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Faculty of Economic and Management Sciences

Fakulteit Ekonomiese en Bestuurswetenskappe
Lefapha la Disaense tša Ekonomi le Taolo

DEPARTMENT OF BUSINESS MANAGEMENT

STRATEGY FORMULATION (OBS 310)

SEMESTER TEST 1

DATE: 12 March 2019

TIME: 90 Minutes

MARKS: 50

Examiner:

Dr MN Moos

MEMORANDUM

QUESTION 1**(8)**

The decision for an organisation to adopt a particular strategy is often informed by the results of the **tests of a winning strategy**.

Discuss the tests (including the dimensions and indicators, where it is applicable) that can be undertaken to determine if a strategy is a winning strategy or not. **(No marks for only naming the tests.)**

Mark allocation**Marks**

Discussion of each of the major tests (1) x 3	3
Discussion of dimensions or indicators where it is applicable (1) x 5	5

MEMO

ANSWER: (No marks for only naming the tests.)	MARKS
<p>1. <u>Fit Test</u>: The test aims to determine if the strategy is well matched to the conditions and other critical aspects of the business environment in which the company operates.</p> <p>A winning strategy for instance needs to have a good <u>external fit</u> with respect to prevailing market conditions.</p> <p>In order to be considered a winning strategy, the strategy also needs to be assessed to see if it demonstrates a good <u>internal fit</u> which implies that it is tailored to the company's resources and competitive abilities and can be supported by a complementary set of functional activities.</p> <p>In addition, the strategy should exhibit a good <u>dynamic fit</u> in the sense that it is able to evolve over time in a manner that maintains close and effective alignments with the company's situation as conditions change.</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>
<p>2. <u>Competitive advantage test</u></p> <p>This is a test to determine if the strategy would help a company achieve a sustainable competitive advantage. The bigger and more durable the advantage that the strategy promises, the more powerful the strategy is. This consideration is important because strategies that fail to provide a persistent advantage over rivals cannot be considered as winning strategies.</p>	<p>✓</p>
<p>3. <u>Performance test</u></p> <p>This is a test to determine if the company would be able to gain superior performance from the strategy.</p> <p>This test is linked to two kinds of indicators that tell the most about the calibre of a company's strategy:</p> <ul style="list-style-type: none"> - Competitive strength and market standing - Profitability and financial strength 	<p>✓</p> <p>✓</p>

QUESTION 2**(4)**

Besides short-term and long-term objectives, firstly discuss **two other major kinds of objectives** that an organisation needs to focus on. Secondly, further discuss **what type of indicators** these objectives are with respect to an organisation's performance.

(NO marks if there is no discussion.)

Mark allocation	Marks
Discuss types of objectives (1) x 2 + Type of indicators (1) x 2	4

MEMO

Type of objective: (1)

1. **Financial objectives:** Relate to the financial performance targets management has established for the organisation to achieve. Organisations in business typically exist to make a profit and guarantee returns for its investors. Financial objectives focus internally on the firm's operations and provide a standard for the measurement of the financial performance of the firm.

Type of indicator: **(NO marks if there is no discussion.)** (1)

Current financial results are lagging indicators of past decisions and actions which does not translate into a stronger competitive capability for delivering better financial results in the future.

Type of objective: (1)

2. **Strategic objectives:** Relate to target outcomes that indicate an organisation is strengthening its market standing, competitive position, and future business prospects. It is focused on how competitive the firm would be relative to its rivals. / These objectives focus externally on competition vis-à-vis the firm's rivals.

Type of indicator: **(NO marks if there is no discussion.)** (1)

Measures for strategic objectives can therefore be considered as leading and reliable indicators of the future performance of an organisation.

Or

Good strategic performance is a leading indicator of a firm's increasing capability to deliver improved future financial performance.

It is important to add though that the financial objectives have to be balanced by strategic objectives if a firm is to perform well.

QUESTION 3**(6)**

Organisations in one industry are vulnerable to competitive pressure from the actions of organisations in a closely adjoining industry whenever buyers view the products of the two industries as good substitutes.

Explain three factors that can be used to determine whether the **competitive pressures from substitute products** are strong or weak. **(NO marks if the factors are only mentioned and not explained.)**

Mark allocation	Marks
Explain factors to determine whether competitive pressures from substitutes are strong or weak (3) x 2	6

MEMO:

(NO marks if the factors are only mentioned and not explained.)

Three factors to determine when competitive pressures from substitute products are strong or weak:

- 1. Good substitutes are readily available and attractively priced.**
The presence of readily available and attractively priced substitutes creates competitive pressure by placing a ceiling on the prices industry members can charge without risking sales erosion. The price ceiling, at the same time, puts a lid on the profits that industry members can earn unless they find ways to cut costs. (2)
- 2. Buyers view the substitutes as comparable or better in terms of quality, performance, and other relevant attributes.**
The availability of substitutes inevitably invites customers to compare performance, features, ease of use, and other attributes besides prices. (2)
- 3. The costs that buyers incur in switching to the substitutes are low.**
Low switching costs make it easier for the sellers of attractive substitutes to lure buyers to their offerings; high switching costs deter buyers from purchasing substitute products. (2)

QUESTION 4**(6)**

As a potential strategy expert:

- 4.1 Describe the value of **strategic group maps**. (4)
- 4.2 Explain the difference between an **attractive and an unattractive industry environment**. (2)

Mark allocation	Marks
Describe the value of strategic group maps	4
Explain the difference between an attractive and unattractive industry environment	2

MEMO:

- 4.1 Strategic group maps are useful in identifying which industry members are close rivals and which are distant rivals. (1)

The second thing to glean from strategic group mapping is that not all map positions are equally attractive. (1)

Two reasons account for why some positions can be more attractive than others:

1. Prevailing competitive pressures from the industry's five forces may cause the profit potential of different strategic groups to vary. (1)
2. Industry driving forces may favor some strategic groups and hurt others. (1)

- 4.2 An industry environment is fundamentally attractive if it presents a company with good opportunity for above-average profitability. (1)

An industry environment is fundamentally unattractive if a firm's profit prospects in the industry are unappealingly low. (1)

OR

Industry outsiders may conclude that they have the resources to easily hurdle the barriers to entering an attractive industry while other outsiders may find the same industry unattractive because they do not want to challenge market leaders and have better opportunities elsewhere. (1)

A particular industry's attractiveness depends in large part on whether a company has the resources and capabilities to be competitively successful and profitable in that environment. (1)

QUESTION 5**(8)**

Based on the framework of a **company's strategy making hierarchy**, describe the **four different types** of strategy that are evident in the Checkers case.

Also provide quotations from the case that serve as examples of each of the strategies discussed (one quotation for each strategy).

NO marks for only naming the strategies.

Mark allocation	Marks
Description of each of the different types of strategy, based on the strategy-making hierarchy (1) x 4	4
Each quotation from case study that serves as evidence of the described strategy (1) x 4	4

MEMO:

ANSWER				
	Strategy	Description (1 mark)	Case evidence (1 mark) (Any of these would suffice)	MARKS (4 + 4)
1	Corporate strategy	This strategy is [orchestrated by the CEO and other senior executives] for the purpose of managing a set of businesses in a diversified, multi business company. It is focussed on capturing cross-business synergies in order to transform them into a competitive advantage for the holding company.	<i>Shoprite Holding's growth strategy "has principally been acquisitive" in nature.</i> <u>OR</u> <i>".....of its holding company's six stated 'strategic focus areas' is to achieve growth in the share of the wallet of the LSM 8-10 consumers".</i>	✓✓
2	Business strategy	This is a strategy that concerns itself with strengthening the market position, building a competitive advantage and improving the performance of a single business. [It is primarily the responsibility of the business head and senior executives of the specific line of business.]	<i>"...it would appear that at a business level, the Checkers chain's "primary growth driver has become organic expansion"</i> <u>OR</u> <i>"..the business decision to compete more intensely in the market that offers a wide range of consumer goods including fresh produce and targets relatively affluent clientele in the LSM 8-10"</i> <u>OR</u> <i>"The Checkers chain serves customers from two types of</i>	✓✓

			<p>outlets, the Hyper stores and the regular supermarket”</p> <p><u>OR</u></p> <p>“... to lure more affluent shoppers to the Checkers brand with high quality convenience products priced slightly below those offered by competitors.”</p> <p><u>OR</u></p> <p>“...Checkers is opening up more outlets in wealthy suburbs, recognising that they have for years been inadequately represented in neighbourhoods with substantial spending power.”</p> <p><u>OR</u></p> <p>“...One of the ways Checkers is reducing its prices is by investing in more efficient distribution of its produce.”</p>	
3	Functional area strategy	<p>This strategy is concerned with the approaches employed in managing particular functions within a business. In essence the strategy fleshes out the details of a company's business strategies based on specific functions. [The lead responsibility for such strategies is borne by the functional heads though the general manager provides the final approval.]</p>	<p>“...offers a spectrum of financial services including the sales of airplane tickets, money transfer, payment of utility bills and so on”.</p> <p><u>OR</u></p> <p>“...the launch of 135 new ‘almost-ready-to-eat’ market offerings including pizzas, salads, pasta and soups among others.”</p> <p><u>OR</u></p> <p>“...We use our procurement strategy and supply chain management to increase efficiencies and reduce costs”</p>	✓✓
4	Operating strategy	<p>This is a strategy formulated for the management of key operating units and specific operating activities with strategic significance. [While such strategies may be limited in scope, they nonetheless provide important details and completeness that adequately serve functional and ultimately the overall business strategy. Frontline managers typically bear the lead responsibility for such strategies.]</p>	<p>“.....sourcing some products from Freshmark another company in the Shoprite stable”</p> <p><u>OR</u></p> <p>“....to refurbish and upgrade their stores to resemble those of their next generation stores,”</p> <p><u>OR</u></p> <p>“...what makes it more efficient is that you operate from one node, one location, and in terms of regional distribution you are able to do multiple temperatures.”</p> <p><u>OR</u></p> <p>“...to promote more in-store experiences to attract</p>	✓✓

			<i>shoppers and drive sales of high-margin lines. “</i> <i>OR</i> <i>“...Digital connectivity, augmented reality, virtual reality, artificial intelligence and block chain technology are rapidly transforming how retailers and manufacturers engage with shoppers”</i>	
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QUESTION 6

(6)

Briefly evaluate **Shoprite Holding’s mission statement** by **identifying and describing three components** of a mission statement that Shoprite Holding’s mission statement addresses as explained by David (2011). **(As this is an application question, NO marks for merely providing a key component without a description or evidence from the mission statement.)**

Mark allocation

	Marks
Identify and describe components (1) x 3	3
Provide evidence of components from mission statement (1) x 3	3

MEMO

Mission statement components	Description (1 mark)	Case evidence (1 mark)
Customers	Who are the firm’s customers	<i>“customers across the African continent”</i>
Markets	Where does the firm compete, geographically?	<i>“African continent”</i>
Self-concept	What is the firm’s distinctive competence or major competitive advantage?	<i>“deliver low prices in a world-class shopping environment”</i>

QUESTION 7**(6)**

Conduct a macro-environmental analysis for Checkers. In formulating your answer, start by identifying the macro-environmental force and then provide a quotation from the case study to substantiate your answer for example; “*Macro-environmental force*” + “*Quotation*”. (As this is an application question, NO marks for merely listing all the macro-environmental forces. Also, NO marks for providing a macro-environmental force without a correct quotation.)

Mark allocation	Marks
Identify macro-environmental force (1) x 3	3
Provide correct quotations (1) x 3	3

MEMO:

Any 3 of the 4 macro environmental forces

Both the Macro-environmental force and quotation must be correct for 2 marks per force

Macro-environmental force	Correct quotation
Economic conditions	<ul style="list-style-type: none"> ▪ <i>“With the South African economy facing, high inflation rates, high interest rates and currency depreciation, coupled with stagnant wages and unemployment which reached a 14-year high, the South African economy slipped into recession for the first time since 2009 ”</i> ▪ <i>“The situation is further exacerbated by rising inflation and unemployment”</i>
Sociocultural forces	<ul style="list-style-type: none"> ▪ <i>“South Africa is home to over 50-million people”</i> ▪ <i>“...it can almost be described as a consumer nation. Perhaps due to a sordid history under the apartheid government where the majority of the population barely had unrestricted access to nice shops and attractive consumer items, South Africans have come into their own and it is easy to see that shopping is a favourite activity of many.”</i> ▪ <i>“Checkers has identified a trend in this market towards fresh, convenient and added value foods”</i> ▪ <i>“Checkers has doubled its offering of high-end convenience food with a plan to reach 500 products by end of 2017,”</i>
Technological factors	<ul style="list-style-type: none"> ▪ <i>“The group’s new distribution park outside Cape Town, dubbed Cilmor (after farmer Cecil Morgan who formerly owned the land), spans a massive 123,000m² and is claimed to be one of the most technologically-advanced such facilities on the continent”</i> ▪ <i>“Digital connectivity, augmented reality, virtual reality, artificial intelligence and blockchain technology are rapidly transforming how retailers and manufacturers engage with shoppers”</i> ▪ <i>“...the accelerating rate of technological developments”</i>
Legal and regulatory factors	<ul style="list-style-type: none"> ▪ <i>“Lastly, with the recent Steinhoff debacle, corporate governance and controls will most likely tighten into 2018”</i>

QUESTION 8**(6)**

Many developments can affect an industry powerfully enough to qualify as **driving forces**. Driving forces can be defined as the major underlying causes of change in industry and competitive conditions.

After reading the Checkers case, identify and describe three forces driving industry change in the fast moving consumer goods (FMCG) retailing industry, and provide a relevant quotation from the case to substantiate each of the identified driving forces. (As this is an application question, NO marks will be awarded for merely identifying the driving forces.)

Mark allocation

	Marks
Identify and describe the driving force (1) x 3	3
Provide relevant quotations (1) x 3	3

MEMO:**Any 3 industry driving forces.**

Driving Force	Explanation (1 mark)	Evidence from case study (1 mark)
Changes in an industry's long-term growth rate	Shifts in industry growth up or down have the potential to affect the balance between industry supply and buyer demand, entry and exit, and the character and strength of competition. Whether demand is growing or declining is one of the key factors influencing the intensity of rivalry in an industry, as explained earlier. But the strength of this effect will depend on how changes in the industry growth rate affect entry and exit in the industry. If entry barriers are low, then growth in demand will attract new entrants, increasing the number of industry rivals and changing the competitive landscape.	<i>"All this has necessitated that lower-income consumers – traditionally the core customer of Checkers – to cut back on their spending, while the wealthier class (LSM 8-10) seem to remain unfazed by the economic downturn"</i>
Increasing globalization	Globalization can be precipitated by such factors as the blossoming of consumer demand in developing countries, the availability of lower-cost foreign inputs, and the reduction of trade barriers, as has occurred recently in many parts of Latin America and Asia. The forces of globalization are sometimes such a strong driver that companies find it highly advantageous, if not necessary, to spread their operating reach into more and more country markets.	<i>"Checkers is currently identifiable as a fast-moving consumer goods (FMCG) retailer and operates primarily in South Africa, Swaziland, Mauritius, Namibia and Lesotho"</i> <i>"to deliver low prices in a world-class shopping environment to customers across the African continent"</i> <i>"Similar to other countries in the African continent and possibly in the developing world, it can almost be</i>

		<i>described as a consumer nation."</i>
Shifts in buyer demographics	Shifts in buyer demographics and the ways products are used can greatly alter industry and competitive conditions. Longer life expectancies and growing percentages of relatively well-to-do retirees, for example, are driving demand growth in such industries as health care, prescription drugs, recreational living, and vacation travel.	<p><i>"All this has necessitated that lower-income consumers – traditionally the core customer of Checkers – to cut back on their spending, while the wealthier class (LSM 8-10) seem to remain unfazed by the economic downturn"</i></p> <p><i>"Consequently, the middle to low income bracket consumer group seems to be suffering the most, with little or no disposable income."</i></p>
Technological change and manufacturing process innovation	Advances in technology can cause disruptive change in an industry by introducing substitutes or can alter the industry landscape by opening up whole new industry frontiers. For instance, advances in battery technology are beginning to change how motor vehicles are powered.	<p><i>"Digital connectivity, augmented reality, virtual reality, artificial intelligence and blockchain technology are rapidly transforming how retailers and manufacturers engage with shoppers"</i></p> <p><i>"...the accelerating rate of technological developments are significantly influencing how consumers behave, and thereby shifting the demands made on those who supply or service them."</i></p> <p><i>"...and is claimed to be one of the most technologically advanced such facilities on the continent."</i></p> <p><i>"Another internal challenge for the business is adapting to technological disruptions currently taking place."</i></p>
Product innovation	An ongoing stream of product innovations tends to alter the pattern of competition in an industry by attracting more first-time buyers, rejuvenating industry growth, and/or increasing product differentiation, with concomitant effects on rivalry, entry threat, and buyer power. Product innovation has been a key driving force in industries such as smartphones, video games, and prescription drugs.	<p><i>"In 2016, its business model allowed for the launch of 135 new 'almost-ready-to-eat' market offerings including pizzas, salads, pasta and soups among others"</i></p> <p><i>"Woolworths will respond with new product offerings and</i></p>

		<p><i>packaging sizes of their own, this while Pick n Pay is also rolling out 'new-look' stores"</i></p> <p><i>"Consequently, Checkers has doubled its offering of high-end convenience food with a plan to reach 500 products by the end of 2017..."</i></p>
Entry or exit of major firms	Entry by a major firm thus often produces a new ball game, not only with new key players but also with new rules for competing. Similarly, exit of a major firm changes the competitive structure by reducing the number of market leaders and increasing the dominance of the leaders who remain.	<p><i>"Other competitors, such as Spar and Pick n Pay, have also tried to hone in on this market, with Pick n Pay taking a second stab at it five years after its first attempt"</i></p> <p><i>"this provides an ideal opportunity for another player such as Checkers to enter this segment of the market"</i></p>
Changes in cost and efficiency	Widening or shrinking differences in the costs among key competitors tend to dramatically alter the state of competition. Declining costs of producing PCs have enabled price cuts and spurred PC sales (especially lower-priced models) by making them more affordable to lower-income households worldwide.	<p><i>"One of the ways Checkers is reducing its prices is by investing in more efficient distribution of its produce."</i></p> <p><i>"And what makes it more efficient is that you operate from one node, one location and in terms of regional distribution you are able to do multiple temperatures."</i></p> <p><i>"So instead of sending three trucks out to the store, we will be sending one"</i></p> <p><i>"We use our procurement strategy and supply chain management to increase efficiencies and reduce costs, all of which helps us to keep Shoprite's low-cost promise."</i></p>
Regulatory influences and government policy changes	Government regulatory actions can often mandate significant changes in industry practices and strategic approaches—as has recently occurred in the world's banking industry. New rules and regulations pertaining to government-sponsored health insurance programs are driving changes in the health care industry. In international markets, host governments can	<i>"Lastly, with the recent Steinhoff debacle, corporate governance and controls will most likely tighten into 2018"</i>

	drive competitive changes by opening their domestic markets to foreign participation or closing them to protect domestic companies.	
Changing societal concerns, attitudes, and lifestyles	Emerging social issues as well as changing attitudes and lifestyles can be powerful instigators of industry change. Mounting consumer concerns about the use of chemical additives and the nutritional content of food products are driving changes in the restaurant and food industries. Shifting societal concerns, attitudes, and lifestyles alter the pattern of competition, favoring those players that respond with products targeted to the new trends and conditions.	<p><i>“Checkers has identified a trend in this market towards fresh, convenient and added value foods.”</i></p> <p><i>“Perhaps due to a sordid history under the apartheid government where the majority of the population barely had unrestricted access to nice shops and attractive consumer items, South Africans have come into their own and it is easy to see that shopping is a favourite activity of many.”</i></p> <p><i>“Consequently, Checkers has doubled its offering of high-end convenience food with a plan to reach 500 products by the end of 2017...”</i></p>

TOTAL

[50]