



REGENT
BUSINESS SCHOOL
HONORIS UNITED UNIVERSITIES

NOVEMBER 2019 MAIN EXAMINATION

MODULE:

STRATEGIC AND CHANGE MANAGEMENT

PROGRAMME:

**MASTER OF BUSINESS ADMINISTRATION
(NQF 9)**

DATE:	13 November 2019	TIME:	09h00 - 12h00
DURATION:	3 hours	MARKS:	100
EXAMINER:	O M Seedat	MODERATOR:	A Kader

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 **four (4) typed pages** excluding the cover page.*

QUESTION ONE

[20]

Change which is imposed on an individual by his or her manager is always going to be resisted.

With reference to this:

- 1.1 Discuss the reason why individuals resist change in organisations. (10)
- 1.2 Discuss the strategies that managers can utilise for enhancing the success of change initiatives. (10)

QUESTION TWO

[50]

Read the following case study and answer the questions that follow:

Crocs

In May 2017, Crocs Inc. released its results for the first quarter of the year. The footwear company, which had sold its first shoes in 2013, reported revenues of \$142 million for the first quarter, more than three times its sales for the first quarter of 2016.

The growth and profitability of Crocs, which made funky, brightly coloured shoes using an extremely comfortable plastic material, had been astounding. Much of this growth had been made possible by a highly flexible supply chain which enabled the company to build additional product to fulfil new orders quickly within the selling season, allowing it to respond to unexpectedly high demand.

In 2012, three friends went sailing. One brought a pair of foam clog shoes he had bought from a Canadian company. The clogs were made from a special material that did not slip on wet boat decks, was easy to wash, prevented odour and was extremely comfortable. The three decided to start a business selling these Canadian shoes to sailing enthusiasts. They wanted to name the shoes something that captured the amphibious nature of the product and chose to name the shoes "Crocs".

A CEO was appointed in 2015. The company started by distributing shoes made by the Canadian manufacturer Finproject. One of the CEO's first moves was to purchase Finproject which was renamed "Foam Designs." Crocs now owned the formula for the proprietary resin "croslite™" that gave the shoes their unique properties of extreme comfort and odour resistance. The company now also controlled manufacturing. The CEO also launched the product worldwide. He explained the rationale behind launching worldwide at an early point in the company's life: "the plan was, we're going to launch the world in order to get a brand out that would be a sustainable brand with this funky looking strange product. Other, larger shoe companies, or even larger apparel companies, could have knocked us off, and could have gone into Europe before we got there if they had infrastructure in Europe."

Crocs started its sales efforts on a grass-roots basis in the US. The company participated in many trade shows in every industry that could benefit from the product, such as garden shows, boat shows, and pool supply shows. As stores began carrying the shoes, Crocs personnel worked closely with the stores. As the CEO observed, "if you just put up a rack of funny-looking shoes, I don't think they would have done anything. But we got in there with some of our people, or our reps, and stood around and got people excited." Crocs also went to a wide range of events, such as concerts,

festivals, and sports tournaments to talk to customers about the shoes. The company took a similar approach in other countries, but the momentum generated in the US helped foreign adoption. The company initially used representatives and distributors in the US but brought this function in-house to control costs. In other countries Crocs had its own sales staff wherever possible, but as of mid-2017 had some 3rd party distributors in some locations.

In addition to a popular product and a global strategy, Crocs developed a supply chain that provided a competitive advantage. Traditional industry practice was for retail distributors to place bulk orders for each season's inventory many months in advance, with little ability to adjust to changes during the selling season. The Crocs model did not impose these limitations on retailers - the company could fill new orders within the season, quickly manufacturing and shipping new product to retail stores.

From 2013 to 2016 the company had phenomenal growth. Revenue in 2013 was \$1.2 million. By 2016, it was \$355 million with a net income of \$64 million (18 percent of revenue). Crocs went public in February 2016 with an initial market capitalisation of over \$1 billion. After the Q1 2017 earnings release, the market cap passed \$2.7 billion. Sales outside of North America grew from 5 percent of total revenue in 2015 to 25 percent in 2016.

The original Crocs shoe was a clog design. Visually, its two most distinctive features were large ventilation holes and bold colours. The key to the shoe, however, was the croslite material. This proprietary closed-cell foam material moulded to the shape of the wearer's foot, providing an exceptionally comfortable shoe. It was extremely light, did not skid, was odour resistant, and did not mark surfaces. It could also be washed with water. Croslite could be produced in any colour, and the company chose bold colours.

As Crocs grew, it added additional shoe designs. The two original models, Beach and Cayman, accounted for about 62 percent of footwear sales in 2016. These two models also formed the basis of some of the other Crocs models. By April 2017, the company had a wide range of shoes and other products. Its website showed 31 basic footwear models, ranging from sandals to children's rain boots to shoes designed for professionals such as nurses. Some of its shoes were made under a license agreement with Disney, and incorporated Disney characters. In addition, Crocs offered four models of shoes (CrocsRX) that were designed to meet the special needs of those with medical problems that affected the feet, such as diabetes. The company offered 17 university models that were made in the university colours.

While shoes comprised 96 percent of company revenues in 2016, Crocs also branched out into other accessory products, such as caps, shirts, shorts, hats, socks and backpacks. It had products such as kneepads that utilised croslite to provide functionality. It also sold decorative hearts that could be put into the shoe ventilation holes, originally made by a family-owned company (Jibbitz) that Crocs purchased in December 2016.

Crocs made other acquisitions in 2016 and early 2017 in the sports protection equipment and apparel market, and in action footwear. These acquisitions further broadened the company's product line and introduced products that incorporated conventional materials such as leather.

The acquisitions made can be tabulated as follows:

Acquisition	Description
Foam Designs (formerly Finproject) June 2014	Original manufacturer of Crocs products and owner of croslite intellectual property
Fury (formerly 55 Hockey Products) October 2016	Manufacturer of hockey and lacrosse products. Crocs developed protection gear based on croslite offering low weight, energy absorption and microbial resistance.
EXO Italia October 2016	Designer of ethylene vinyl acetate (EVA) products, primarily for the footwear industry
Jibbitz December 2016	Family owned company specialising in colourful snap-on products designed as accessories for Crocs footwear
Ocean Minded, LLC January 2017	Designer and manufacturer of high-quality leather and EVA based sandals for the beach, adventure, and action sports markets. Uses recycled and recyclable materials

The raw materials for the croslite in Crocs shoes are inexpensive chemicals purchased in pellet form. These are then combined in a process called 'compounding' in which they are converted into a slurry, mixed and then reformed into new pellets. As part of the compounding process, colour dyes are added. The compounded pellets are then ready to be moulded into croslite products.

Croslite components for Crocs products are made by injection moulding. After the parts for each style and size are moulded, they must be assembled. This might involve gluing croslite parts together or stitching (in the case of components made of leather or canvas) or other materials which had been added to the Crocs product line in 2016 and 2017. The finished products are then tagged and placed in boxes.

The Crocs supply chain strategy was developed in three phases:

Phase One: Taking over production. As mentioned earlier, the manufacturer of Crocs shoes (Foam Designs) was acquired in 2014 so that Crocs could own the proprietary croslite resin and control manufacturing. At this point, Crocs purchased the raw material pellets from a variety of companies in Europe and the United States and shipped them to a third-party compounding company in Italy. The compounded coloured pellets were then shipped back to Foam Designs in Canada, where shoes were moulded and assembled. The finished products were then sent to a third-party distribution company that warehoused the shoes and packaged and shipped them to customers.

Phase Two: Global production using contract manufacturers. Crocs started production in China in early 2015 using a large contract manufacturer. The raw materials were still being sent to Italy for compounding, but the compounded pellets were now sent to both Canada and China. Crocs began to enter the Asian and European markets in 2015. The strategy was to launch worldwide, so it brought on manufacturing capacity to support this approach. It added capacity through contract manufacturers in Florida, Mexico and Italy.

Phase Three: Bringing the global supply chain in-house. Crocs developed company-owned manufacturing operations in Mexico, Italy, Brazil and India. In Bosnia, Crocs used a contract manufacturer to serve European customers. The arrangement here was Crocs owning the moulding equipment and the contract company providing the labour. The Chinese contract manufacturer was

retained (in 2016, 55 percent of Crocs' requirements was produced in China). Crocs also kept the Florida contract manufacturer and continued to manufacture in Canada.

While manufacturing in each geographic region added both capacity and the ability to respond to local customers, having the compounding done in Italy led to supply chain inefficiencies. In 2016, Crocs took control of the compounding activity, creating compounding facilities in Canada, China and Mexico. Moving compounding in-house also provided IP protection for the croslite compound. Crocs also changed its warehousing model. The company had used a contract warehousing and distribution firm to handle all its shipments. All production came to the contractor's warehouse in bulk, where every shoe was removed and labelled and then warehoused. Customer orders were filled from this warehouse. The company added warehousing operations to each factory, include labelling, installing hand tags and putting products in to bags or boxes. The Chinese warehouse was owned by one of the Crocs suppliers but run by Crocs' personnel and Crocs' systems.

The Crocs supply chain was able to support the company's explosive growth, enabling the company to ride the wave of customer enthusiasm for its products. Crocs had been enormously successful from its first sales in 2013 through the first quarter of 2017. It had developed an effective supply chain that was a critical factor in this success. It had products that were very popular in the marketplace. It had positive relationships with its retail customers. How could it best build on its success?

Adapted from Schroeder, Goldstein and Rungtusanatham (2017) Operations Management in the Supply Chain Decisions and Cases Sixth Edition McGraw-Hill

Questions:

- 1.1 Undertake a SWOT analysis for Crocs. (12)
- 1.2 Outline the sources of competitive advantage of Crocs and indicate, with reasons, whether this can be sustained. (9)
- 1.3 Identify and describe the strategies Crocs has followed from its inception. (9)
- 1.4 Provide a critical response to the questions raised in the following paragraph:

"This success also raised questions about how the company should grow in the future. Should it vertically integrate or grow through product line extension? Should it grow organically or through acquisition? Would potential growth paths exploit Crocs' core competencies or defocus them?" (20)

QUESTION THREE

[15]

Critically discuss the following statement:

"Strategic leadership is at the core of strategic management".

QUESTION FOUR

[15]

Competitive advantage can be built by redefining the product offering of an organisation through value innovation and creating a new market space. The process of thinking through value innovation has been described as searching for a "blue ocean".

With reference to this, discuss the concept of a 'blue ocean'.

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