# JUNE 2016 SUPPLEMENTARY/AEGROTAT EXAMINATION

MODULE:

## STRATEGIC AND CHANGE MANAGEMENT

PROGRAMME:

## MASTER OF BUSINESS ADMINISTRATION

## (NQF 9)

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| DATE: | 13 June 2016 | TIME: | 09h00 – 12h00 |
| DURATION: | 3 hours | MARKS: | 100 |
| EXAMINER: | OM Seedat | MODERATOR: | D Veerasamy |

**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 **five (5) typed pages** excluding the cover page.*

**QUESTION ONE** **[30]**

Read the following and answer the questions that follow:

**Cobra Beer**

Cobra Beer is one of the fastest growing bottled beer companies in the United Kingdom (UK). It was founded in 1989 by Karan Bilimoria, a 45-year-old Indian-born British entrepreneur who, along with a partner, had spotted a gap in the market for a lager that could be drunk easily with meals in Indian restaurants. The idea was simple: they would produce a high-quality lager-type beer that was less gassy than those normally sold by restaurateurs and would therefore not bloat diners.

Bilimoria was born in Hyderabad and came to the UK in 1981 to further his education, obtaining a law degree and accountancy qualifications from Cambridge University. After a short while working as an accountant, he long with his partner Arjun Reddy, started up a business importing from India such varied things as polo sticks, leather goods, jackets, towels, and pearls. These were sold with varying degrees of success, but, as Bilimoria says, his 'big idea' was always beer. And so in 1898 the partners founded Cobra Beer Ltd. Their mission from the beginning was to brew the finest Indian beer and make it into a global brand.

Bilimoria claims that they owed some of their subsequent success to luck. For example, a chance contact with staff from Mysore Brewery, which supplies beer to the Indian army, in which his father had been a general, Bilimoria discussed his idea for the new beer with the brewery's master brewer. "To him, it was a challenge but I was very clear about the product, its taste and texture, and we worked with him to create it from scratch, adding maize and rice to the usual lager mix" Bilimoria says.

Bilimoria was planning to enter one of the most competitive beer markets in the world. The main brand, Carlsberg, was firmly entrenched, a new competitor, Kingfisher, had already entered eight years earlier, and numerous other beer brands were also trying to break into the market. The partners also knew nothing about the industry and they had no money. Bilimoria, however, was determined to succeed and had a passionate belief in the product.
Initially Cobra Beer was run out of Bilimoria's flat – up three flights of stairs – and deliveries were made from his old Citroen car which held exactly fifteen cases. The car was so tatty that the partners would park it out of sight of the restaurants to which they were delivering. Although Cobra beer was £1 more expensive (typically 10 to 15 percent more than competitors beer) and deliberately positioned up-market, Bilimoria and his partner went for the best restaurant first on the basis that others would follow their lead. They created a sales pitch that pointed out that if restaurants could supply diners with a beer that did not make them so full – because it was less gassy and of better quality (i.e. Cobra) - the restaurant could sell more food.

Within two years, Bilimoria and Reddy were delivering over a thousand cases of Cobra a month to over a hundred restaurants with a large number of repeat orders. For ten years, Cobra beer sales in Europe averaged annual growth of over 40 percent. By 2005, was one of the fastest growing beer brands in Britain; it was being served in 90 percent of the 6000 licensed Indian restaurants in Britain and was available in supermarkets, mainstream bars, pubs and clubs.

Cobra beer has regularly won Grand Gold Medals at the prestigious Monde Selection Awards in Brussels (the brewing industry's 'Oscars'), and created history in 2004 by winning the medal for the fourth time in a row with its UK brewery partner Charles Wells. Its Polish brewery Browar Belgia went further, wining four gold medals in 2004, the first year it had brewed Cobra. In 2006, for the second year running, Cobra was awarded more gold medals than any other company in the world: it won twelve.

Although principally focused on Cobra beer, the company has engaged in some product diversification. In 1999, in honour of his father, Bilimoria set up the General Bilimoria wine brand. Like the beer, it was designed to accompany Indian food to replace house wines served in Indian restaurants. The wine is produced in France and Spain and sells about 350 00 bottles a year. In 2005 – 2006, Cobra launched an alcohol-free beer and a low calorie beer aimed at women between 25 and 35, promoted as an alternative to both full-calorie lagers and bland low-calorie brands. It also launched King Cobra, a bottle-conditioned strong (8 percent) lager, which is sold in 750 ml champagne-style bottles.

It has also expanded geographically. Export sales, particularly to Italy (where there are fewer than 100 Indian restaurants) and Ireland began to take off in 1996. However, Britain still accounts for over 90 percent of Cobra sales. Bilimoria realised that the company was too reliant on the UK and needed to spread market risk. As a result, Cobra opened subsidiaries in South Africa, India, and the United States. The company has also expanded into Russia and Eastern Europe. Its taste is a selling point.

Cobra is now available in 11 states in the USA, although they were unable to use the Cobra name there, and so call it 'Krait' (a snake from the same family as the cobra). Krait prestige is the equivalent of the King Cobra brand and Cobra Beer in America has ambitions to achieve a 3 percent share of the US beer market. China is another country where Cobra plans to establish operations. However, the main push was into India, the world's second most populous country with over 1bn inhabitants, with a market estimated to be about 100m cases of beer a year and growing at around 7 per cent per annum. Cobra licensed Mount Shivalik Group to brew Cobra in their Behror brewery in Rajasthan. Paradoxically, although Cobra is marketed as an Indian beer, for most of its life production has been carried out in Europe. Although the beer was produced in Mysore's brewery in Bangalore for the first seven years of the company's life, quality and supply problems meant that production was transferred to Charles Wells' brewery in the UK. The Belgian brewer, Browar Belgia began producing Cobra beer in 2003.

**Questions**

| | | |
|---|---|---|
| 1.1 | Analyse the source of Cobra's competitiveness and discuss the sustainability of its competitive advantage. | (10) |
| 1.2 | Discuss the major strategic issues that face Cobra Beer as it strives to make Cobra a global brand. | (10) |
| 1.3 | Identify the strategic options available to Cobra. | (4) |
| 1.4 | Recommend a course of action for Cobra, giving reasons for your answer | (6) |

**QUESTION TWO** **[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 quickly, 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, Fiat's 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 alliances**

| **Alliance** | **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 |

**Adapted from Frynas and Mellahi (2011) <u>Global Strategic Management 2nd edition</u>. Oxford University Press**

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

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

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

**QUESTION THREE** **[20]**

A strategy is a course of action to which valuable resources will be committed. The future of the organisation may be altered because of it; survival may be at risk. Consequently, strategy should be earthy and realistic. Ansoff (1987) warned that strategy is an elusive and somewhat abstract concept. With reference to this:

3.1 Discuss the reasons why strategy is crucial to an organisation. (10)

3.2 Explain why strategic intent may be regarded as the first indispensable step in the strategic management process. (10)

**QUESTION FOUR** **[20]**

Organisational change involves moving from the known to the unknown. Because the future is uncertain and may adversely affect people's competencies, worth, and coping abilities, organisation members generally do not support change unless compelling reasons convince them to do so. Similarly, organisations tend to be heavily invested in the status quo, and they resist changing it in the face of uncertain future benefits. Consequently, a key issue is how to motivate commitment to organisational change.

With reference to this:

3.1 Discuss the reasons why change initiatives are resisted. . (10)

3.2 Discuss, in detail, the strategies for dealing with resistance to change. (10)

**END OF QUESTION PAPER**