

FULL TIME MBA PROGRAMME
PAPER: STRATEGIC ANALYSIS
MAXIMUM MARKS: 50

NOVEMBER 2016
PAPER NO: MBA FT 6302
TIME ALLOWED: 3 HOURS

PART A

Question 1 is compulsory and carries 20 marks.

1. Read the case study entitled 'STICK TO CORE?' and attempt the following:

What are the strategic options available to Advaark with respect to its future course of action?
What option would you recommend and why?

PART B

Attempt any two questions from Part B. Each question carries 15 marks. You may use examples to illustrate your analysis.

2. What is strategy? How does the tool of the Balanced Scorecard help in strategy formulation and implementation? What are the possible pitfalls of using this tool? Discuss.
3. Apply Porter's five forces of competition model to assess the attractiveness of the Indian e-commerce industry. Would different segments in this industry be expected to yield differential profitability? Discuss.
4. How are organisational capabilities different from resources? What are the major kinds of resources and capabilities? Can resources and capabilities serve as a basis for sustainable competitive advantage? Discuss.
5. What is the distinction between cost based strategies and differentiation based strategies? Can elements of these two kinds of strategies be combined? Are differentiation based strategies superior to cost based strategies? Discuss.

CASE STUDY: STICK TO CORE?

"Cut!" Spike Sanchez stomped toward the stage, his arms waving the music to a stop. Wearing black from head to toe, sporting dark glasses, and sweating under the heat of the lights, he was losing his patience. A highly respected music video director, Sanchez was starting to wonder if taking on this advertising gig was such a great idea. "How many times do I have to tell you to point the logo on the can toward the camera during that move?"

On stage was Maygan M, a pop singer whose star had risen in the months since she'd agreed to do this ad. She was a sweet-faced, 18-year-old beauty, dressed in a sequined, midriff-baring halter top, a skintight leopard microskirt, and platform shoes that had already tripped her up twice. She sheltered her eyes from the lights and glared at Sanchez. "Like I can even see the stupid logo," she whined. "Maybe you could fix it on a computer or something?"

"Or maybe you should just do what I say," Sanchez shot back. "Then we might have some hope of airing this 30-second spot before your 15 minutes of fame are up!" He turned abruptly, strode off the stage, and dropped back into his director's chair. "Let's try it again from the top." Maygan pouted at him for a moment and then flipped her long hair, spun around, and went back to her starting position.

Sitting next to Sanchez was Ian Rafferty, cofounder and head of creative services for Advaark, a New York-based advertising agency. "Pretty tough to work with, isn't she?" he whispered.

"This?" Sanchez waved his hand dismissively. "This is nothing! Try working with some rock 'n' roll dinosaur strung out on crank and wanting to make a comeback!"

In the back of the studio, Rafferty's partner and fellow founder George Caldwell was deep in conversation with John McWilliams, the CEO of GlobalBev. Both men were oblivious to the antics onstage. One of Advaark's key clients, GlobalBev was a multibillion-dollar holding company for an assortment of well-known food and beverage brands.

"We were completely blindsided by this 'energy drink' craze," McWilliams was saying to Caldwell. A relatively new beverage category, energy drinks touted their herbal stimulants and got an extra jolt from loads of caffeine and sugar. Teens and 20-somethings all pounded them back while studying, exercising, and dancing and used them to get a kick start in the morning. They couldn't seem to get enough of the stuff. "But thanks to this" McWilliams continued with a nod toward the stage, "I think we're going to get into the game in a hurry. What a name, huh? Nirvoza! Is that great or what?"

Caldwell was about to say something when the music began to blare again and Maygan resumed her lip-synching routine. As he watched her and the dancers prance around the stage, he thought about the conversation he'd had with Rafferty over the brand name. He didn't like it. It made him think of anorexia-not a good vibe, even for Advaark's cutting-edge style of advertising.

But Rafferty had persuaded him with the results of a market test. The Nirvoza brand had scored incredibly high with the drink's target audience, who liked the fact that it suggested nirvana and nervousness at the same time. Some mentioned that it had echoes of the Seattle grunge band, Nirvana. Even though the group's singer had committed suicide, Rafferty wasn't concerned. The people who made that association, he argued, were the very people who would like an even edgier feel to the brand. Caldwell was finally swayed. And clearly the client was pleased with the choice.

Suddenly the music stopped and Maygan M thrust the can toward the camera right on cue. "Achieve your own Nirvoza!" she snarled. Everyone was silent until Sanchez bolted upright and stretched his arms out wide. "Unbelievable" he shouted. "She did it!" Then he smiled. "Okay, everyone. That's a wrap." There was scattered applause as Sanchez turned and clapped Rafferty on the back. "I'll check out the tape before we send it over," he said. "But I think we nailed it."

"Great. Thanks, Spike." Rafferty got up and headed toward McWilliams and Caldwell, who were still huddled together at the back of the studio.

"You know, George" McWilliams was saying, "I've always been impressed with Advaark's creative work. The stuff you've done for us over the years has been absolutely great. But you should've told me earlier that you also help your clients decide whether to get into new markets." Caldwell was just about to ask McWilliams what he was talking about when Rafferty joined them.

"So," Rafferty said, looking at both of them, "Whad'ja think?"

"It's great!" said McWilliams enthusiastically. "And I can only thank you again for recommending that we get into energy drinks. I have a really good feeling about this. By the way, when we've completely wrapped up this campaign, I'd love to get your thinking about our snack lines. I can't put my finger on it, but I think we're missing something there. Okay?"

Rafferty shot a quick glance at Caldwell and then nodded at McWilliams. "Sure. And in the meantime, here's something you might want to stick in your trophy case." He handed him the Nirvoza can, personally crushed by Maygan M.

Core Combatants

As McWilliams walked out the studio door, Caldwell turned to Rafferty. "Was it really you who steered GlobalBev toward the energy drink market? I thought it was his idea."

Rafferty frowned. "Actually, that's something I've been meaning to talk to you about. It was clear to me that that market was on the verge of exploding and that GlobalBev was going to miss out on it. It's not like we don't understand their business, George. So I suggested to McWilliams that we take a closer look at it"

"And?" "He said to go ahead. So we did a bunch of research on the energy drink market and its projected growth rate and figured out the existing competition. It all added up to a good move for GlobalBev. I showed our findings to John and he loved it. End of story"

Caldwell respected Rafferty's track record of successes, but he wasn't pleased with this kind of maverick behavior. "First of all, Ian, we're partners. I should have been apprised of all this. And second, did it ever occur to you that the energy drink market might be just a passing fad?"

"Don't worry, George. We did our homework. Even if the market tanks in three years, which I don't think it will, GlobalBev will still make a killing with Nirvoza. They've already got all the manufacturing capabilities and distribution channels in place. This could be huge for them."

Caldwell was upset, but Rafferty was a brilliant creative talent, and clients loved him. He chose his words carefully. "Ian, I do applaud your initiative. But when we formed this business, we agreed that the key to our long-term success was staying focused on what we do best--creating unforgettable ads. It's really important that we not wander from what makes us great"

Rafferty scarcely needed the reminder that Advaark's strength was creative. He and Caldwell had formed the agency seven years ago when, bored with mindless jingles and sweepstakes promotions, they left the multinational ad giant that had employed them both for a decade. Their own reputations and their accumulated Clio's led them right away to some high-profile accounts. They hired gifted writers and artists (and more than a few oddballs) and gave free rein to their inspired lunacy and offbeat ideas. Rafferty was the ringmaster, a flamboyant visionary who was never content with the status quo. But equally important were Caldwell's sharp focus and operational skills. Together, the partners created an effective balance. And Advaark quickly developed a reputation for "water cooler" ads--the kind that got people talking.

As word got out that Advaark was uniquely successful in getting the attention of sophisticated--even jaded--consumers, the firm's revenues soared. Despite Advaark's rapid growth to a midsize firm with annual billings of \$550 million and almost 400 people, the company managed to maintain a culture in which innovation thrived. Advaark was a magnet for all kinds of creative people.

And now, Ian was proposing a change that could threaten all that. "But I know we can be great at this," he insisted. "We didn't charge for it this time, but can you imagine what something like this would be worth to clients? If we packaged it up as a new service and sold it, we could generate a whole new stream of revenue."

"That's not the business we're in."

"Would you still say that if one of our competitors began offering it?"

Caldwell, late for a meeting already, nearly gave a dismissive wave of his hand as he started to turn away. Then it struck him how serious his partner was. "Look. We're still on for lunch, right? Let's talk about it then."

Airing Concerns

Dodging an in-line skater, Caldwell bounded up the steps of O-Zone, an oxygen bar with vegetarian specials that was Rafferty's favorite lunch spot. Rafferty was already seated, studying the list of the day's specials. Spotting Caldwell, he waved him over. "You're in luck--the lavender air is only a buck a minute!"

Caldwell laughed. "Hey, does this place serve hot dogs?"

By the time their orders arrived, though, the conversation had turned sober. "Ian, we're not even close to being experts in opening up new markets. Are you seriously proposing that we develop and launch a completely different service offering?"

"Why not?" countered Rafferty. "Take your blinders off, George. A lot is happening in our industry. It's consolidating--fast. More and more agencies are offering their clients one-stop shopping for a bunch of services, not just advertising." He paused to dip a carrot stick in hummus. "It's not even clear what an advertising firm really is any more. The lines are blurring between what we do and what other professional services firms do."

"But Ian, that's why focus is more important now than ever. We're an advertising firm, not a strategy consulting firm, remember? We've succeeded by being the best creative agency out there"

"I'm sorry, George. I think we're in danger of resting on our laurels. If we only focus on what we've done in the past, we could blow our future. We need to change with the times"

Caldwell didn't agree. He reminded Rafferty of the last time they'd considered branching out into a new business-- interactive advertising. That was the same kind of proposition, to Caldwell's mind: a chance to chase clients' needs into an arena where the firm had no skills advantage. After a heated debate, he had nixed the idea. And history, he believed, had proved him right. The Internet bubble had burst, and companies had abandoned their interactive agencies in droves. Advaark might have forgone some easy revenue, but it held on to its reputation--and its clients.

Rafferty let out a sigh. "Okay, okay, enough about the past. Let's talk about the future. We know we want to grow, and here we have a client begging us to provide it with a new service. Why on earth wouldn't we do that?" Advaark knew its clients' brands deeply, he pointed out, and had earned their trust. There was no reason to believe the service he was describing couldn't be sold to just about

any of them. The revenue potential was obvious and particularly attractive because doing more business with existing clients would reduce the overall cost of sales. At the same time, the new offering might even attract whole new clients.

"And what if we screw up?" asked Caldwell. "What do you think will happen to our long-term client relationships then?" He proceeded to rattle off any number of reasons the venture might well fall: the lack of a standard methodology or training program, the risk of alienating the strategy consultants that regularly referred clients, the greater penalties associated with failure on any given project. And one challenge was particularly troubling to him. Advaark would need to recruit different kinds of talent, probably folks who didn't come cheap, and attracting and keeping them would likely require a different compensation scheme.

"So? We can do that," Ian argued. "All we'd need to do is price the service accordingly to cover that and maintain our margins. Hell, we may even see improvements in them"

"Slow down a minute, Ian. How's that going to go over with the rest of our people? Suddenly, they're second-class citizens? There's no question it would create a real cultural rift."

"You're not giving our people enough credit for being grown-ups. I'm telling you, if we don't create this kind of service, we risk becoming a second-class firm. You know the key to our future success is to grow our business by getting more share of the customer"

"No, Ian," Caldwell snapped back. "The key to our future success is to continue to do world-class work!"

A few nearby diners glanced over, possibly resenting the negativity being introduced into the air around them. Rafferty stared at Caldwell, then averted his eyes. He looked out the window and sighed. "All right, George. How about this? Let me do what I'd do for a client. I'll research this a little further. It sounds like you need more data."

Caldwell looked at Rafferty. It was a reasonable request. "Okay, Ian" he said, reaching for the check and pulling out his wallet. "Take a shot at it. And I promise I'll keep an open mind about it." Although he doubted Rafferty would be able to convince him, he wanted to make sure that his partner felt he was given an adequate hearing.

Data and Doubts

A week later, Rafferty presented his findings to Caldwell. They indicated that the market for marketing strategy services in the United States alone was conservatively estimated at \$1.3 billion and projected to grow at an annual rate of at least 16% over the next five years. In addition, the companies currently serving this market were highly diverse, ranging from business strategy consulting firms to market research houses and a couple of advertising agencies had even entered the arena. This, Rafferty argued, was not only a huge opportunity for

Advaark but was also a warning to get moving before more agencies stepped up to the plate.

In deference to Caldwell's concerns about risk, he recommended that Advaark move slowly into the market by developing a service squarely aimed at the consumer products industry. Over half of the firm's clients were in that sector, and Advaark could take what it had learned from the GlobalBev experience and build on it. He concluded by presenting a time line for developing the service and outlining the capital investment that would be needed.

Caldwell had to admit he was impressed. Rafferty had put together a solid business case, and he appreciated the recommendation that they begin by focusing on only one industry segment. Still, the idea of launching a service they knew nothing about simply because one client had asked for it seemed risky. He asked Ian if he could have some time to think about it. Rafferty brightened a bit and handed over a copy of his study for Caldwell to read in detail.

As he headed to his fitness club that evening, Caldwell concluded that Rafferty had built the strongest possible case, but it still wasn't enough to convince him. Advaark was successful because of its laserlike focus on being the best creative agency. Wandering into the business strategy arena could be a disaster.

He pumped quickly on a cross-training machine, momentarily distracted by the pounding music and TV screens. When his time was up, he toweled off and headed for the juice bar, nearly bumping into Nancy Gilbert, an ex-client.

"George! I've been meaning to call you," she exclaimed, smiling broadly. Gilbert was the CEO of Botanic Beauties, a natural skin and hair products company. For five years, Botanic Beauties had been a flagship client of Advaark, but last year, Gilbert had put the account up for review. Advaark had worked tirelessly to keep the business but ended up losing to an upstart boutique based in Boston. It was an embarrassing loss for Advaark and blemished its otherwise solid reputation for long-term client relationships.

"Nancy. Good to see you," Caldwell masked his surprise. "What's up?"

"I was at a CEO roundtable yesterday and just happened to be sitting next to John McWilliams of GlobalBev. He told me your firm was responsible for their decision to get into the energy drink market. And he was raving about the upcoming launch of Nirvoza."

Caldwell cleared his throat. "Well, that was very kind of him" he said evenly.

"Anyway, George, let me cut to the chase. We're thinking of going into toothpaste, and we need some guidance. I'd love to hear about your work in this area and how you might be able to help us."

Caldwell's head was spinning. Not only did a current client want Advaark to offer a strategic service, but now a former client did, too. Did Rafferty have the right idea after all?