

# Strategic management essay sample

[Business](#), [Marketing](#)



DD is the India's premier public service broadcaster with more than 1, 000 transmitters covering 90% of the country's population across an estimated 70 million homes. It has more than 20, 000 employees managing its metro and regional channels. Recent years have seen growing competition from many private channels numbering more than 65, and the cable and satellite operators (C & S). The C & S network reaches nearly 30 million homes and is growing at a very fast rate. DD's business model is based on selling half-hour slots of commercial time to the programme producers and charging them a minimum guarantee. For instance, the present tariff for the first 20 episodes of a programme Rs. 30 lakhs plus the cost of production of the programme. In exchange the producers get 780 seconds of commercial time that he can sell to advertisers and can generate revenue. Break-even point for producers, at the present rates, thus is Rs. 75, 000 for a 10 second advertising spot. Beyond 20 episodes, the minimum guarantee is Rs. 65 lakhs for which the producers has to charge Rs. 1, 15, 000 for a 10 second spot in order to break-even.

It is at this point the advertisers face a problem – the competitive rates for a 10 second spot is Rs. 50, 000. Producers are possessive about buying commercial time on DD. As a result the DD's projected growth of revenue is only 61% as against 50-60% for the private sector channels. Software suppliers, advertisers and audiences are deserting DD owing to its unrealistic pricing policy. DD has options before it. First, it should privatise, second it should remain purely public service broadcaster and third, a middle path. The challenge seems to be exploit DD's immense potential and emerge

as a formidable player in the mass media. i. What is the best option, in your view, for DD? (20 Marks) ii. Analyse the SWOT factors the DD has. iii. Why do you think that the proposed alternative is the best?

Answer

(i) For several years Doordarshan was the only broadcaster of television programmes in India. After the opening of the sector to the private entrepreneur (cable and satellite channels), the market has witnessed major changes. The number of channels have increased and also the quality of programmes, backed by technology, has improved. In terms of quality of programmers, opportunity to advertise, outreach activities, the broadcasting has become a popular business. Broadcasters too have realised the great business potential in the market. But for this, policies need to be rationalised and be opened to the scope of innovativeness not only in term of quality of programmes. This would not come by simply going to more areas or by allowing bureaucratic set up to continue in the organisation. Strategically the DD needs to undergo a policy overhaul. DD, out of three options, namely privatisation, public service broadcaster or a middle path, can choose the third one, i. e. a combination of both.

The whole privatisation is not possible under the diversified political scenario. Nor it would be desirable to hand over the broadcasting emotively in the private hand as it proves to be a great means of communication of many socially oriented public programmers. The government could also think in term of creating a corporation (as it did by creating Prasar Bharti) and provide reasonable autonomy to DD. So far as its advertisement tariff is

concerned that can be made fairly competitive. However, at the same time cost of advertising is to be compared with the reach enjoyed by the doordarshan. The number of viewers may be far more to justify higher tariffs.

(ii) The SWOT analyses involves study of strengths, weaknesses, opportunities and threats of an organisation. SWOT factors that are evidently available to the Doordarshan are as follows: S – Strength More than 1000 transmitters. Covering 90% of population across 70 million homes against only 30 million home by C & S. More than 20, 000 employees. W – Weakness Rigid pricing strategy. Low credibility with certain sections of society. Quality of program's is not as good as compared to C & S network

O– Opportunities Infrastructure can be leased out to cable and satellite channel. Digital terrestrial transmission. Regional focused channels.

Allotment of time, slots to other broadcasters. T – Threats Desertion of advertisers and producers may result in loss of revenues. Due to quality of program the reach of C & S network is continuously expanding. As the C& S network need the trained staff, some employees of DD may switchover and take new jobs. Best of the market-technology is being used by the private channels. (iii) It is suggested that the DD should adopt a middle path. It should have a mix of both the options. It should economized on its operational aspects and ensure more productivity in term of revenue generation and optimisation of use of its infrastructure. Wherever, the capacities are underutilised, these may be leased out to the private operations. At the same time quality and viewership of programmes should be improved. Bureaucracy may reduce new strategic initiatives or make the

organisation less transparent. Complete privatisation can fetch a good sum and may solve many of the managerial and operational problems. However, complete public monopoly is not advisable because that denies the government to fully exploit the avenue for social and public use. The government will also lose out as it will not be able to take advantage of rising potential of the market.

May 2008 – PCC Exam

In 2006-07 PTC Food division decided to enter the fast growing (20-30% annually) snacks segment, an altogether new to it. It had only one national competitor-Trepsico's Trito. After a year its wafer snack brandRingo, fetched 20% market share across the country. Ringo's introduction was coincided with the cricket world cup. The wafer snacks market is estimated to be around Rs. 250 crores. The company could take the advantage of its existing distribution network and also source potatoes from farmers easily. Before the PTC could enter the market a cross-functional team made a customer survey through a marketing research group in 14 cities of the country to know about the snacks of eating habits of people. The resultshowed that the customers within the age-group of 15-24 years were the most promising for the product as they were quite enthusiastic about experimenting new snack taste. The company reported to its chefs and the chefs came out with 16 flavours with varying tastes suiting to the targetted age-group. The company decided to target the youngsters as primary target on the assumption that once they are lured in, it was easier to reach the whole family. Advertising in this category was extremely crowded. Every week two-three local products in

new names were launched, sometimes with similar names. To break through this clutter the company decided to bank upon humour appeal.

The Industry sources reveal that PTC spent about Rs. 50 crores on advertisement and used all possible mediaprint and electronic, both including the creation of its own website, Ringoringoyoungo. com with offers of online games, contests etc. Mobile phone tone downloading was also planned which proved very effective among teenagers. The site was advertised on all dotcom networks. Em TV, Shine TV, Bee TV and other important channels were also used for its advertisement along with FM radio channels in about 60 cities with large hoardings at strategic places. Analysts believes that Ringo's success story owes a lot to PTC's widespread distribution channels and aggressive advertisements. Humour appeal was a big success. The `Ringo' was made visible by painting the Railway bogies passing across the States. It has also been successful to induce Lovely Brothers' Future Group to replace Trito in their Big-Bazaar and chain of food Bazaars. PTC is paying 4% higher margin than Trepsico to Future group and other retailers. Ringo to giving Trepsico a run for its money. Trito's share has already been reduced considerably. Retail tieups, regional flavours, regional humour appeals have helped PTC. But PTC still wants a bigger share in the market and in foreign markets also, if possible. Answer the following questions: a. What is SWOT Analysis? b. What are the strength of PTC? c. What are the weaknesses of PTC for entering into the branded snacks market? (4 Marks) (4 Marks) (4 Marks)

## Answer

(a) SWOT Analysis is a tool used by organizations for evaluating strategic options. For the future. The term SWOT refers to the analysis of strength, weaknesses, opportunities and threats facing a company. Strength and weaknesses are identified in the internal environment, whereas opportunities and threats are located in the external environment. Strength: Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitor. Weakness: A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it. Opportunity: An opportunity is a favourable condition in the external environment which enables to the organization its position. Threat: An unfavourable condition in external environment which poses a risk for, or damage to the organization position. (b) The strengths of PTC are: i. PTC has an existing distribution network that is used to its advantage. ii. The company has strengths in the area of procurement of potato, raw material to make the wafers. iii. Financially the company is very strong as they are spending 50 crores on advertising in a market worth 250 crores. iv. The company has diverse flavours of wafers in its portfolio that are according to the different tastes of the target group. v. PTC has done good bargaining deals with food bazaars and food chains. vi. The cross-functional team of PTC made a virtuous marketing research. (c) Weaknesses are inherent limiting factors of an organization.

They are internal by nature to the working of the organization. The case study does not clearly mention the points that can conclusively be

weaknesses of the company. However, a deeper analysis will bring out that the company is totally new to the snacks business and is highly aggressive in its approach. The experience in the food business may not result in the required competencies in the business of chips. Seemingly, the company has also gone overboard in its advertisement expenditure. It may be that the margins justify expenditure of 20% in value of the total market size of Rs. 250 Crores. Otherwise, the company may come into financial difficulties. Creating market may also be difficult as already there are many players who are trying to get attention of existing and new customers. The business is already cluttered with regional and national players and is highly competitive. Further, the company is overly relying on young segment of the population. This segment can be highly receptive to the new products and the company may lose them easily to the competitors. (d) Formulation and implementation of marketing strategy was as under.

**The Product:** To launch its snack product, an easy to remember brand name RINGO was decided upon. To understand the snacking habits of Indian customer a large survey was undertaken. Chefs on the basis of the market survey came out with sixteen flavours. The target group was identified as youngsters of 15-24 years. **The Promotion:** The Company spent about Rs. 50 crore on marketing communication. Different Media including print, electronic and outdoor advertising were put to use. Appeal used was that of humour. A huge visibility through point-of-sale was also arranged. Promotion policy was very aggressive considering that 50 crores were spent in a market of 250 crores. **The Place:** Getting Trito replaced by Ringo in Big-Bazaar and



food bazaar chain of stores was a great success for PTC. To motivate a higher margin than the Trepsico was provided for. PTC even otherwise has extensive distribution network. A perfect blend of marketing mix has made it possible to go so far and so early. Since the marketing strategy has remained successful, they need to carry it forward.

Nov 2007 – PCC Exam

Dr. Sukumar inherited his father's Dey's Lab in Delhi in 1995. Till 2002, he owned 4 labs in the National Capital Region (NCR). His ambition was to turn it into a National chain. The number increased to 7 in 2003 across the country, including the acquisition of Platinum lab in Mumbai. The number is likely to go to 50 within 2 – 3 years from 21 at present. Infusion of Rs. 28 crores for a 26% stake by Pharma Capital has its growth strategy. The lab with a revenue of Rs. 75 crores is among top three Pathological labs in India with Atlantic (Rs. 77 crores) and Pacific (Rs. 55 crores). Yet its market share is only 2% of Rs. 3, 500 crores market. The top 3 firms command only 6% as against 40 – 45% by their counterparts in the USA. There are about 20, 000 to 1, 00, 000 stand alone labs engaged in routine pathological business in India, with no system of mandatory licensing and registration. That is why Dr. Sukumar has not gone for acquisition or joint ventures. He does not find many existing laboratories meeting quality standards. His six labs have been accredited nationally whereon many large hospitals have not thought of accreditation.

The College of American Pathologists accreditation of Dey's lab would help it to reach clients outside India. In Dey's Lab, the bio-chemistry and blood

testing equipments are sanitized every day. The bar coding and automated registration of patients do not allow any identity mix-ups. Even routine tests are conducted with highly sophisticated systems. Technical expertise enables them to carry out 1650 variety of tests. Same day reports are available for samples reaching by 3 p. m. and by 7 a. m. next day for samples from 500 collection centres located across the country. Their technicians work round the clock, unlike competitors. Home services for collection and reporting is also available. There is a huge unutilized capacity. Now it is trying to top other segments. 20% of its total business comes through its main laboratory which acts as a reference lab for many leading hospitals. New mega labs are being built to encash preclinical and multi-centre clinical trials questions. i. What do you understand by the term Vision? What is the difference between ' Vision' and ' Mission'? What vision Dr. Sukumar has at the time of inheritance of Dey's lab? Has it been achieved? (8 Marks) (2 Marks) (6 Marks) (4 Marks)

ii. For growth what business strategy has been adopted by Dr. Sukumar? iii. What is the marketing strategy of Dr. Sukumar to overtake its competitors? iv. In your opinion what could be the biggest weakness in Dr. Sukumar's business strategy?

Some other cases

1. AO Swift (Pvt.) Ltd. was promoted nineteen years back as company manufacturing automobile parts with an investment of Rupees 5 crores by Abhishek Oberai. He took over as its chief executive and is occupying the same position till date. Abhishek an automobile engineer himself possessed

rich experience of working abroad and in Hindustan Motors Ltd in India. He is dynamic and ready to take risk. He always emphasized on maintaining high quality standards. Initially, the products were supplied to automobile service centers all across the country. The market was small and the company suffered some losses. Eight years after its inception the company entered into an agreement with Maruti Udyog Ltd to manufacture and supply specific components for their small car. This agreement was a turning point for the company. Later the company was able to enter agreements with other companies entering India. The company is able to manage a growth rate of over 25% in last five years. Its turnover in the last financial year exceeded 800 crores. The overall market is also witnessing a very high growth rate. Abhishek also possessed strong behavioural skills and allowed some autonomy and discretion to the senior managers of the company.

A year back in an internal meeting Abhishek felt that the company can grow still faster if it enters other markets outside India. Various options were analysed and efforts were made to discuss and negotiate with major manufacturers of the world. Getting some response from two manufacturers in European Union the company opened an office in London. Abhishek closely monitored the day-to-day working of this office. Having strategic implications all major decisions were taken by himself. He will also visit London every month to have first hand information about its working. However, as the company is growing it is becoming increasingly difficult for him to manage this office. He also wants to expand further. He called a meeting with head of various department. In the meeting following

alternatives were considered for foreign market: Continue to manufacture products in India and export them to other countries. Initiate manufacturing activities in other countries.

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Takeover existing manufacturers of the products. Answer the following questions: a. Write a note on reasons for AO Swift Ltd to open office in London? b. What should be the strategy of the company in a high growth market? Why?

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(6 Marks) (7 Marks)

c. Make an analysis of various alternatives that are being considered for expanding in foreign markets? (7 Marks) 2. Sweet Drinks Ltd is a drinks company whose core business is manufacturing and selling soft drinks to 80,000 outlets throughout India. The business of the company is good with annual turnover exceeding three billion of rupees. Profits are good and shareholders are often rewarded with lucrative dividends and bonuses. Four years back the company has diversified into the alcoholic drinks industry and has taken-over two small breweries located in western India. The company has also diversified into hotels with purchase of twenty-five hotels of three/four star category across the country. To its advantage the company has been able to obtain a monopoly for the sale of its soft drinks in its hotels and is beginning to establish itself as a brand name in the brewery industry.

Part of the strategy of the company is to continue to purchase hotels, particular by targeting National Capital Region of Delhi where tourism is likely to pick up with the forthcoming Commonwealth Games.

The company also intends to construct a five star hotel in Gurgaon to take tax advantage announced recently by the finance ministers. Everything was going on well until recently, when a Public Interest Litigation from NGO accused the company of indulging in surrogate advertising of its brewery products. In fact the company has similar brand names for its soft drinks and brewery products. This triggered a lot of protests and demonstrations against the company. Newspapers were flooded with the articles against the company. There were also some demonstrations and some small incidents of stone pelting in a few of its hotels. Answer the following questions: a. Discuss the factors related to SWOT analyses for the company? b. Explain how Sweet Drinks Ltd is achieving synergy? c. Explain the nature of diversification adopted by the company. (8 Marks) (5 Marks) (7 Marks)

3. A company producing detergents for the local markets in suburban areas was facing increasing competition from branded products. The management decided to concentrate on controlling costs by recasting production and marketing processes and bargaining with suppliers to minimise cost of inputs. But there were limits of cost cutting by recasting processes and optimise time utilisation. Suppliers of inputs too were reluctant to yield to pressures. After a year, sales started declining fast. What else can the management do in the face of growing competition? 4. A transport company was engaged in handling cargo between selected inter-city routes and had a

fleet of trucks numbering ten. After recent elections to the State Assembly, the Chief Minister of the State announced infrastructure development to be taken up as the top priority by the State Government. Bids were invited for road construction on a large scale. Work started within six months.

Accordingly, the transport company decided to expand its operations adding on more trucks to its fleet. Meanwhile, industrial growth rate in the State had a setback due to labour unrest which seriously hampered production in several industries. The transport company found its operations unprofitable.

What was the flaw in the planning for expanded operations? Is there any remedy to the situation?

5. Viking Sewing Machines Ltd., a large company, was engaged in manufacturing and marketing household sewing machines including electronic models and low-priced mechanical models. Sale of domestic sewing machines was declining all over the world in view of the increasing popularity of ready-made garments produced by companies using industrial sewing machines. At this stage there was a change in the ownership of Viking in 1997, when the CEO resigned and a new CEO took charge. Under his leadership, Viking considered the following mission statements for the company:

- a. To develop, produce, market and sell sewing machines and related products which enhance the joy of creative sewing;
- b. To be a consumer-driven company ensuring growth, profitability and success by providing superior satisfaction to the consumers and our dealer partners by continuously adding value to the Viking Brand;
- c. To be recognised as the leading premier sewing machine company in the world; and
- d. To expand our business by creating demand for more creative uses of sewing.

6. For more than ten years till 1995, Laboni Stores Ltd. was successfully running a number of retail stores selling cosmetics and skin care products. From 1996, sales were stagnating and now after a year had started declining. The general manager of the company made enquiries from stores in charge at various location of stores. All of them reported that ladies, particularly the younger generation, were found to be highly discriminating about choice of products. Demand for certain branded items widely fluctuated due to movie artists' preferences shown on the TV. Also there is a marked tendency to equate quality with price. The general manager decided to have environmental analysis carried out with a focus on changes in social and cultural factors among urban ladies. On that basis he even thought of recommending to the Board of Directors a complete change in the product lines to be decided. Do you think the GM was right in his approach regarding environmental scanning? What other factors in the environment needed analysis? If there was a clear change in the tastes and preferences of buyers of certain products, is it essential for the company to switch over to a different product line?

7. Samuel Enterprises had started producing and selling liquor in 1980 and gradually expanded its business to include manufacture of chemicals for pharma companies as well as construction work.

With three different divisions, there was a clear change noticeable after 1991 in their sales performance profitability. Earlier, 60 p. c. of sales revenue was from liquor business, while the share of other two divisions was about 20 p. c. each. While the market for liquor was gradually shrinking due to

prohibition in many areas, sales of chemicals had an uncertain potential due to the expansion of Indian producers and entry of multinational companies and introduction of new technology. The construction industry on the other hand had a high growth potential due to emphasis on infrastructure development as a part of government economic policy. The company wanted to hive off one of the divisions and focus on developing of the other two divisions. The Managing Director was in favour of undertaking an exercise in portfolio analysis for a strategic decision. However, some non-executive directors were of opinion that analysis of division-wise capabilities was also necessary besides using any portfolio matrix model before arriving at a strategic decision. Comment on the suggestions of MD and other directors giving reasons for against their respective views. 8. A transport company with nation-wide operations is now experiencing a difficult time with uneconomic freight rates and severe competition. It has diversified its business setting up textile mills and a wire rod mill in Karnataka.

All these units have been hit by severe power cuts imposed in the State. Still the company is considering several expansion strategies since the transport operations are expected to revive in the near future. What should be the appropriate strategy of the company? Give reasons. 9. A company manufacturing certain well-known brands of malted food, chocolates and biscuits for more than a decade ventured into manufacture of apple juice in 1981, but had to sell off the plant in 1984. During the year 1987, the company's sales were higher by 19 p. c. over the previous year despite new competition. Production of chocolates increased by 14 p. c. and of malted



food by 22 p. c. The sale of biscuits was also higher although these were processed by third parties and sold under popular brand names of the company. Having satisfactory financial results in 1987, the company decided to diversify into computer software business. Was it the right strategic decision? What could be the possible reasons underlying the company's decision to diversify into software business? 10. A well-known company engaged in manufacturing metal containers and packaging had diversified its operations in early 1980s investing a huge amount in a bearings factory. After 8 years, the company was suffering from a high cost structure, mounting losses, shortage of liquid funds and large scale exodus of technicians and managers.

Management's proposal for reduction in workforce and wage cuts is not acceptable to labour unions with the result that 3 of its packaging units had to be shut down. The factories need to be opened immediately for revival of business which depends upon cost reduction through reduction in the excess workforce. Suggest, with proper justification, a suitable turnaround strategy for the company. 11. A company manufacturing small electric appliances (irons, toasters and mixers) is planning to add room airconditioners to its product line by buying out another firm. Made in a separate plant in a different city the air-conditioners would be sold by a sales force under a different brand name to the same customers-retail chain stores, large departmental stores, and hardware and appliance wholesalers. Does this seem to be a wise addition to the product line? Why or why not? Explain. How will the central marketing managers be affected by it? 12. The Chief

Executive of a company manufacturing light engineering goods (pump sets and 2 H. P. motors) stated, “ Our wage rates should continue to be among the highest in the country.

“ We have a social responsibility to check the wage-price spiral. Our men are already well paid and further increase will only add fuel to inflation.” Which of the above wage policies is more reasonable and pragmatic? Under what conditions can a company be able to pass on wage increases to its customers through a price rise? What importance, if any, should a company attach to the inflationary effect of its wage policy? 13. Fifty years ago, the typical automobile manufacturing companies purchased most of their parts from other manufacturers. They did little more than assemble the parts into complete automobiles. Currently many manufacturers of automobiles, large ones mainly, manufacture 75 to 80 p. c. of the parts that go into a typical automobile. Give possible reasons underlying this shift towards more integrated production. 14. After ten years of struggle, a company manufacturing radio sets and computers, surfaced in 1982-83 to make a profit of Rs. 641akhs and then Rs. 1. 14 crores in 1983-84, but again slipped back to Rs. 1. 10 crore loss in the accounting period that followed. It is reported that the company’s radio division was unlikely ever to pay its way, its computers failed to make a splash, and its earlier efforts to diversify were yet to bear fruit. According to a high-level executive, the company concentrated on manufacturing when it needed a marketing orientation. When a new CEO was appointed, his remedy for revival was to divisionalise the organisation, introduce more accountability and diversify into cable TV

and other areas. What could possibly have gone wrong with the implementation of the company's strategy?

Comment on the measures of revival suggested by the new CEO. 15. Avik Industries Ltd. was a family-owned conglomerate with diversified business activities including consumers durables, switchgears, batteries, and both toilet and washing soaps. For a number of years the company prospered with growth in volumes and market share. But its performance had setback in 1999, when the net margins in switchgears, the most profitable product, declined from 12 to 11%, while in consumer durables it had halved to 6%, the batteries business was under pressure, and the ailing soaps division had just started looking up. The Chief Executive of the switchgear unit observed that the results would have been worse but for the focus on operational efficiency. For years, Avik had been organised along four divisions as independent profit centres. Except for HR and finance, all other functions were decentralised. The advantage was that each of the businesses had a strong focus. It also facilitated customer focus. The flipside was that divisions became insular and inward-looking. Each division had its own ad budget- even separate ad agencies. The sales force was pushed to look at short-term product promotions in the face of competitive pressure. The cost of sales was rising much faster than rate of growth in sales. It seemed divisional autonomy had been pushed too far down the line. Should the divisional set-up be disbanded?

Or, should the divisions be converted into SBUs and spun off into separate companies? Is there any other alternative structure possible? 16. Agrico Ltd.

was in chemical, fertiliser and pesticide business since 1998. The company had reasonable earnings till 2002. For the next 3 years, sales in all the divisions went on declining and by 2005, the company was in the red. The Managing Director was thinking of internal benchmarking as a possible way out. A senior executive suggested that functional benchmarking would be more appropriate. The Finance Manager was of the view that the problem was that of economic recession in the relevant product lines. The M. D. was unable to decide on the matter. Suggest the most suitable benchmarking for Agrico Ltd. with justification. 17. A company producing electrical equipments had specialised staff in the light engineering products division. It had started exporting such items but came across difficulties with the quality standards required to be met. Suggest a suitable quality management system for the company which may enable it to meet quality standards for export purposes. 18. Nath Ltd. is a small family controlled manufacturing company of Howrah. In its around 60-year history, the company has grown to the extent that it now employs 75 staff, producing a wide and diverse range of industrial products and special components:

The company has increased in size from its small original base. However, it has never employed a strategic management approach for its development and has relied on operational decision-making to determine priorities. Nath Ltd. has never gathered any information relating to its markets. In recent years, the company has experienced a reduction. in turnover and profitability and is assessing how it might redress the situation. a. You explain how strategic management differs from operational management to

your father and uncles, the directors of Nath Ltd. After being convinced, the directors of Nath Ltd. have now decided to introduce a strategic management approach which will assist in the selection of appropriate strategies for future development of the company.

19. In 1997, a leading manufacturer of personal computer took the decision to set up its Indian manufacturing base near Bangalore. Its decision was seen as a success for the Karnataka Development Corporation, which had been hoping since 1993 to attract the computer manufacturer to Karnataka.

a. What

do you think would be the objectives of the Karnataka Development Corporation (KDC) and how might its objectives and those of the computer manufacturer be expected to coincide in the matter of choosing a location for the Indian manufacturing base? b. Describe the environmental factors which you think might have been influential in making the computer manufacturer decide to locate its operation near Bangalore in Karnataka, and how the KDC might have tried to exploit these influences.

20. Nirjas Ltd. is engaged in the production of floral concentrates which have uses in a wide variety of fields, from cosmetics to toiletries. At the moment the concentrates are produced and sold to perfume manufacturers, who in turn supply the producers of the ultimate products. The directors of Nirjas are concerned about the higher profitability at the product end of the trade compared with the production of the concentrates, and ask you to explore the possibilities of vertical expansion.

What are the main issues to be examined? 21. You have recently been appointed to head the management accounting department of A (P) Ltd (APL), which is a small engineering company engaged in the manufacture of precision parts. The market in which the company sells its products is small and APL faces severe competition. Due to the production facilities available, the company is able to undertake only small-scale engineering work. Large scale engineering jobs are turned away as the company does not possess the manufacturing facilities to undertake them. At best, it can act only as agent for another contractor to do the work. The board of APL is aware that the volume of work which is being turned away is increasing. This is particularly frustrating as the company is unable to utilise its capacity to the fullest extent all the time. APL has achieved a steady increase in profit over the last few years. Nevertheless, the board of the company believes that it could increase profitability still further by expanding and thus being able to carry out the larger scale work which is currently being turned away. Budgetary control and standard costing information has, for many years, been provided as the sole output of the management accounting department. The previous management accountant prided himself on the punctuality and comprehensiveness of the reports produced. Each job is priced by adding a percentage of its total cost calculated in accordance with the company's standard costing procedures. The annual cost budget is split into monthly parts and flexed to take account of a particular period's actual production.

Monthly cost variances, comprising those for direct materials, direct labour, variable and fixed production overheads, are produced and provided to the relevant managers. In addition, sales price and volume variances are produced by the management accounting department each period. The company does not have a marketing department although new customers are obtained from advertising within professional engineering journals and by attendance at trade shows. At one such trade show, the managing director was introduced to the concept of benchmarking. He believes that there may be advantages in APL undertaking benchmarking. Required: a. In consideration of the need for the board of APL to be provided with information which assists its strategic decision making, comment critically on the management accounting reports, currently provided. b. State and justify what changes you, as management accountant, would make in providing information which facilitates strategic planning in the company. (Within your answer, describe what financial and non-financial information you would supply which is different from that, already provided).

c. Explain the concept of benchmarking and suggest how it might be applied to information for strategic planning in APL. 22. Birsa Mining Ltd. (BML), has said in its mission statement that it will endeavour to make the maximum possible profit for its shareholders, whilst recognising its wider responsibility to society. BML has an opportunity to mine for gold at Nilachal Plateau, a remote and sparsely populated area. The mining process proposed, in this instance, means that all vegetation will be removed from the land concerned; after mining has finished, there will remain substantial lagoons

full of poisonous water for at least a century. This mining process is a profitable one given the current price of gold. However, if the company were to reinstate the mined land, the process would be extremely unprofitable. The company has received permission from the Government to carry out the mining. The few local residents are opposed to the mining. In view of the above – Discuss the extent to which BML’s mission statement is contradictory. PCC\_S. M. \_ Case

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a. Discuss how BML could establish a procedure whereby its wider responsibilities to society could be routinely considered when making strategic decisions. b. Advise BML how it could deal with strategies that present a conflict of objectives. c. Discuss the ethical dimensions of the decision to mine for gold. 23. Chemical Ltd., a quoted chemical company, has until recently achieved a steady increase in profitability over a number of years. It faces stern competition and the directors are concerned about the dissatisfaction expressed by major shareholders regarding performance over the last two years. During this period, it has consistently increased dividends, but its share price has not grown at the same rate as it did previously. Khemco Ltd., a direct competitor, is similarly experiencing a reduction in profitability. Its shareholders are diverse, with the majority being financial institutions. Khemco Ltd. has been criticised for under-investment



and has achieved no product development over the last-two years. Following a concerted media campaign, Khemco Ltd. is facing prosecution for discharging untreated pollutants into a river.

Chemical Ltd. is seriously considering making a bid to acquire Khemco Ltd. The directors of Chemicals Ltd., however, are divided as to whether Khemco Ltd. should be closed down or permitted to continue production post-acquisition, if a bid is made. In either situation significant staff redundancies would follow: Required: a. State the strategic factors which Chemicals Ltd. would need to consider before making a bid to acquire Khemco Ltd. b. (i) Discuss the social and ethical implications for the managers and staff of both the companies, if the acquisition goes ahead; (ii) Discuss the environmental issues which would face the directors of Chemicals Ltd. if it proceeds with the acquisition of Khemco Ltd.