D. VERY LONG ANSWER TYPE QUESTIONS
Question 1. Explain the advantages of franchising, both for the franchisor and franchisee.
Answer: Merits of Franchising:

1. Proven idea: Business is based on a proven idea. Success of the product can be checked in the market.
2. Profit from brand recognition:Franchises develop an image in the marketplace. This saves both time and money of advertising, promotion, recognition, etc. Image of the product is a favourable one and is in the minds of consumers.
3. Recognized brand name and trademarks: Entrepreneur gets a recognized brand name and trademarks. Benefit from any advertising or promotion by the parent company automatically benefits the franchise.
4. Support from parent company: The franchisor gives support in the form of training, help setting up the business, a manual telling how to run the business and ongoing advice.
5. Exclusive rights of the territory: The franchisor can't sell any other franchises in the same territory which leads to the creation of monopoly power in the territory.
6. Easier Financing: Financing the business becomes easier due to the associated brand name. Banks are more likely to lend money to buy a franchise with a good reputation.

Question 2. Explain in detail the types of mergers.

Answer:

1. Conglomerate: Here, two totally unrelated business activities mearge. Pure conglomerate mergers is between the firms with nothing in common.
   Mixed conglomerate mergers involve firms which are going for product extensions or market extensions. Example: Walt Disney Company and the American Broadcasting Company. Here the new company formed had to face tough competition in both the products.
2. Horizontal merger: This merger is between companies in the same industry. It is a type of business consolidation that occurs between firms which are competitors and offering the same goods or service. It is in the condition where competition tends to be higher and the potential gains in market share are much greater for merging firms in such an industry.
   Example: A merger between Coca-Cola and the Pepsi beverage division, would create a new, larger organisation with more market share.
3. Market extension mergers: It takes place between two companies that deal in the same products but in different markets. This merger is to make sure that the merging results in a bigger market and a bigger client base. Example: The acquisition of Eagle Bancshares Inc. by the RBC gave RBC a chance to deal in the financial market of Atlanta, which is among the leading upcoming financial markets in the USA. RBC has thus diversified due to this move.
4. Product extension mergers: A product extension merger takes place between two business organizations that deal in

products that are related to each other and operate in the same market. The product extension merger allows the merging companies to group together their products ' and get access to a bigger set of consumers. This ensures that they earn higher profits.
Example: The acquisition of Mobilink Telecom Inc. by Broadcom Broadcom deals in the' manufacturing of Bluetooth personal area network hardware systems and chips for IEEE 802.11b wireless LAN. Mobilink Telecom Inc. deals in the manufacturing of product designs meant for handsets that are equipped with the Global System for Mobile Communications technology. It is expected that the products of Mobilink Telecom Inc. would be complementing the wireless products of Broadcom.

5. Vertical merger: A merger between two companies producing different goods or services for one specific finished product. A vertical merger occurs when two or more firms, operating at different levels within an industry's supply chain, merge operations. Most often the logic behind the merger is to increase synergies created by merging firms that would be more efficient operating as one. Example: A vertical merger joins two companies that may not compete with each other, but exist in the same supply chain. An automobile company joining with a parts supplier would be an example of a vertical merger. Such a deal would allow the automobile division to obtain better pricing on parts and have better control over the manufacturing process. The parts division, in turn, would be guaranteed a steady stream of business.

Question 3. What do you think are the reasons for failure of merger and acquisition?
Answer: Following are the reasons for failure of merger and acquisition:

1. Unrealistic price paid for target: Merger and acquisition involves valuation of the target company and paying a price. Many a time the price paid to the target company is much more than what should have been paid. Shareholders of the target company are benefited, the shareholders of the acquirer end up on the losing side.
2. Difficulties in cultural integration: Merger involves combining of two or more different companies with different corporate cultures, styles of leadership, differing employee expectations etc. If the merger is not dealing sensitively with the companies people and their different corporate cultures, the merger may be a disaster. For example, the merger of Daimler Benz with Chrysler. While Daimler-Benz's culture stressed on a more formal and structured management style, Chrysler favoured a more relaxed and freewheeling style.
3. Overstated synergies: Mergers and acquisitions assumed to be for creating synergies through increased revenue, reduced costs and improvement in the investment intensity. Overestimation can lead to failure.
4. Integration difficulties: The combined firm or entity has to adapt to a new set of challenges given by the new circumstances. Plans are thus prepared to integrate the operations of the combining entities. This is done on the present information. If the information available is inadequate, integration becomes difficult.
(a) Poor business fit: Mergers and acquisitions also fail when the products of the merging firms do not fit into the acquirer's overall business plan.
5. Inadequate due diligence: Due diligence helps in detecting financial and business risks that the acquirer inherits from the target company. Inaccurate estimation of the related risk can

result in failure of the merger.

Question 4. What is meant by moving up the value chain? Explain with the help of an example.

Answer:

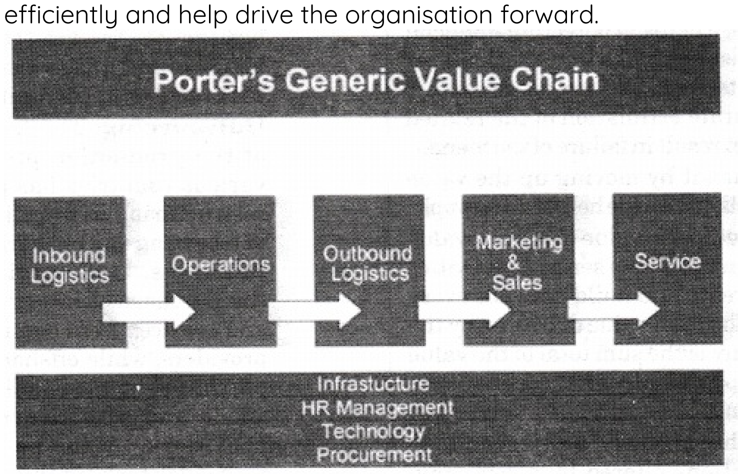
1. Moving-up the value chain is a value chain in the whole series of activities that create and build value at every step. The total value delivered by the company is the sum total of the value built up gradually all throughout the company.
2. It is the primary and secondary facilitations offered by a company.
   Low facilitation to highest facilitation by a company then leads to movement from low level to highest level.
   For example, in a steel industry, if they make specialized steel for automobiles, rather than selling basic steel, which is taken by another company who makes specialized steels to automobiles.
   Since the company makes it directly now, they get more money for their product, and thus higher revenues. This will eventually lead to higher profits.
   The value chain concept separates useful from the wasteful activities which hinder the company from becoming a leader in the market. Focusing on the value-creating activities gives the company many advantages.
   It involves primary activities like Inbound logistics, Operations, Outbound logistics, Marketing, sales, Services, etc. and Support activities like Procurement, Technological development, Human resource management etc.
   Value chain management requires coordination and collaboration, Technology investment, Organizational process, Leadership, Employee/ Human resources and Organizational culture and attitudes.
   For example: The ability to charge higher prices; lower cost of manufacture; better brand image, faster response to threats or opportunities.
   Outsourcing: The fragmentation of the production process across various countries has given rise to restructuring in firms including the outsourcing and off shoring of certain functions. Outsourcing involves the purchase of intermediate goods and services from outside specialist providers, while off shoring refers to purchases by firms of intermediate goods and services from foreign providers, or to the transfer of particular tasks within the firm to a foreign location. Off shoring includes both international outsourcing where activities are contracted out to third parties abroad and international in-sourcing to foreign affiliates.

Question 5. Explain in detail Porter's Generic Value Chain with the help of a diagram.
Answer: Michael Porter gave the value chain analysis concept in his 1985 book 'The Competitive Advantage'. He suggested that activities within an organisation add value to the service and products that the organisation produces and all these activities should be run at optimum level if the organisation is to gain any real competitive advantage.
If these activities are run efficiently, the value obtained exceed the costs of running them and customers return to the organisation and transact freely and willingly.
He suggested that the organisation is split into 'primary activities' and 'support activities'.

1. Primary activities include:
   (a) Inbound logistics: Here, goods are obtained from the suppliers and are used for producing the end product.

(b) Operations: Here, raw materials and goods are manufactured into the final product.
(c) Outbound logistics: Distribution of finished goods is known as outbound logistics.
(d) Marketing and sales: Here, marketing mix is used to form an effective strategy to the target group through the promotional mix.
(e) Services: After the product/service has been sold, sales training, guarantees and warranties etc. play its part.

2. Support activities: These help the primary activities achieve competitive advantage. They include:
(a) Procurement: It is to obtain the best possible quality available in the market for their budget.
(b) Technological development: Technology can be used to obtain a competitive advantage. Technology can be used to reduce cost and thus adding value, research and development to develop new products on the internet so that customers can have all time access to the firm.
(c) Human resource management: Here, the organisation will have to recruit, train and develop the right people for the organisation to be successful. Staff will have to be motivated and paid the 'market rate', if they are to stay with the organisation and add value.
(d) Firm infrastructure: Organisation needs to ensure that their finances, legal structure and management structure work efficiently and help drive the organisation forward.



Question 6. Explain the requirements for value chain management.
Answer: Following are the six requirements for value chain management:

1. Coordination and collaboration:
It is essential to increase efficiency within an organization. Care should be taken that efforts are not duplicated. Firm is greater than the sum of its parts for achieving a common goal of the firm.
2. Technology investment: With outdated technology, like old computers or machinery, an organization's competitiveness is weakened due to a loss in productivity. This devoids the firm from gaining advantage.
3. Organisational process: Improvement in processes through better technology and greater procedural knowledge is essential for the present and future success of a company. Continuity is to be maintained for the improvement and is to be made an integral part of the system.
4. Leadership: Strong leaders adds to the successions value chain management. Good leaders earn the respect of their employees through neutral, effective and sound management practices. Conflict management, motivation and direction are the essential requirements of strong leaders.
5. Employee/human resources: Without a knowledgeable and

active human resources department, employees may feel they don't have a voice within the company and this may lead to lack in belongingness from the employees. Also, an employee hesitant to go directly to the ultimate superiors with issues act as a hurdle in many situations.
6. Organisational culture and attitudes: Organisations that foster strong cultural identity with positive attitudes tend to attract and retain top employees. Regular sponsored activities are suggested to help build cultural unity and keep attitudes positive while boosting productivity of the firm.

E. HIGHER ORDER THINKING SKILLS
In the following cases identify the type of merger:
Question 1. A merger between firms that are involved in totally unrelated business activities.
Answer: It is Conglomerate merger.

Question 2. A merger occurring between companies in the same industry.
Answer: It is Horizontal merger.

Question 3. It takes place between two companies that deal in the same products but in separate markets.
Answer: It is Market extension merger.

Question 4. It takes place between two business organisations that deal in products that are related to each other and operate in the same market.
Answer: It is Product extension merger.

Question 5. It is between two companies producing different goods or services for one specific finished product.
Answer: It is Vertical merger.

F. APPLICATION BASED QUESTIONS
Question 1. ABC Company, manufacturing shoes, has taken over XYZ Company which also manufactures shoes at a small scale. What do you think will be the reason for this kind of takeover?
Answer: Following can he reasons for the take over:

1. ABC Company may have decided to expand in terms of its production and wanted to raise its sales and turnover.
2. ABC Company may have decided to expand its area of sales and so may be desirous to take over the marketing area of XYZ Company.
3. ABC Company may have wanted to use the research and development of the XYZ company for raising its output and sales.

Question 2. Vimal Company Ltd., were earlier producing pencils, now they have decided to further venture into the field of notebooks and paper. What do you think is the company attempting to do? Identify and explain the concept.
Answer: The concept is of diversification. It is a process of adding new products or markets to the existing, by an enterprise. Here, the enterprise thus is able to produce more types of products e.g. not only washing soap, but toilet soaps, shampoos, detergents, washing powders etc. are produced by such enterprises. For example, Samsung not only produces TV but washing machines, copying machines, printers, etc.
Usefulness of diversification for an enterprise:

1. Risk is reduced: If one type of product is not sold then other products can be sold. This reduces the chances of incurring overall loss to the enterprise.producers are producing the product.
2. Continuous revenue: By diversification an enterprise

continuously receives payments. This makes the inflow a continuous process. The financial obligations of the company can thus be easily met.

3. Financial obligations can be met easily: Due to a variety of products being sold the cash flow becomes regular. This helps in fulfilling the financial obligations like installments premium, payment for power, payment for raw material, etc.
4. Helps in branding: When one product is able to gain faith of consumers, then this faith can be utilized for increasing the sale of other products. Thus, a brand name comes into existence.

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