JULY 2017 SUPPLEMENTARY/AEGROTAT EXAMINATION

MODULE:

STRATEGIC AND CHANGE MANAGEMENT

PROGRAMME:

MASTER OF BUSINESS ADMINISTRATION

(NQF 9)

DATE: 17 July 2017 TIME: 09h00 – 12h00

DURATION: 3 hours MARKS: 100

EXAMINER: O M Seedat MODERATOR: D Nag

INSTRUCTIONS TO CANDIDATES:

1. Candidates are required to answer **ALL** questions.
2. This is a closed book examination.
3. No written material may be brought into the examination room.
4. Write legibly and neatly.
5. Do **not turn over this page** until permitted by the Invigilator.

*This question paper consists of **eight (8) typed pages** excluding the cover page.*

QUESTION ONE [35]

Read the following and answer the questions that follow:

Introduction

If one looked at some of the largest and most successful organisations twenty years ago and then compared them with those of today, one would probably be surprised. Closer examination of these organisations would show numerous examples of success, failure or transition over this relatively short time period. Some of the largest business organisations today might not even have been around 20 years ago! There are many reasons why organisations excel, die or simply survive from year to year. Management theory shows that organisations go through periods of evolution followed by periods of revolution. Many changes occur because of pressures from the business environment to which organisations have to react. Other changes occur because employees and managers want to move an organisation forward in pursuit of far-reaching aims and are prepared to make key decisions which enable it to do so.

The Dixons Group developed a business strategy which enabled it to achieve its corporate aim 'to be number one in the electrical and electronic market-place'. In a changing world it is important for an organisation to have a clear idea of its strategic direction. By developing a goal identifying where it wanted to be, Dixons was defining a future state of affairs it wanted to achieve which helped everyone within the company to focus on the process of change.

Strategic decisions

When Sir Stanley Kalms, the current chairman of Dixons, joined the business in 1948, it had a turnover of £105 per week. The Dixons Group today is one of the largest publicly quoted retail groups in the UK, with a turnover approaching £3 billion.

The Dixons Group comprises:

- Dixons, the UK's leading retailer of consumer electronics, selling the latest video, audio, personal computer, photographic and communication technology.
- Currys, the UK's leading electrical retailer, providing a comprehensive selection of domestic appliances, video, audio and communications products and personal computers.
- PC World, the UK's largest specialist computer superstore retailer, featuring comprehensive ranges of personal computers, printers, software, peripherals and accessories.
- The Link, a retailer specialising in communications services and products.
- Mastercare, the UK's leading after sales service organisation for consumer electronics and business products, supporting customers of Dixons, Currys, PC World and The Link.

Strategic alternatives

In order to pursue its corporate aim, Dixons was faced with two simple alternatives. It could go alone and expand internally, which would mean relying upon expansion within the company or it could opt for external expansion which would mean acquiring other parts or businesses which would add to the overall effectiveness of Dixons as a business. Dixons opted for a strategy including elements of both. Its internal strategy involved further development of Dixons stores and the creation and development of The Link. Dixons' external acquisitive strategy led to Currys, Mastercare and PC World becoming part of the Group, where they could also be further developed.

Acquisition

As a method of development, acquisition makes sense, particularly in markets which are relatively mature. Acquisition enabled Dixons to take over a large company which already existed in the electrical market-place (Currys) and also to acquire a developing organisation with a bright future (PC World).

Mastercare was part of Currys when it was acquired by Dixons. A key benefit from acquiring Currys was that Mastercare would help Dixons to develop a lead in the area of 'service'. PC World was not a major competitor when it was taken over. At the time it only had four stores serving largely niche markets. However, Dixons recognised that PC World had uncovered a formula which could provide a successful platform for further development in the field of computer sales. Each of these organisations, except for Mastercare, broadly represented horizontal level integrations which involved the addition of similar products and services to complement the existing Dixons' portfolio, whilst at the same time helping to increase market share.

Acquisition also allowed Dixons to benefit from synergy. The synergy equation 2 + 2 = 5 signifies that a portfolio of businesses is much more valuable than each business as a standalone entity, because of the influence of the ‘group’ as a whole in areas such as purchasing, product development, management, channels of distribution and customer care and service.

Currys/Mastercare

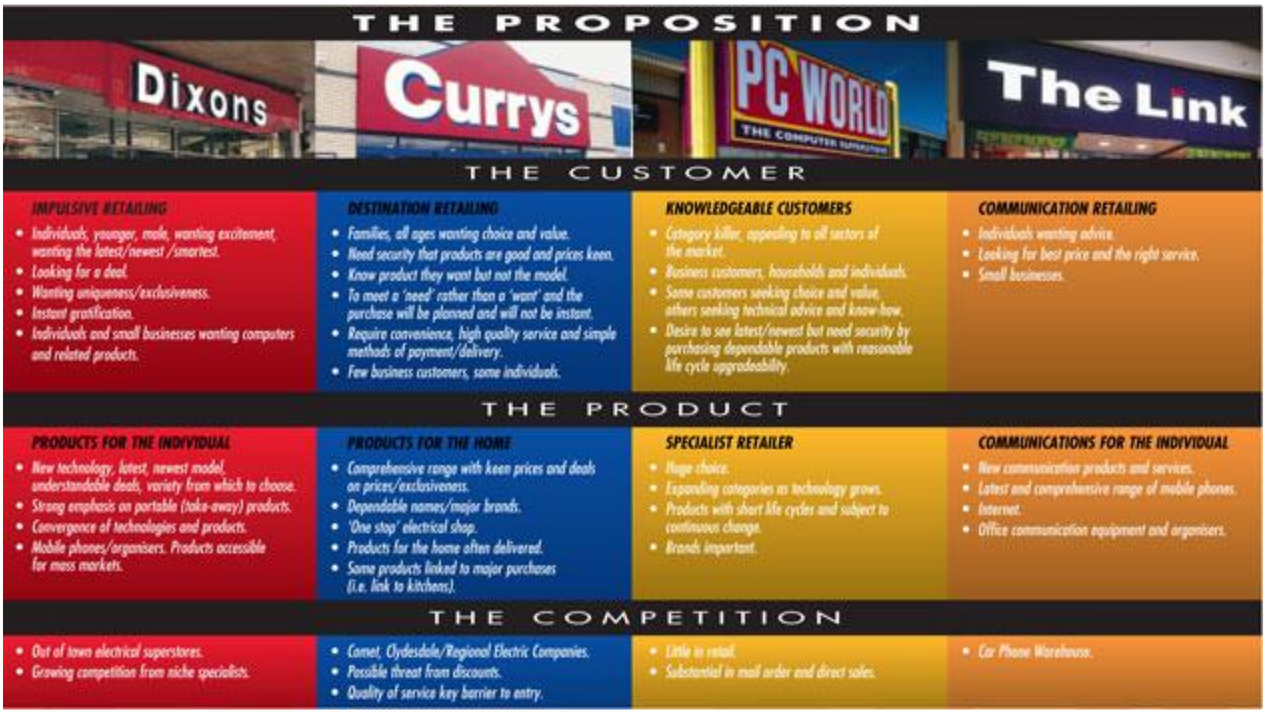
Currys and Mastercare were a particularly good choice for the Dixons portfolio in 1984 because they enabled the Group to stay close to its expertise in electrical and electronic retailing. Dixons and Currys were then managed together to gain economies of scale and competitive benefits from buying in volume and reduced overhead costs. The Group then developed the ‘out of town’ concept for Currys Superstores. With this change in market positioning it was decided in 1994 to separate out the management of Dixons and Currys for Marketing and Sales (not Buying or central support) so that each Chain would have the freedom to develop its own market and customer focus.

PC World

At the time of the acquisition, PC World had just four stores. With a rapidly increasing market for personal computers and related products, the acquisition of PC World was viewed as a way of increasing Dixons product authority. The sales of PCs were likely to move on from businesses to consumers and Dixons needed to develop its entry potential into consumer markets still further. The growth of PC World is not simply reflected by the growth in the number of stores from four to 53 under the ownership of Dixons, but is better represented by its massive turnover in the computer marketplace which today is £572 million, an increase of 23 per cent over the last year. PC World has become a talking point in the industry as well as in towns and cities where each new store is located.

The objective for PC World was to provide an outlet which would develop the sales of PCs to consumers. The strategy was, therefore, to combine Dixons retail skills with PC World’s product authority to stimulate additional consumer interest in the market. Until the launch of multi-media PCs, the market was viewed as specialist. The opportunity to use sound, colour and movement through the use of CD-ROM exploded the multi-media market and helped to move PCs into the mass market.

Meeting the demands of the customer



As a retail organisation, Dixons needed to understand their potential customers and any likely developments in their buying patterns. By developing a clear direction which responded to these changes using this acquisitive strategy, Dixons could further develop its market not just through the nature of the products and services it provided but also through the improved distribution opportunities it created.

Strategic decisions

A strategic decision was taken to focus upon individual brand building which would then position the chains in relation to each other. This would involve emphasising the benefits of each chain of stores to meet the needs of the customer, by product and competitive attributes. The belief was that this strategy could be used to create a broad range of retail opportunities, each of which would serve different customer requirements. Service would underpin each of the retail brands' strategies.

The policy led to Currys moving to larger edge of town superstore units in order to satisfy customer needs such as a wider product range, emphasis upon bulkier and larger goods, improved space for browsing and car parking. In contrast, the strategy for Dixons was to remain where it would provide a more portable range of goods. Space made available by reductions in the large screen televisions and domestic audio ranges was then used by Dixons to create a much wider selection of photographic and portable audio products and computer software, in which Dixons has been rapidly developing its market share.

Across many ranges the products in both Dixons and Currys were identical. It was important that prices were the same in each store as many customers visit both. For many customers shopping at Dixons tends to take place during working hours with visits being made to Currys superstore units at weekends and in the evenings.

Responding to the changing business environment

The other strategy adopted by Dixons was that of internal development. For Dixons this led to the development of The Link and Mastercare. Dixons used internal developments to segment its markets, increase its market penetration, take advantage of further business opportunities and improve its overall competitive advantage. Both the development of The Link and Mastercare enabled Dixons to move into related areas which complemented existing markets.

The objective for The Link was to develop a specialist communications chain trading in a market in which substantial growth is expected over the next few years. The Link is concerned with communication products such as phones, faxes, pagers, organisers, connection devices and navigation equipment. The speed with which this niche-category store expanded and developed was unrivalled. Within a four year period The Link has moved from 0 to 127 stores

To have the strongest image for customer service among the electrical and electronic retailing multiples was paramount if Dixons was to maintain its competitive advantage. Customer service together with product after sales service, is a cornerstone of the Group's strategy. Mastercare was designed to help provide sustainable competitive advantage for each of the retail chains.

Mastercare today employs over 1,500 skilled engineers and technicians, reflecting greater numbers of in-store repair and technical centres in Currys and PC World Superstores and the expansion of personal computer service. Dixons may be a market leader in the retailing electrical and electronic markets but it cannot afford to be complacent.

Conclusion

Dixons strength comes from its entrepreneurial approach to doing business. It has developed into a nonbureaucratic organisation which is quick to respond to new ideas. Its group structure with the four separate chains offers the potential to operate a business which focuses upon diversified customer needs in a fast-changing marketplace. Yet, much still remains to be done. Dixons cannot afford to rest on its laurels. It has identified three barriers to its corporate vision with which it must deal:

1. Coping with change: recruiting and developing the people needed to adapt to a changing marketplace and rate of current growth.
2. Proximity to customers: a challenge facing every retail organisation – the ability to meet customer needs.
3. Product knowledge: with developing technological advancements, the product knowledge of sales staff is key to increasing market-share.

Business strategies mean planning how organisations use their resources in a changing business environment. In some ways it is similar to a football team preparing a game plan which builds upon its strengths. However, a strategy is not just about winning one game, it is a long term plan which takes into account not one competitor, but many.
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Questions

1.1 The process of strategic management means setting a pathway for an organisation to change and then putting in place plans and policies which enable it to achieve its corporate aim. With reference to this, critically discuss the nature of key decisions made by Dixons within the process of change as it built a chain designed to meet the requirements of different groups of customers. (15)

1.2 Explain the difference between organic and inorganic growth and discuss the benefits that Dixons enjoyed from acquisitions. (10)

1.3. In an industry which is fast-changing, organisations need to know their customers and their changing needs and requirements. The biggest threat for any organisation is to fail to adjust to changes in the market-place. In an increasingly complex retail environment not all customer requirements and purchasing habits are the same
With reference to this, discuss how Dixons responded to this challenge. (10)

QUESTION TWO [15]

Implementation of any change programme needs to take account of the restraining forces of change. Managers should anticipate some employee resistance and plan for this eventuality in the change strategy (Brown, 2011:171)

With reference to this, discuss the reasons for employee resistance to change and suggest ways in which resistance to change can be overcome.

QUESTION THREE [20]

3.1 Distinguish between strategy formulation and strategy implementation and discuss the barriers to strategy implementation in an organisation. (10)

3.2 In order to steer strategy implementation efforts in the right direction, organisations make use of several strategy implementation drivers.

Discuss any TWO drivers and instruments for strategy implementation. (10)

QUESTION FOUR [30]

Read the following and answer the questions that follow:

Fiat – the quest for global leadership

Founded in 1899, the Fiat Group has over 100 years experience in the car industry. In addition to the Fiat brand, it includes the luxury brands, Maserati and Ferrari, as well as truck manufacturer Iveco. Fiat is one of Italy's largest multinational organisations.
By the late 1990s, Fiat was underperforming. Its market share in the global car industry was declining as a result of years of underinvestment and poor corporate strategies. Between 2001 and 2004, Fiat had three different CEOs and in 2004 the operating loss was €585 million.

Fiat's performance improved after Sergio Marchionne became CEO in 2004. Marchionne had big ambitions of turning Fiat into a global company. In 2008 the company made a healthy profit of about €3 billion.

Fiat traditionally had a strong market position in Italy and across Europe. Market analysts believed that the company needed to have a strong presence in North America and it Asia if it wanted to become a global leader in the car industry. There was only one way of growing the company quickily, through strategic alliances.

Fiat had some experience of big alliances. In 2000, Fiat formed a strategic alliance with General Motors (GM) with the aim of selling more cars in North America and cutting operating costs as a result of joint purchasing and manufacturing. In 2001, Fiat made savings of about €200 million thanks to the alliance.

However, Fiats financial difficulties continued after 2001 and the company asked General Motors to exercise the option of buying the company. The Fiat-GM partnership agreement included a clause that gave General Motors the first right to purchase Fiat at a fair market price, if Fiat decided to sell the car business. GM refused and the Fiat-GM alliance was dissolved in 2005.

Marchionne continued to search for opportunities to collaborate with other companies. The global recession presented an unexpected opportunity, as the US car company Chrysler declared bankruptcy in 2009. As part of a plan to rescue Chrysler, Fiat and Chrysler formed a strategic alliance, with Fiat taking 20% of Chrysler's shares. The alliance gave Fiat a better access to the US market, while Chrysler benefitted from producing smaller fuel-efficient cars and engines developed by Fiat.

Meanwhile, Fiat expanded elsewhere in the world through joint ventures. In India, Fiat formed a joint venture with Tata Motors in 2007, to manufacture cars, engines, and transmission systems. Fiat wanted to expand car sales in India, while Tata wanted to gain new technology and export markets.

In China, Fiat's truck manufacturing company, Iveco, already had two established joint ventures in the truck business. In 2009, Fiat entered into a joint venture with China's

Guangzhou Automobile Industry Group – in order to produce cars and car engines in China's Hunan Province. Fiat's previous attempt to enter the Chinese market through an alliance failed when the company dissolved a partnership with Nanjing Automotive Corporation in 2007.

Strategic alliances have not only brought many tangible benefits for Fiat, but they are turning Fiat from a regional company into a global company. Marchionne regards alliances as a core component of Fiat's global strategy. "there is no limit to these ventures," he says.

Fiat's joint ventures

Joint Venture	**Country**	**Fiat shareholding interest (%)**
Fiat Group Automobiles Financial Services	Italy	50.0
Societa Europea Veicoli Leggeri-Sevel	Italy	50.0
Fiat Zastava	Serbia	67.0
Transolver Finance Establecimiento	Spain	50.0
Fiat-Guangzhou Automobile Industry Group	China	50.0
SAIC Iveco Commercial Vehicle Investment Company Limited	China	50.0
Naveco Limited	China	50.0
Fiat / Tata Motors	India	50.0
Fiat / OJSC-Sollers	Russia	50.0
Tofas – Turk Otomobil Fabrikasi Tofas	Turkey	37.9
Turk Traktor Ve Ziraat Makinileri	Turkey	37.5
New Holland HFT Japan	Japan	50.0
LBX Company	US	50.0
CNH de Mexico SA de CV	Mexico	50.0

4.1 Discuss the drivers and motives for the strategic alliances established by Fiat. (10)

4.2 Discuss the advantages and risks of Fiat's global strategic alliance strategy. (10)

4.3 Discuss the ways in which Fiat can manage the strategic alliance risks (10)

END OF QUESTION PAPER