steps and outline Xerox's benchmarking efforts?

Caselet 32

FMC Corporation is a diversified company based in the United States. It manufactures more than 300 product lines organized into 21 divisions which are classified into 5 business segments: industrial chemicals, performance chemicals, precious metals, defense systems, and machinery and equipment. The company is based in Chicago, and has revenues in excess of $4 billion.

FMC had a clearly defined mission: to become our customers' most valued supplier. The company took recourse to many of the popular improvement programs: total quality, managing by objectives, organizational effectiveness, building a high-performance organization to meet the requirements of its mission. But these efforts had not been effective. When ever the top managers promoted a new program, people in each division would respond by saying, "How is that supposed to fit in with the six other things we're supposed to be doing?" Added this, operating groups perceived Corporate staff groups as pushing their pet programs on divisions. The wide difference between the initiatives, each with its specific slogan, generated confusion and sent mixed signals from the top management. Even while tampering with these initiatives top managers were demanding short-term financial performance from division managers.

In the year end, division managers who delivered predictable financial performance were usually rewarded. The company was thus run tightly for the past 20 years and had been successful. But as Mr. Larry D. Brady, executive vice president of FMC says top management was not clear of where future growth would come from and which are the new areas that can provide breakthroughs to the company in the future. FMC had enviable record of high return-on-investment but had little potential for further growth.

The problem was more chronic than it appeared. Corporate office was concentrating on making division managers accountable for financial results that can be added up across divisions. It is combining a business that's doing well with a business that's doing poorly and have a total business that performs at an average level. Then top management at FMC dallied with the idea of splitting up the company into independent companies so that market reallocates capital. But the top management had certain obligations to meet. If FMC is going to create value by becoming a group of diversified companies, its top management team had to understand and provide strategic focus to their operations. It also has to ensure that each division had a strategy that would give it sustainable competitive advantage. In addition, it should be able to assess, through measurement of their operations, whether or not the divisions were meeting their strategic objectives. The need to change the system of measurement along with change in strategy is important.

Balanced scorecard was chosen to address the ills of organization that arise due to emphasis on short-term financial results. Top management at FMC appointed a task force to coordinate FMC's various corporate initiatives. It tried to identify what needs to be done differently to attain significant improvements in its overall organizational effectiveness. Top management found that FMC has become too short-term and internally focused in its business measures. However it could not replace the financial focus with some other measure easily.

A new measurement system was needed to lead operating managers beyond achieving internal goals to search for competitive breakthroughs in the global marketplace. The system would have to focus on measures of customer service, market position, and new products that could generate long-term value for the business rather than just short-term financial results. Top management used the scorecard as the focal point for the discussion. It forced division managers to answer these questions: How do we become our customers' most valued supplier? How do we become more externally focused? What is my division's competitive advantage? What is its competitive vulnerability?

Top management attempted a pilot program. It selected six division managers to develop prototype scorecards for their operations. Each division head was expected to conduct a strategic analysis to identify his division’s sources of competitive advantage. The 15 to 20 measures in the balanced scorecard had to be organization-specific and had to communicate clearly what short-term measures of operating performance were consistent with a long-term trajectory of strategic success. It clearly wanted the division managers to perform their own strategic analysis and to develop their own measures. That was essential to create a consensus between senior and divisional management on operating objectives. Senior management however, placed some conditions on the outcomes:

- the measures to be objective and quantifiable. Division managers were expected to be just as accountable for improving scorecard measures as they had been for financial measures such as ROI.
- output measures and not process-oriented measures. Many of the improvement programs under way were emphasizing time, quality, and cost measurements. Focusing on T-Q-C measurements encourages managers to seek narrow process improvements instead of breakthrough output targets. Focusing on achieving outputs forces division managers to understand their industry and strategy and help them to quantify strategic success through specific output targets.

Mr. Larry D. Brady says, “I see the scorecard as a strategic measurement system, not a measure of our strategy. And I think that's an important distinction. The monthly or quarterly scorecard measures operations that have been configured to be consistent with our long-term strategy.”

Here is an example of how FMC ensured balanced interaction between the short and the long term. Top management made division managers to choose measures that will require them to create change. For example, penetration into key markets in which FMC is not currently represented. Currently top management can measure that penetration monthly and get valuable short-term information about the ultimate success of FMC’s long-term strategy. Though some measures, such as annual market share and innovation metrics can be measured on monthly basis. But on the whole, the measures are calculated monthly.

Questions for discussion:

1. FMC had a clearly defined mission: to become its customers' most valued supplier. The company was run accordingly for the past 20 years and had been successful. Then what prompted the company to choose balanced scorecard as its strategic measurement system?
2. How was balanced scorecard implemented at FMC and how FMC is expected to benefit from this implementation?

Caselet 33

After joining IBM as the CEO, Louis Gerstner's immediate task was to make the company profitable. He spent the initial period at the firm learning about the prevalent situation. Gerstner visited different IBM facilities all over the world and met customers, competitors, senior executives, financial analysts, and consultants to get a first hand account of the actual state of affairs. During these interactions, he learned that customers still appreciated IBM since it offered solutions for a host of their computer related needs under one roof. This led him to take a crucial decision to reverse Akers' (erstwhile CEO) plans to split IBM into 11 entities. He argued that customers wanted IBM to remain a single entity.

In his first e-mail message to the employees of IBM, he assured them that he would put in his best efforts to help the company recover from its existing state. At the same time, he mentally prepared them to face certain tough decisions, primarily further reduction in the workforce. Gerstner summoned the top twelve managers of IBM and asked them to clearly define their respective businesses, in terms of parameters such as nature of business, customers, competitors, markets, their strengths and weaknesses. He tried to boost confidence in the IBM ranks by insisting that the company's strengths were formidable and that it would definitely emerge from the crisis. Soon after, Gerstner announced a set of objectives, which he intended to pursue in his first year at IBM.

In its efforts to right size, in July 1993, Gerstner reduced the workforce by a further 35,000. He abolished the lifetime employment policy followed by the company. Though this policy was aimed at improving the loyalty of employees towards the organization, Gerstner felt that it was no longer relevant in the highly competitive scenario. He tried to foster a performance driven culture at IBM and insisted on results. During his tenure, stock options were awarded to more employees. For the executives, the stock options formed a major part of their compensation. The number of employees who received stock options increased from 1300 in 1992 to 72,500 in 2001.

Gerstner tried to minimize restrictions and create an informal culture at IBM. Employees were no longer required to adhere to a formal dress code. Gerstner believed that employees should present themselves in a simple manner before the customers, and try to solve their problems, instead of just focusing on selling IBM's products.

Gerstner also felt that at IBM, marketing was not given the importance it deserved. In 1993, he appointed Abby Kohnstamn as the head of corporate marketing. Initial research revealed that the goodwill enjoyed by IBM helped push its products into the market but there was no marketing strategy in place. Gerstner therefore decided to evolve a uniform marketing strategy for IBM

Due to the huge size of IBM's operations spread all across the world, it was very difficult for Gerstner to closely monitor their functioning. He decided to delegate the authority to take decisions regarding the regular operations of these units to the heads of the respective units while the crucial strategic decisions were taken by him. Gerstner created a corporate executive committee comprising ten executives, to monitor and integrate the operations of different units and keep him updated about the same.

Gerstner took various measures to improve IBM's customer orientation. When customers complained about the high prices of mainframe software, Gerstner quickly ordered price cuts of up to 30 percent. Since IBM hardware and software were not compatible with other systems, customers were often not willing to invest in IBM's proprietary products. IBM started developing hardware and software using Java[1] in order to make its products compatible with other systems.

In 1996, Gerstner continued to aggressively pursue the 'network centered computing' strategy. In April 1996, he appointed Sam Palmisano[2] (Palmisano) as the head of the PC division. Palmisano's strategy was to design and launch innovative products at competitive prices and reduce the cycle time for launching new products. He pushed his sales force to market products even before they were launched. These efforts led to the IBM's PC unit, for the first time, generate profits for the financial year 1996-97. The year ended on a positive note for IBM, with its profits amounting to $5.4 billion on revenues of $75.9 billion. Thus, Louis V. Gerstner transformed one of the most admired companies in the US – IBM, from a loss-making one to a market leader.

Questions for discussion:

1. IBM's turnaround is considered as one of the most miraculous incidents in world corporate history. How did Louis Gerstner manage to do that?
2. Describe briefly how Gerstner brought customer orientation to IBM? What were the changes brought about at IBM which resulted in increased customer orientation at IBM?

Caselet 34

Nissan was established in Japan in 1933. It launched its Datsun Brand Sedans and compact pickup trucks in the US in the late 1950s. However, the products failed to meet expectations. Nissan then launched the 2000 Roadster, a sports car, in 1967. This model was a runaway success. It then launched its Z model in the 1970s. The 240Z soon became the fastest selling sports car in the world, which sold more than 5,00,000 units in less than 10 years. In 1989, the company launched its luxury car, Infinity, in the market, which became an instant hit. In 1999, even during Nissan's doom period, its newly launched Sports Utility Vehicle (SUV), Xterra became extremely popular amongst the Generation X.

However, the success in the 1970s and 1980s did not last long. Serious problems started to appear from the early 1990s. The progressive and trend setting management style of Nissan, once admired, became a liability for the company. The management became oblivious of the market changes and customer needs.

Nissan's organizational structure also added to its downfall. Its corporate culture was conservative. Global divisions such as Nissan North America and Nissan Europe were operated like separate entities when it came to finance, sales, and marketing. Nissan Japan was characterized by a deeply engraved culture of blame. If the company performed poorly, none showed the courage of taking the responsibility. Nissan also had other problems, such as falling market share (its global market share came down from 6.6% in 1991 to 4.9%in 1999), low growth in Japanese economy, lack of new product development, and low morale of the employees.

All these problems can be traced to the Japanese business tradition. Japanese conglomerates are often tied together through traditional supplier relationships, known as keiretsu. Nissan was also a part of this system. Nissan obligated to companies that had little to do with its primary automotive business. The company had a holding ownership in 1,394 different companies.

[1] A platform independent language developed by Sun Microsystems. An application written in Java can run on any platform.

[2] Palmisano worked for IBM for over three decades, during which he held several key positions. He was later promoted as the CEO in 2002.

The decline in the vehicle sales, loss of market share, huge debt and low stock price brought Nissan to near bankruptcy. Nissan made unsuccessful attempts to turnaround the company in the 1990s. It failed mainly because business plans were never followed throughout the company due to vested interests, and internal politics.

Carlos Ghosn arrived in Tokyo in spring 1999 to take charge of Nissan as its COO. Soon after taking over as COO he spent his time traveling to Nissan's offices, design centers and plants worldwide. He met employees at all levels, and held engaging and personal brainstorming sessions with executives and line workers. With the first hand information in hand, Ghosn started to conceive a revival plan.

The biggest challenge the new management faced was gaining control of Nissan's communications (both external and internal). Previously Nissan treated external communications as a reactionary tool by disclosing as little information as possible to the general and investment public. By doing so, Nissan had created an environment of distrust among the Japanese media. In contrast, Ghosn believed in transparency. He used communications as a primary management tool by getting involved in small details of presentations and press releases, such as doctoring words and inserting facts.

Ghosn also realized that the regionalization of Nissan and its lack of central strategy were impediments to the company's revival. The solution to this problem was formation of cross-functional teams (CFTs). CFTs would also help in developing interpersonal relations between people from different background and countries faster and more effectively.

In order to reduce costs he centralized purchasing by introducing a scheme known as "3-3-3". The program meant 3 partners (suppliers, purchasing, and engineering), over 3 yrs working in 3 regions (Asia, America, and Europe/Middle East/Africa). Ghosn also pressurised suppliers to reduce the costs by 20%. He also ensured that engineering specifications are simplified to reduce company's costs by one-third.

With these above changes Nissan revived faster than expected. In the fiscal year 2000, sales increased by 4%. Purchasing costs came down by 11% and the company earned 5.4% operating income on sales.

Questions for Discussion:

1. Nissan was once at the peak of success. What factors led to its decline until Carlos Ghosn revived it?
2. Carlos Ghosn arrived in Tokyo in spring 1999 to take charge of Nissan as its COO. What were his subsequent decisions that led to the revival of Nissan?

Caselet 39

In January 1998 there was an unusual press conference at Hyderabad's Hotel Viceroy. Seventy-seven-year-old B.V.Raju, (Raju) vice-chairman of the Hyderabad (India) based Raasi Cements (Raasi) mobilized all his daughters, sons-in-law, and grandchildren in a display of family unity. "We are one united family and will ward off any takeover threats. I am a humble, simple man who has always maintained a low profile. But when it comes to fighting, I shall not be found wanting," he declared.

Raju's comments came in response to reports that N. Srinivasan (Srinivasan), managing director of India Cement Ltd. was buying Raasi's share in the market. The Raasi scrip, which hovered around Rs 50 till November 1997, tripled in value to Rs 158 in January 1998.

Actualy, in 1995, one of Raju's sons-in-law sold the 0.68 million shares in his possession (roughly 4 per cent of the company's equity) to Srinivasan, on the understanding that the shares would be bought back in more favourable times. According to Raju this was done without his knowledge. Since then, ICL had been quietly increasing this stake. The company bought an additional 0.13 million shares in

1996-97 at an average price of Rs 90, taking its stake to around 5%. When the share dipped to Rs 50 in October 1997, it was an opportune moment for ICL to increase its holdings in Raasi and by late 1997, ICL increased its stake in Raasi to 8%.

By January 1998, Srinivasan had accumulated 18.03% of Raasi's equity, both through open market purchases as well as by buying out the stake of an estranged faction of the Raju family. In February 1998, Srinivasan announced an open offer to acquire an additional 20% of Raasi's equity. He offered Rs 300 per share, 72.41% above the stockmarket price of Rs 174 on February 26, 1998. Raasi's shareholders seemed to find it hard to turn down his offer. On March 1, 1998, the state-owned APIDC sold its 2.13% stake in Raasi to ICL. Subsequently, a Chennai-based stockbroker, Valampuri & Co., cornered 1.40 % of Raasi's equity from the market for Srinivasan, taking ICL's stake in Raasi to 21.56%. Srinivasan was also negotiating with V.P. Babaria, a transporter for both ICL and Raasi, to pick up his 7% stake in the latter. If Babaria sold his stake, ICL's stake in Raasi would go up to 28.56%. With more than 25% of Raasi's equity in his kitty, Srinivasan would be in a position to veto any special resolution put up for the approval of Raasi's shareholders.

While he was responding to the takeover reports Raju recalled, "I made an offer to Srinivasan to buy the shares with a 10 per cent profit margin and 20 per cent interest from the date of purchase. Though he told me he had no ulterior motives, it appears as if he is still on a buying spree." In January 1998, Business India reported, "Rubbing salt into his wound is the fact that when India Cements was passing through difficult times in 1987-89, the then IDBI chairman, S. S. Nadkarni, had requested Raju to take over the ailing company. But he had refused saying "one should not close in on a weak colleague."

Raasi seemed to be an attractive target for ICL as it was a relatively low cost producer. Analysts felt that Raasi failed to capitalize on its low production cost, because of its weak marketing set-up, particularly in Kerala and Tamil Nadu. As a result, Raasi tended to dump the cement in its weak markets thereby putting pressure on other players in the region. The takeover of Raasi also would help in rationalization of various markets between ICL and Raasi, and interchangeable use of Sankar, Coromandel and Raasi brand names. Analysts also pointed out that ICL had strategic advantages in taking over Raasi. In 1997, ICL added 2.2 million tonnes per annum (mtpa) new capacity through acquisitions and expansions. The addition of Raasi's 2 mtpa capacity would make it the undisputed leader in the south of the country. Again, a Raasi takeover meant automatically acquiring 39.5% equity in the 1 mtpa Sri Vishnu Cement Ltd. (SVCL), another Group Company.

Unwilling to take any chances, Raju planned to execute a series of defensive manoeuvers to stall Srinivasan. Raasi could get its shareholders to approve the hiving-off of the 39.5% stake it owned in SVCL. But this could be opposed by the financial institutions as Raasi had promised BIFR, while taking over the sick company that it would not dispose of the shares. Raju also had the option of making a counter-offer to his shareholders, and weaning away potential sellers from Srinivasan. But this was an expensive option, (Raju needed approximately Rs 100 crore to make a counter bid) and he did not seem to have the funds to pull it off.

In March 1998, realizing his predicament, Raju began to negotiate with Srinivasan to sell his 33% shares in the company. In an exclusive interview to Business India Raju said, "Though I had 33% of the shares and associates held 10%, I needed another Rs.1 billion for 51%. I did not want to incur further debts. It will take me ten births to repay them. Let this child of mine be happy, even if it's with a new owner."

After protracted negotiations with an ICL team which flew down from Chennai to Hyderabad, Raasi decided to let ICL buy its shares at Rs.286 a share. Commenting on the sell-out, Srinivasan said, "We are happy that Dr B V Raju and his associates have agreed to sell their stake in Raasi Cement. The consolidation process will be beneficial to both companies as it would result in production, marketing and distribution synergies." "At a later date, we plan to merge both the companies", he added.

The takeover of Raasi by ICL led to a new controversy over the ownership of SVCL. SVCL was of strategic importance to both ICL and Raju. In early 1998, when ICL made known its intention to take over Raasi, it was believed that SVCL, in which Raasi had a 39.5% stake, would be part of the deal. However, when ICL came up with its open offer for Raasi, it discovered that the latter's entire stake in SVCL had been sold to some of the promoter's group companies. In late 1997, Raasi had convened a couple of board meetings and its shares in SVCL were divested at Rs10 each, allegedly to Raju's friends and relations. Till the eventual takeover was complete no one questioned this deal. After the takeover of Raasi, ICL examined Raasi's books and found that it had violated the Securities & Exchange Board of India (SEBI) takeover guidelines which prohibited the target management from disposing off any asset during the open offer period. ICL complained to SEBI that Raasi had divested its 39.5% holding in SVCL in favour of nine firms controlled by Raju, in violation of the SEBI takeover code and the Companies Act.

Retaining SVCL was of strategic importance for both ICL and Raju. Having lost control of Raasi, Raju had no other foundation to build his empire on. On the other hand, ICL could further consolidate its presence in South India if it could control SVCL. More importantly, ICL, whose Coromandel brand sold at a premium of Rs 15 to Rs 20 per 50-kg bag, could further increase its profitability by selling a part of the produce of Raasi and SVCL under the same brand name. A higher profitability would obviously reflect in a higher scrip price. That would not hurt ICL, which planned to raise money through Rs 250-crore rights issue to part-finance the Raasi takeover.

In August 1998, Raju and his associates announced an open offer for a 20 per cent stake in SVCL at Rs 25 per share to increase their share from 39.5% to around 60%. On September 4, 1998, SEBI allowed Raju to go ahead with his open offer. Confident of the success of the open offer Raju increased the original offer price of Rs 25 per share to Rs 100 in September 1998. Meanwhile, in August 1998, Raju also picked up a 26.21% stake in SVCL, buying the shares of Industrial Development Bank of India (13.16%), Industrial Credit and Investment Corporation of India (6.53%), and the Industrial Finance Corporation of India (6.52%). With this acquisition he increased his holdings in SVCL to 65.71%.

Raju then tried to raise his stake in SVCL to over 90%. If all went well, Raju could delist the company by making another open offer to the remaining shareholders. Even if he had to return the 39.5% stake to Raasi, he would still hold a controlling stake of over 50%. In October 1999 Raju sold his 39.5% stake in SVCL to ICL. In a compromise reached in Hyderabad, Raju sold his shares for Rs 1.15 billion, at Rs. 120 a share. With this, ICL acquired 88.55% of SVCL's paid up capital. All cases relating to the matter, pending before SEBI were dropped. In December 1999, ICL Securities Ltd. (ICLSL), along with ICL and Raasi made an offer for the purchase of the remaining shares of SVCL (constituting 11.45% of the equity share capital) at Rs. 98.25 per share. By the end of 2000, SVCL became a subsidiary of ICL.

Questions for Discussion:

1. "ICL had strategic advantages in taking over Raasi." Explain in detail the advantages that ICL had in taking over Raasi.
2. The drama of the hostile takeover of Raasi abruptly ended with Raju selling out his entire stake in Raasi. Explain in brief the strategy adopted by ICL to take over Raasi.

Part C: Applied Theory (Questions)

1. It is generally believed that outside directors monitor management better than inside directors. Do you think this is true? Explain your viewpoint.
2. Hostile takeover bids are often resisted by the promoters, the management and the shareholders. Explain, with the help of an example from the Indian corporate hostile takeover battles, how a hostile takeover bid was resisted and what the outcome of the takeover battle was.
3. Takeovers can be of different kinds: negotiated or friendly takeover, open market or hostile takeover and bail-out takeover. Discuss, with the help of an example, a friendly takeover in the Indian corporate circle.
4. Many defensive measures are available to counter takeover attacks. Some of them are: Golden Parachutes, Poison put, anti-takeover amendments, Poison Pill defense, White Knight and White Squire. Explain the use of White Knight or White Squire defenses in Indian corporate takeover battles.
5. Benchmarking has transformed the way businesses are organized, managed and run. The practice of benchmarking is likely to become still more widespread in the future. Explain, with the help of an example, the benefits to an organization adopting benchmarking.
6. Reengineering aims at achieving performance improvements by redesigning operational processes, maximizing the value-added content and minimizing all production-related costs. Q&S, a leading supermarket chain in the country, wants to reengineer it operations. Explain how Q&S can go about it.
7. The Balanced Score Card (BSC) is a measure of the key elements of a company's strategy, ranging from continuous improvement and partnerships to teamwork and global spread. Explain, with the help of an example, how the deployment of Balanced Score Card would benefit a company.
8. The Securities and Exchange Board of India (Insider Trading) Regulation lays down the laws governing insider trading offenses. With the help of a suitable example, discuss how SEBI regulates insider trading.
9. Buy-back of shares is the best tool for management to counter hostile takeover attempts. It protects the management by consolidating the holdings and the promoter's stake in the company. With suitable examples, discuss how companies use buy-back of shares as a strategy to protect themselves from hostile takeovers.
10. In traditional businesses, delivery is regarded as a "support" function. But, e-commerce will transform delivery into a core function. Discuss, with the help of suitable examples, how e-commerce is influencing the delivery process in organizations.
11. Licensing of technology is one of the crucial issues in technology strategy. Firms with unique technology often license it to other firms. With suitable examples, discuss why firms license their technology.
12. To achieve the twin objectives of cost minimization and quality maintenance, a company should choose the most efficient locations for its manufacturing facilities. Before investing in a manufacturing facility in a particular country, the country's socio-economic and political systems should be thoroughly analyzed. With the help of a suitable example, discuss the factors that make companies invest in a country.
13. Imposition of the management processes and practices of the parent company on subsidiaries in host countries may have negative consequences. This may lead to

decline in productivity and, subsequently, profitability of the subsidiary. To avoid such a situation, what strategies should the companies adopt?

14. A technology strategy is concerned with a firm's approach to the development and use of technology. This strategy plays a key role in developing an overall competitive strategy, and hence needs to be consistent with the other value activities of an organization. Explain any IT company’s technology strategy with examples.

15. Year 2002 was characterized by uncertainty around the globe, with currency crises, economic downturns, continued trade disputes and political uncertainty in many parts of the world. Year 2003 will be a testing time for truly global companies. Take the example of a truly global company and describe how the international business environment has influenced its performance.

16. E-business facilitates cost savings, revenue growth and customer satisfaction. These benefits are achieved by integrating new and existing e-business applications and technologies. The critical aim of companies making a foray into e-business is to offer what the customer wants, without the expenses incurred in traditional businesses. Describe the e-business strategy of any organization of your choice.

17. Companies are realizing the importance of e-business, although slowly, and moving towards e-business from their traditional way of doing business. They are using Web-enabled core processes to increase the efficiency of customer service operations and streamline supply chains. e-procurement not only enables direct cost savings; it also helps improve efficiency. Companies can reduce the number of suppliers they deal with, reduce administration costs and get a much clearer picture of their overall buying strategy. Give an example of an organization that took advantage of the advances in e-business?

18. In the 1990s, there was a growing trend towards empowerment of directors. Empowerment lends authority and independence to outside directors and allows them to monitor the performance of the top management and the company. It permits board members to change the strategic direction of the company when it is necessary. Do you think empowerment of the board enhances the quality of corporate governance in the organization? Explain, with a suitable example, ways to achieve effective empowerment.

19. The ever-changing conditions in which business is conducted test the ability of companies to adhere to core values and principles. Technological changes, for example, are throwing up a host of new issues regarding ownership, use, and distribution of intellectual property. Managers can expect further complications in ethical issues, many of which will relate to global business activity. These issues will culminate in one central question for strategic managers-- how can business be conducted within a framework of ethical ideals, norms, and standards that are understood and accepted by people globally? Some blame the legal framework for making companies resort to dubious business practices. Where, or with whom, do you think the fault lies? Explain with a suitable example.

Supplementary Key

Part A: Multiple Choice – (Answers)

1.d	2.c	3.d	4.d	5.c	6.a	7.c	8.c	9.a	10.d
11.b	12.a	13.d	14.b	15.a	16.a	17.c	18.a	19.d	20.d
21.a	22.d	23.b	24.b	25.a	26.d	.27.a	28.b	29.a	30.b
31.a	32.a	33.d	34.c	35.a	36.b	37.c	38.b	39.a	40.a
41.d	42.c	43.b	44.d	45.c	46.a	47.b	48.c	49.d	50.c
51.c	.52.d	.53.c	.54.c	.55.d	.56.c	.57.a	.58.b	59.b	60.d
61.b	62.c	63.d	64.b	65.c	66.d	67.c	68.a	69.d	70.d
71.c	72.a	73.c	74.c	75.b	76.d	77.c	78.d	79.c	80.b
81.b	82.c	83.a	84.b	85.b	86.a	87.d	88.a	89.d	90.d
91.c	92.c	93.d	94.b	95.a	96.a	97.b	98.d	99.b	100.b
101.d	102.b	103.a	104.c	105.a	106.c	107.d	108.c	109.c	110.d
111.b	112.b								

Part B: Caselets (Suggested Answers)

Caselet 1

1. Xerox had to go for benchmarking to compete with its Japanese competitors. This was an inevitable. It had high manufacturing costs compared to its competitors. Because Xerox took twice as long as its Japanese competitors to bring a product to market, five times the number of engineers, four times the number of design changes, and three times the design costs. The Japanese also could produce, ship, and sell units for about the same amount that it cost Xerox just to manufacture them. Moreover, Xerox's products had over 30,000 defective parts per million – about 30 times more than its competitors. Xerox also found that it would need an 18% annual productivity growth rate for five consecutive years to catch up with the Japanese.

2. The five-stage process includes planning, analysis, integration, action, and maturity. Planning involves identifying what needs to be benchmarked, which organization has to be used as a benchmark, and which is the technique that has to be used to collect data. For instance, Xerox identified ten key factors that were related to marketing. These were customer marketing, customer engagement, order fulfillment, product maintenance, billing and collection, financial management, asset management, business management, human resource management and information technology. These ten key factors were further divided into 67 sub-processes. Each of these sub-processes then became a target for improvement. Analysis involves narrowing on strengths and weaknesses of competitors compared to Xerox. Integration involves identifying goals and the way these are integrated into the company's formal planning processes, and the way goals are communicated across the organization. Action stage consists of implementing the action plans and assessing them periodically to check whether the organization is achieving its objectives. Finally, maturity stage involves determining whether Xerox has reached a superior performance level.

As a part of its benchmarking effort, Xerox gathered information on the key processes of best practice companies. It then analysed these processes to identify improvements in its own processes. Xerox followed functional benchmarking, which involves benchmarking best practices followed by a variety of organizations irrespective of their industry. Xerox initiated functional benchmarking with the study of the warehousing and inventory management system of L.L. Bean (Bean), a mail-order supplier of sporting goods and outdoor clothing.

Caselet 2

1. FMC had a clear mission-to become its customers' most valued supplier. The company attempted many popular improvement programs like total quality, managing by objectives, organizational effectiveness, building a high-performance organization to realize its mission. But these efforts remained unproductive. Lower level employees viewed new programs with suspicion, and confusion. Top management thus could not convince its employees about the need to change. Its overtures were seen with circumspection.

As Mr. Larry D. Brady says, top management was not sure of where future growth would come from and which are the new areas that can provide breakthroughs to the company in the future. FMC had a record of high return-on-investment but had little potential for further growth. Its top management was combining a business that's doing well with a business that's doing poorly. Top management also found that FMC has become too short-term oriented and internally focused in its business measures. It realized that with the current methods of operating FMC would never be able to come up with breakthroughs, and organization would have a questionable future. This awareness prompted top management to go for balanced scorecard.

2. Top management felt the need for a new measurement system which would help operating managers beyond achieving internal goals to search for competitive breakthroughs in the global marketplace. This system was expected to focus on measures of customer service, market position, and new products that could generate long-term value for the business rather than just short-term financial results. Balanced scorecard addressed how to stick to firm's mission, and provided keen insights on: ways to enhance organization's external focus, division's competitive advantages and vulnerabilities.

As a part of its balanced scorecard implementation, top management started a pilot program. It selected six division managers to develop prototype scorecards for their operations. Each division head was expected to conduct a strategic analysis to identify his division's sources of competitive advantage. Divisional heads were made to select some basic measures. The 15 to 20 measures in the balanced scorecard had to be organization-specific and had to communicate clearly what short-term measures of operating performance were consistent with a long-term trajectory of strategic success. These measures were expected to be objective and quantifiable. Also the measures have to be output measures and not process-oriented measures.

Top management made division managers to choose measures that will require them to create change. For example, these managers were asked to suggest measures that measure penetration of key markets in which FMC is not currently represented. Now top management can measure that penetration monthly and get valuable short-term information about the ultimate success of FMC's long-term strategy. This type of system helps the organization in ensuring a balance between long-term and short-term growth.

Caselet 3

1. Once he joined IBM as its CEO, Gerstner spent most of his time understanding the prevalent situation. He visited different IBM facilities all over the world, met customers, competitors, senior executives, financial analysts, and consultants. Then he took crucial initiatives. In order to reduce costs and right size IBM, Gerstner reduced the workforce by a further 35,000 in 1993. He abrogated the permanent employment policy followed by IBM, while introducing performance centric culture. To affirm this, he ensured that stock options are awarded to more employees. During his time the number of people who received stock options rose from 1300 in 1992 to 72,500 in 2001. He also tried to bring informal culture into IBM. Employees were no longer expected to stick to strict formal dress code. He found that IBM was not laying enough emphasis on marketing activity. Though there was goodwill for IBM that ensured sales, there was hardly any coherent marketing strategy. He tried to change this. He also felt that as IBM's operations spread all over the world, he was not able to closely monitor the operations. Hence, he chose to delegate authority necessary to take decisions pertaining to regular operations of the different units. He created a corporate executive committee comprising ten executives, to monitor and integrate the operations of different units and keep him updated about the same. These changes led to miraculous recovery of IBM.

2. Gerstner undertook various measures that led to increased customer orientation at IBM. He reduced the high prices of mainframe software when customers complained. He ensured that prices are cut up to 30 percent. He also found that customers were facing problems as IBM's software and hardware were not compatible with other systems. Hence customers were not interested to invest in IBM's proprietary products. To address this problem Gerstner ensured that IBM developed hardware and software that used Java and other systems.

Caselet 4

1. Nissan's decline began in 1990s. This was a result of management's growing obliviousness of the market changes and customer needs. The company's organizational structure was equally responsible for the decline. Its corporate culture was conservative. Nissan North America, and Nissan Europe operated as separate entities when it came to finance, sales, and marketing. Nissan Japan was submerged in the culture of blame. Nobody was willing to accept responsibility for the company's poor performance. Added to these problems were low growth in Japanese economy, lack of new product development, and low morale of the employees. As a result of these factors Nissan's global market share came down from 6.6% in 1991 to 4.9% in 1999.

The root of these problems lies in the Japanese business tradition. Japanese conglomerates were tied with one another through traditional supplier relationships, known as keiretsu. Nissan was very much a part of this system. Nissan tied together with companies which had no relation to its primary automotive business. The decline in the vehicle sales, loss of market share, huge debt and low stock price brought Nissan to near bankruptcy. Though it made attempts to turnaround company in the 1990s, it was hardly successful as business plans were never followed throughout the company due to vested interests, and internal politics.

2. After taking charge as COO he spent his time traveling to Nissan's offices, design centers and plants worldwide. He spoke to employees at all levels, and held engaging and personal brainstorming sessions with executives and line workers. After forming his own perspective of the situation, Ghosn started implementing a revival plan. One of the major problems Nissan faced was the lack of control over Nissan's communications. Nissan followed a tradition of secrecy, disclosing as little information as possible, which created suspicion among the Japanese media. Ghosn preferred to bring transparency. He tried to use communications as a primary management tool by getting involved in small details of presentations and press releases, such as doctoring words and inserting facts. He addressed the problems of regionalization and lack of central strategy at Nissan by forming cross-functional teams (CFTs). CFTs helped in developing interpersonal relations among people from different background and countries quickly. To reduce the costs, Ghosn centralized the purchasing function by introducing a scheme known as "3-3-3". The program means 3 partners (suppliers, purchasing, and engineering), over 3 yrs working in 3 regions (Asia, America, and Europe/Middle East/Africa). He ensured cost reduction by pressurising suppliers to reduce the costs by 20% and simplifying engineering specifications to reduce company's costs by one-third.

Caselet 5

1. ICL had many advantages in taking over Raasi. By taking over Raasi, ICL would acquire its 2 mt capacity and thus further consolidate its position in South India. It would also acquire 39.5% equity in SVCL, a group company of Raasi. Raasi had the advantage of being a low cost producer of cement but failed to capitalize on this advantage because of its weak marketing set up. Also, by taking over Raasi, ICL could rationalize the various markets between ICL and Raasi and also use the Raasi brands.

A greenfield cement unit with a capacity of 3 mt would typically cost Rs. 1 billion to build. ICL could get Raasi's 2 mt capacity for less. For reaping economies of scale, and for ensuring future market growth, size was critical. South India was likely to face a production shortfall in cement in the near future since capacity additions were being made at a slow pace, while the annual demand was growing at a fast pace.

While Andhra Pradesh was dominated by Raasi, ICL was a dominant player in Tamil Nadu. By acquiring Raasi, ICL would gain more than a foothold in Andhra Pradesh and account for 7 mtpa of South India's 20 million tons per annum capacity.

Distribution and logistics are of crucial importance in the cement industry. By acquiring Raasi, ICL would get its distribution network and save on transportation costs. The combined stockists' network of ICL and Raasi would help protect ICL's price realizations. Cement prices were dependent on the demand and supply position, and a big supplier of quality cement, could protect realizations to a certain extent. That's probably another reason why ICL chose to takeover Raasi.

2. Since 1995, ICL had been increasing its stake in Raasi. In 1995, ICL bought 6.8 lakh shares from one of the sons-in-law of Raju. In 1996-97, ICL bought an additional 1.3 lakh shares and by early 1998, ICL acquired around 18.03% of Raasi's equity both through open market purchases as well as by buying out the stake of an estranged faction of the Raju family. In February 1998, ICL announced an open offer to acquire an additional 20% of Raasi's equity.

In March 1998, the Andhra Pradesh Industrial Development Corporation sold its 2.13% stake in Raasi to ICL. Subsequently, a Chennai-based stockbroker, bought 1.40 % of Raasi's equity from the market for Srinivasan, and ICL's stake in Raasi went up to 21.56%. ICL was also negotiating with a transporter for both ICL and Raasi, to pick up his 7% stake in the latter. With this, ICL's stake in Raasi would go up to 28.56%

and it would be in a position to veto any special resolution put up for the approval of Raasi's shareholders.

Raasi tried to ward off the crisis by planning a series of defensive maneuvers but none of them took off. Raasi could make a counter bid against ICL's open offer to wean away potential sellers from ICL but it had no funds to do so.

In March 1998, with no options left before Raasi, Raju began to negotiate with Srinivasan to sell his 33% shares in the company and subsequently on April 5, 1998, the deal was struck.

Part C: Applied Theory (Answers)

Answer 1

As outside directors usually have vast experience in both corporate and academic circles, they add more professionalism to the top-level management. When the board of directors has professionals from outside the organization, the functioning at the topmost level is expected to be more transparent.

External directors can monitor the management better by helping it develop a succession plan, measure the performances of CEO and executive directors, and, whenever necessary, replace the CEO. Several Indian companies have many external directors on their boards. Infosys is one such example. These external directors are experts in their fields, and can monitor the management of the company successfully by virtue of their vast experience in both the corporate world and academia.

Another Indian company that has many external directors on the board is Thermax. Apart from the CEO and the managing directors of the company, Thermax has four outside directors in a board consisting of nine members. The rest are family members, as the family owns sixty four percent of the shares. This inclusion of outside directors has added more transparency in the functioning of the company board.

Answer 2

In hostile takeovers, which are also known as open offer takeovers, a person or a group acquires the shares of a company from the open market to take control of the company. The shares are purchased at rates higher than those prevailing in the market. Often, the shares are purchased from financial institutions, mutual funds and individual shareholders. As such takeovers are hostile, they are not readily acceptable to the promoters, the management and the shareholders.

In June 2000, Arun Bajoria, a jute trader from Kolkata, acquired over 5% of Bombay Dyeing's equity from open market. Bombay Dyeing at that time was a cash-and-asset-rich company with undervalued stocks. This gave Bajoria ample scope to reap substantial returns. When BD learnt about this acquisition, it lodged a complaint with SEBI and other regulatory institutions. In July 2001, the Company Law Board (CLB) held that Bajoria had violated the SEBI takeover code by not disclosing his acquisition of more than 5% shares of BD. According to CLB, the letter which Bajoria claimed to have sent to SEBI could not be construed as a "disclosure" in terms of Regulation 7. SEBI passed its verdict barring Bajoria and his associates from accessing the capital market and dealing in securities. Thus, the promoter-shareholder of Bombay Dyeing was successful in preventing the raider from taking over the company.

Answer 3

In a friendly or negotiated takeover, the management of a company decides to give away the control of the company to another on terms and conditions mutually agreed upon. The agreement is reached with mutual consent.

The takeover of Autolec, the largest Indian manufacturer of automotive water and oil pumps, by Sundaram Fasteners was a good example of a friendly takeover. Sundaram Fasteners planned to have a controlling stake of over 51% in Autolec. The acquisition involved no change of management, wherein the promoters (Vasudevans) continued to hold the position of Chairman and Managing Director. However, Sundaram Fasteners took control of the board.

Sundaram Fasteners, which held 14.3% stake in Autolec, took up 11% stake through private negotiations. In the next step, Sundaram Fasteners made an open offer for 23.5% of equity at Rs 82.50 per share. Further, Autolec made a preferential offer of 10.3 lakh shares at Rs. 60 per share. Autolec benefited from the production technology of Sundaram Fasteners and also got an export thrust.

86 In White Knight, to counter the takeover attempts by the raider, the target company agrees with a friendly company to buy all, or part, of the company. The friendly company acts as a White Knight. The agreement is based on the understanding that the friendly company shall not take control of the management. In White Squire defense, the target company sells its shares to a company which has no interest in taking over the company.

There are many instances in the Indian corporate takeover battles when a White Knight saved the target company from being taken over. However, there are as many instances of the White Knight itself becoming the predator. When Reliance wanted to takeover Raasi Cements, the target company took the help of India Cements Ltd. (ICL). Later, the White Knight, ICL, took over Raasi Cements Ltd.

The takeover attempt by Dalmias for GESCO provides an example of White Squire being used. When the Dalmia group tried to takeover GESCO, the target company sold a stake to Mahindra Reality and Infrastructure Developers (MRID) rather than to the raider. The combined shareholding of the promoters of GESCO and Mahindra Realities was much more than that of the Dalmias.

Answer 4

Benchmarking can be defined as the continuous process of measuring products, services, and practices against the toughest competitors, or those companies recognized as industry leaders. The process involves constant identifying, understanding and adapting the best practices and processes followed inside and outside the company and implementing them. More emphasis is laid on the best practices, rather than the best performance. Thus, benchmarking means comparing one's company, or a part of it, with other companies.

Benchmarking results in improving the overall organizational quality. Its benefits include reduction in the cost of the product or the service, and generation of ideas by the employees. Benchmarking also helps in broadening the organization's operating perspective. Thus, by acting as a catalyst, benchmarking helps in raising the organization's level of performance.

Xerox is a company, which has benefited immensely from benchmarking. In the early 1980s, it faced severe competition from US and Japanese companies. It lacked a strategic direction. As a result, its profits declared steeply. When David T. Kearns took charge of the company, he realized that Xerox had many loopholes in its processes, resulting in higher cost of manufacturing. Kearns launched a "Leadership Through Quality" program, aimed at finding ways to bring down the cost of manufacturing. On benchmarking against Japanese competitors, it was found that, to bring a product to the market, Xerox took five times the number of engineers, four times the number of design changes, and three times the design costs. It also found that the cost of manufacturing was considerably higher than its Japanese counterparts. Further, the average defective products were also high for Xerox. To cope with the problems, Xerox developed its own benchmarking model. The model had five stages, planning, analysis, integration, action and maturity. Thus, Xerox benchmarked its various activities, like supplier management system, inventory management, manufacturing system, marketing and quality.

The biggest achievement was the increased number of satisfied customers. There was a drastic decline in the customer complaints to the presidents' office. By 1991, customer satisfaction increased by 90%. This resulted in increase in the sales processes by 40%, service processes by 18% and administrative processes by 21%. All this led to increased profits and market leadership position in the high-volume copier-duplicator market segment.

Answer 5

Reengineering, also known as business process reengineering, aims at improving organizational performance. It is applicable at both individual and organizational levels. Reengineering plays a bigger role in redesigning an operating process and implementing new technology. To reengineer its operations, Q&S should rewrite the job descriptions, organize multi- functional teams and emphasize on teamwork. All the activities should aim at bringing a change in the mindset of the employees.

Q&S can reengineer its operations by focusing on different processes, such as strategic processes, operational processes, and enabling processes. In the strategic process, the company has to plan for the future. This will give a direction to the company. Various strategic issues like, strategic planning, services to be launched, and the image the company wants to portray through marketing, come under the strategic process.

Operational processes are part of the firm's interaction with customers and suppliers in the day-to-day activities. They are crucial because they help in monitoring the day-to-day functions. Here, Q&S should try to satisfy the customers. It should try to deliver what it has promised as a part of its marketing activity.

Enabling processes help smooth flow of strategic and operational processes. Activities like management of human resources, accounting and finances, and the management of information systems come under this category. After identifying the processes that need to be redesigned, Q&S should decide on the new designs. The reengineered processes would lead to a, cheaper and faster service, resulting in more satisfied customer.

Answer 6

The factors that must be addressed in implementing BSC are the customers' view of the company, companies' potential areas of growth, measures to improve and create value, and shareholders' view of company. Thus, BSC helps managers focus on the most critical measures for the company's health. It helps bring many elements of a company together in a single management report.

Goodlass Nerolac Paints, the market leader in industrial paints and India's second largest paints company, recently implemented BSC. The BSC emphasized on creating a strategic roadmap for the company that should lead to increased profitability in the near future. It was framed keeping in mind the company's future growth. As business grows, the company requires a performance management system that involves the entire organization and measures the success of the strategy. By implementing BSC, Goodlass Nerolac would be able to review its performance against the set targets. The company has implemented BSC to operationalize the long-term strategies of the company, and enable it to measure the business performance so that strategies can be reviewed regularly.

BSC was communicated across the organization as a business review and enterprise performance management framework. It would help Goodlass Nerolac define financial, customer, process and organizational priorities. It would also help in using the right resources to implement strategies.

Answer 7

According to SEBI-Insider trading (Amended) Regulations, 2002, the insiders of the company should not trade in shares or securities of the company based on unpublished, price-sensitive information. Insiders are often directors, promoters, officers, designated employees, or other persons who have the information that the common shareholder does not have. Insiders can transact only when the trading window is open. The window has to be closed when the Board of Directors is taking vital, price-sensitive decisions. This information can be either adoption of financial results, declaration of interim/final dividends, issuing of securities, approval of major expansion plans, amalgamation / takeovers, buy-backs, disposal of undertakings/units, etc. The trading window will be reopened 24 hours after the information regarding the decisions is made public. Moreover, even when the trading window is open, the insiders have to take prior permission from the compliance officer of the company to trade in the company stock if the volume of the trade is above the stipulated limit. The threshold limit is decided by the board. To implement the regulations more stringently, SEBI has clearly defined terms like Insider, Connected persons and activities, that can be a part of the price-sensitive information. Though, there have been many allegations and cases of insider trading in India, the allegations against Global Trust Bank were among the most talked about.

In January 2001, GTB and UTI Bank announced their merger, creating the biggest private sector bank in India. But before the merger could take place, reports of insider trading by GTB appeared in the media. Before official announcement of the merger, the counters of UTI Bank and GTB at the Bombay Stock Exchange (BSE) witnessed huge volumes and a sizable rise in prices, giving scope for suspicion. It was alleged that at the behest of GTB chairman, a stockbroker Ketan Parikh tried to rig the stock prices of GTB so that the shareholder of the GTB could benefit from the better swap deal resulting from the high share prices. There was a steep increase in the trading volumes of GTB, both at NSE and BSE, and the share price of GTB also rose from Rs 81 to Rs 94. On probing the whole issue, SEBI found that Parikh had a definite role in the sudden rise in the stock prices of GTB. SEBI found that Parikh was one of the most active traders in the stock, and made heavy purchases during October 2000 and December 2000, i.e. just a couple of months before the merger was announced. On further probe, SEBI found that Parikh, along with some other aides, made a deliberate attempt to raise the share prices. Based on all these revelations, SEBI concluded that there was evidence of price manipulation by GTB, and termed the price movement as unusual.

Answer 8

Buy-back of shares has emerged as a reliable shield against hostile raiders. It also helps the management consolidate its holdings in the company. Buy-back acts as a financial tool for companies to gain the required flexibility in their capital structure and financial position. It can be done either through open offer or tender offer. In tender offer, the company intimates its shareholders of the price at which it wishes to buy back its shares, whereas, in the open offer, shares are purchased through stock exchanges, using the services of the merchant banker. The buy-back strategy is adopted by both small and big companies.

In November, 2001, the battery major, Exide Industries Ltd, bought back 10 % of its shares through the open market. When the buy-back was announced the share price of the company was hovering around Rs. 60. The shares were bought back at a maximum price of Rs 70. The previous year, the scrip's highest price was Rs 129 and the lowest was Rs 40. After the buy-back, the promoters' stake was increased to 65%. The rest was held by financial institutions and the general public.

In June 2001, the Wadia group bought back the shares of Bombay Dyeing and Britannia to consolidate the promoters' holdings. The decision gained prominence because, in October 2000, a hostile takeover attempt had been made on Bombay Dying. Thus, to avoid any further threat, the promoters decided to consolidate their holdings in the companies.

Answer 9

In traditional organizations, delivery was regarded as part of the routine. Not much importance was given to it, unless something seriously went wrong. But with e-commerce, organizations can create competitive advantage through this function. Speed and quality of delivery can create competitive advantage for organizations. E-commerce eliminates distance. CarsDirect.com, an online seller of passenger automobiles, is one of the fastest growing companies in the US. It was founded in January 1999, and within six months it became the largest car dealer in the country. Based in Los Angeles, it has operations in more than forty states in the US, selling more than thousand cars per month. Its unique delivery system played a crucial role in its success. It entered into agreements with 1100 traditional car dealers all over the US to deliver CarDirect's sales to the local purchaser on a specified delivery date. As per the agreement, the car dealers are also required to give quality service to customers.

Since being introduced, Indian Railways' online bookings have done extremely well. Indian Railway Catering and Tourism Corporation Limited (IRCTC), the ticket-selling site of Indian railways, had the highest number of online credit card transactions in India, and is the fastest growing site for Visa in Asia Pacific region. This service has averted long queues, and it guarantees home delivery of tickets for a fee lower than what a travel agent would charge.

Answer 10

Technology licensing is a delicate issue to be handled while formulating technology strategy. If technology happens to be the firm's only competitive advantage, the firm should license technology only after reviewing all the fall outs.

Firms license their technology when they are unable to exploit it to its full capacity. This often happens because of financial constraints, government restrictions, etc. Often, many biotechnology and electronics firms lack the expertise and resources to commercialize innovations. Even if they have resources, they may not gain a substantial market share because of highly competitive rivals, or the promotion of local ownership of technology by the government. In recent past, many companies adopted the licensing route to increase their revenues.

In June 1999, Ranbaxy Laboratories entered into an agreement with Bayer AG of Germany for supplying a novel drug delivery system, or NDDS, for a ciprofloxacin drug molecule. This would yield initial revenues of $ 45 million to Ranbaxy. In addition, Ranbaxy would get royalties to be calculated as a percentage of sales. This would give Bayer the right to produce and sell the product in the highly lucrative markets of US and Germany.

In another technology transfer agreement, Pune-based Geometric Software Solutions, a leading software solutions provider for the mechanical design and manufacturing markets struck a technology licensing deal with Corporate Synergy Development Center (CSD), an organization funded by the Taiwanese government. As per the agreement, Geometric will license its CollabView™ technology to CSD. This would give Geometric Software Solutions entry into the vast Taiwanese market.

Answer 11

The country receiving the investment, i.e. the host country, should have economic and political stability. Exchange rate fluctuations significantly affect the profits of a multinational company. Thus, the country chosen for investment should have exchange rate stability. A change in government can have an adverse effect on the policies for foreign direct investment, and the investing company may suffer. The lobbying power of domestic industrialists may also affect the government's investment decisions.

The infrastructure facilities in the host country also play an important role in attracting investment. To attract investments, governments usually create Free Trade Zones (FTZs), Export Processing Zones (EPZs), Software Technology Parks (STPs) and Special Economic Zones (SEZs), with tax sops or other incentives. Another important factor in the location decision is the factor costs and productivity in various countries. Other factors are the literacy rate in the country, the proportion of women and children in the literate population, industrial laws regulating payment of wages, working conditions, employee health and safety laws.

One country that is often in the news because of its ability to attract FDI is China. Apart from multinational giants like Panasonic, Sony, LG, Toshiba, Nokia, GE, Siemens, Electrolux, etc, many Indian companies like Ajanta Watches, Ranbaxy, Dr Reddy's and Aurobindo Pharma have set up manufacturing plants in China.

A major chunk of FDI in China is in the manufacturing sector. The factors that have played a significant role in taking FDI to China are its infrastructure, labor productivity, labor costs and low cost of credit. Further, Chinese industry enjoys adequate supply of power.

The vision of the political leadership that made China an industrial giant played a crucial role in attracting FDI. China has set up many economic-free zones offering government incentives, cheap labor and a large domestic market.

Answer 12

Imposition of the parent company's management processes and practices on subsidiaries may have an adverse effect because of the cultural differences between the parent company and the subsidiary. To do business efficiently in a global market, companies need to train their employees about cultural differences. No country can impose its culture on the employees of the host country. Cultural differences usually arise due to differences in social structure, religion, language, education and economic and political conditions of various countries. Managers should be sensitive to cultural differences, and should not indulge in degrading any other culture. To cope with cultural differences, companies should train their employees before sending them on foreign assignments. The effect of cultural difference is also seen in the way the business operates and the extent of the success of the products. A product which is highly successful in one country may fail in another country.

McDonald's has learned to operate successfully in different cultures. It emphasizes on the understanding of a country's culture and customizes its products to cater to local tastes. In the Philippines, McDonald's offers McSpaghetti noodles; in Norway, it serves a salmon fillet sandwich called MacLak; in Arab countries, it offers Halal menus; in Israel, it serves Kosher meat; and in India, burgers are made of mutton instead of beef. In Germany, some McDonald's outlets serve beer, and in France they serve wine. In Japan, the company changed its name to "Makudonaldo" because the Japanese could not pronounce it otherwise

Answer 13

Technology affects industry in many ways. It can intensify competition and also erase the competitive advantage of well-established firms. A technology strategy addresses issues like: the type of technologies a company should develop the need to seek leadership in those technologies, and the role of technology licensing. Hence, technology strategy is important for any company's success.

Intel tries to manufacture technologies that deliver leading-edge performance products at lower costs. It ensures this by increasing the number of circuits on a single silicon chip and allowing for products that have higher performance as well as added features. In 2003, Intel is planning to introduce its groundbreaking 90-nanometer silicon technology, which will bring new communications capabilities into its manufacturing process, enabling faster, more integrated and less costly communications chips. In 2002 also, Intel pursued its strategy by continuing its manufacturing conversion to 300mm (12-inch) wafers, from its older 200mm (8-inch) wafers, ultimately reducing its costs.

Though there is overall technology slowdown, the wireless digital world is showing excellent progress. Mobile PC sales are expected to grow at a compound annual rate of 13% from 2002 through 2006, and the penetration of wireless LAN technology into the professional mobile PC installed base is expected to grow from 20% in late 2001 to more than 90% by the end of 2007. As part of its technology strategy, Intel plans to introduce products, known as Intel Centrino mobile technology, which are designed to provide outstanding performance, extended battery life, new thin and light form factors, and seamless wireless connectivity.

In 2002, Intel introduced Pentium 4 Processor with HT Technology, which increases performance in systems with supporting components by allowing a single processor to handle two streams of data instructions simultaneously. The Pentium 4 processor is also the world's first commercial desktop microprocessor to operate at 3 gigahertz, or 3 billion cycles per second. This speed results in real user benefits, improving the performance of the increasingly complex software that is so much a part of people's daily work and play.

Intel strives to be one generation ahead of competition in R&D, manufacturing technology and key products, thereby exceeding customer expectations, capturing design wins and increasing profitability. The company plans to make its revenue and profitability grow through leadership in technology products, manufacturing and the power of the Intel brand.

Answer 14

Nestle of Sweden can be considered as one the most globalized companies. It is the world's largest food manufacturer. Nestle has core operations in water-soluble coffee and healthcare (through subsidiary Alcon laboratories). It is the market leader in all these categories. It is the world's number two in businesses, such as ice-cream and roasted and ground coffee. The company has also become the second largest pet food producer in the world with the acquisition of Ralston Purina in 2001.

Political uncertainty, economic downturns and currency crises in many parts of the world in 2002 impacted its consumer purchasing power and confidence. A 17% fall in the US dollar against the Swiss franc, as well as weakness across other key currencies in 2002, led to an 8% decrease in the company's sales and margins. The company is implementing a program "The GLOBE" (Global Business Excellence) to improve the performance and operational efficiency of Nestle's worldwide business. This program highlights the importance the company attaches to risk in global business.

Nestle also faces negative publicity in the international market for not paying well to the coffee farmers in spite of having high profits. The criticism is mostly about its morals and integrity. Recently, it was also blamed for breaking a World Health Organisation Code on the marketing of breast milk substitutes. This type of negative publicity can tarnish the company's image and lead to its ultimate failure.

Answer 15

In 1999, Ford Motors, one of the largest automobile organizations in the world, decided to venture into e-business even at the risk of threatening the traditional channels of sourcing, distribution and retailing. The move was to build an interface among customers, dealers, vendors and even competitors. Ford was not the only company working on initiatives to leverage the Net. However, no other company could match the depth or the range of Ford's e-business strategy and the speed with which it was implemented.

Ford's e-business venture centred on Covisint, the world's largest online exchange extending to the entire supplier-to-dealer automotive value chain. The integrated e-business strategy covered every aspect of its business ranging from supply management to employee relations. All those who interacted with Ford-vendors, dealers, customers, or employees -had the option of making online transactions.

A typical automobile company interacted with around 30,000 suppliers who functioned in a tiered structure. Through Covisint, Ford ended the tiered structure. The conventional linear supply chain gave way to a networked model. Covisint would also integrate hundreds of suppliers and dealers globally into one huge e-market place.

Ford believed that the days of being able to concentrate only on the nuts and bolts of business were gone. Companies that could connect with the customers would emerge winners. Ford discovered that the Internet would connect it with its customers more efficiently. With this in mind, the company floated an e-CRM company named Percepta. Percepta could process all complaints and queries received from customers over the phone/fax/email 24 hours a day.

Ford also helped employees improve their technical skills and connect better with customers who used the net. Ford offered all employees worldwide an Internet-enabled PC and a colour printer for a nominal $5 a month.

Ford planned to integrate all those individually wired entities (customers, dealers, and employees) in the value chain into a single, large network. With this, customers would be connected to the supply chain. Any change in customer preference would evoke an almost immediate response from the supply chain.

Answer 16

In late 1998, FedEx chose Ariba, a US-based company to implement its e-procurement strategy as a part of its e-business initiatives. Ariba offers a variety of products and services in the global online commerce solution business. The company's products and services connect requestors to approvers, and buyers to suppliers, to deliver automated solutions for improving the acquisition and management of operating resources. The pilot implementation of FedEx program began in June 1999. FedEx acquired hardware and software requirements for the implementation from HP, Database from Oracle, and Application server from HP-UX V Class. It got access to the directory of suppliers and their content from the Ariba network platform. It also obtained the transaction routing between employees and suppliers along with online payment which helped them create efficient electronic marketplaces that supported dynamic pricing from the same network platform.

Ariba buyer, Ariba's solution, consisted of its Operating Resource Management System (ORMS) application, Network platform and integrated Net market deployment solution. The solution from Ariba integrated the internal and external business processes of buyers, suppliers, Net market makers and value-added service providers. The Ariba ORMS sent the requests of the buyers through Ariba B2B platform to the supplier, and the request from the supplier was processed to the trading partners of the supplier. If the item was available with the supplier, he sent confirmation online to the customer, and the customer could also track the movement of his item through the Net. Ariba Buyer not only reduced the time taken for the order of the item and its delivery, but also helped the organization control the internal procurement.

The pilot implementation began with one commodity, Personal Computers (PCs), along with a group of 25 employees from the company. After the successful pilot implementation, Ariba Buyer was rolled out to 7,000 ITD employees, and it was implemented within 1 month of the pilot. Within 3 months the company started to derive its ROI on the investment for Ariba Buyer.

FedEx derived many benefits from the implementation of Ariba Buyer. Before implementation, it took four to five days for a purchase order requisition to move through the approval chain and get signatures from the authorities concerned. But after the implementation, it took only one day for the same procedure. The overall purchasing cycle time was also reduced from 17-19 days to just two days. The 20-30 person clerical department, which keypunched requisitions and purchase orders into the mainframe system, was reassigned, and that saved overheads considerably. After Ariba's implementation, less than 15 persons were involved full-time in purchase processing. After the implementation, the number of suppliers came down from 90,000 – 110,000 to 40,000-50,000. Of the 2,500 suppliers that FedEx does regular business with, 75 were enabled on the Ariba system. These Ariba enabled suppliers represented FedEx's largest volume buys. The improvement in those contracts alone saved money for FedEx. FedEx also saved up to 40% on technology after it started purchasing PCs through the Ariba System. Only about 20% of FedEx's 25,000 annual requisitions were through the Ariba Buyer. FedEx decided to extend Ariba services to around 20,000 – 25,000.

Answer 17

Board empowerment is not always an unhealthy development. Empowered directors can help CEOs and their companies with their valuable experience, thus benefiting shareholders. But this synergistic relationship between directors and CEOs is not easy to achieve. This needs that outside directors recognize and respect the difference between monitoring management and managing the company. They should let the CEO retain power necessary to lead the company while taking the guidance of well-informed directors as the corporate performance demands.

There should be a clear majority of outside directors. This is necessary because a board cannot function as an effective auditor of management actions if a majority of its members are members of the management. Inside directors are not very useful for governance. They cannot afford to show independent insight into the company's or the management's activities. A retired CEO is one such inside director. Because of his close associations with the company's past success and culture, he cannot be expected to express independent opinion. On the board of General Motors, a majority of directors are outsiders.

All the board procedures should be determined by the board itself. It should determine its policies, procedures, and practices. It must also have the authority to set its size, its committee structure, and members' retirement age. General Motors has the tradition of rotating committee assignments and chairmanships at fixed intervals. Its board consists of 14 members. This size is big enough to bring required wide experiences, and small enough to make an effective team.

The responsibility to choose new directors should lie with the board. The CEO should, however, be involved in the process to make sure that management's concerns are addressed. GM conducts an annual review to identify the skills and characteristics it desires, and acts according to the situational needs.

The board must review its performance. Performance review must consider how well the board has monitored management and provided effective counsel. This review should also identify where the board can enhance its contribution. GM board conducts such a review on annual basis.

The board should invest adequate time and energy in selecting the right CEO. The GM board gets an annual report from the CEO on succession planning. This report includes recommendations for successors. At GM, the CEO also submits a management-development report.

Some managements see as a threat strong boards that consist of directors who take their obligations to shareholders seriously and work responsibly. In reality, this is not so. Strong boards can actually be a source of strength to management. They can also be a source of competitive advantage to the organizations. The board is clearly responsible for the success and existence of the corporation. A board must not delegate this responsibility to management.

Answer 18

ITC reportedly resorted to unethical and illegal trade practices to retain the "star exporter status" awarded by the government. ITC was involved in various trading deals in association with the Chitalias, a US-based group. The company set up various companies abroad with help of the Chitalias to process export deals. ITC requested its overseas buyers to route their purchase orders through the Chitalia companies, including a few front companies set up by the Chitalias for ITC. Overseas buyers had to send their purchase orders to the Chitalias. They were over-invoiced by the Chitalias and sent to ITC, which meant the Chitalias paid ITC more than the actual amount received from the buyers. ITC paid the Chitalias the difference between the over- invoiced price and actual price by under-invoicing other exports to them, making direct payments to the Chitalia companies and using ITC Global, ITC's Singapore-based subsidiary.

By over-invoicing exports and under-invoicing imports, ITC was able to post artificial profits in its books, which helped it to portray itself as the largest exporter in the country, earning huge foreign exchange. This enhanced the image of the company and retained the confidence of the investors.

Industry sources accused the stringent FERA laws for the fiasco, as they felt that ITC would not have involved itself in such illegal practices if it had been allowed to honour its debt to the NRIs. They remarked that many large corporates in India were involved in illegal foreign exchange dealings and money laundering because the FERA laws made it very difficult for free flow of foreign exchange in and out of India.

However, others argued that ITC couldn't be given a clean chit because despite everything, its dealings were unethical. Analysts blamed poor corporate governance practices and lack of proper management control for the ITC episode. They opined that the board of directors failed to perform its duties and misused its executive powers.

Although ITC resorted to unauthorized transfer of money outside India because the stringent FERA laws did not allow easy transfer of money abroad to pay off trade debts, the law cannot be blamed for the ITC crisis. ITC was involved in many trade deals violating various FERA rules. The company's intentions were purely selfish – to retain its leadership in the market and to remain the largest exporter from India.

The centralized management practices at ITC were mainly responsible for the problems it faced during the mid- 1990s. Power was vested in the hands of a few top executives. Though the board of directors comprised ITC nominees, FI nominees and BAT nominees, a majority of the decisions were reportedly taken by the ITC nominees, with FI nominees supporting them and the BAT nominees remaining passive. Analysts blamed the board for not discharging its duties properly and for misusing its powers.

There was no transparency in the company's operations—the company's books revealed artificial profits, and a special audit revealed various financial irregularities in the company. All this proved the mismanagement at ITC. It can, therefore, be concluded that FERA violations, share price manipulations and excise duty evasions were all more because of the poor corporate governance practices at ITC than for any other reason.

Answer 19

In traditional organizations, delivery was regarded as part of the routine. Not much importance was given to it, unless something seriously went wrong. But with e-commerce, organizations can create competitive advantage through this function. Speed and quality of delivery can create competitive advantage for organizations. E-commerce eliminates distance. CarsDirect.com, an online seller of passenger automobiles, is one of the fastest growing companies in the US. It was founded in January 1999, and within six months it became the largest car dealer in the country. Based in Los Angeles, it has operations in more than forty states in the US, selling more than thousand cars per month. Its unique delivery system played a crucial role in its success. It entered into agreements with 1100 traditional car dealers all over the US to deliver CarDirect's sales to the local purchaser on a specified delivery date. As per the agreement, the car dealers are also required to give quality service to customers.

Since being introduced, Indian Railways' online bookings have done extremely well. Indian Railway Catering and Tourism Corporation Limited (IRCTC), the ticket-selling site of Indian railways, had the highest number of online credit card transactions in India, and is the fastest growing site for Visa in Asia Pacific region. This service has averted long queues, and it guarantees home delivery of tickets for a fee lower than what a travel agent would charge.