

BOTSWANA COLLEGE OF DISTANCE AND OPEN LEARNING

In collaboration with

THE COMMONWEALTH OF LEARNING

Commonwealth Executive Masters in Business Administration

Commonwealth Executive Masters in Public Administration

STRATEGIC MANAGEMENT

SM 321

SESSIONAL EXAMINATION

Marks: 100

Duration: 3hrs

Instructions

1. The examination consists of **Two** sections: A and B
2. Begin each answer to a new question on a new page
3. Answer questions according to instructions given in each section
4. Write in the answer booklet provided
5. Write in grammatical English

SECTION A: Case study [40 marks]

Answer all the questions in this section.

Case Study

Read the case study given below and ANSWER ALL THE QUESTIONS given at the end of the case.

Starbucks

In 2006, Starbucks, the ubiquitous coffee retailer, closed a decade of astounding financial performance. Sales had increased from USD697 million to USD7.8 billion, and net profits from USD36 million to USD540 million. In 2006, Starbucks was earning a return on invested capital of 25.5%, which was impressive by any measure, and the company was forecasted to continue growing earnings and maintain high profits through the end of the decade. How did this come about?

Thirty years ago, Starbucks was a single store in Seattle's Pike Place Market selling premium roasted coffee. Today, it is a global roaster and retailer of coffee with more than 12,000 retail stores, some 3000 of which are to be found in forty countries outside the United States. Starbucks Corporation set out on its current course in the 1980's when the company's director of marketing, Howard Schultz, came back from a trip to Italy enchanted with the Italian coffeehouse experience. Schultz, who later became CEO, persuaded the company's owners to experiment with the coffeehouse format – and the Starbucks experience was born.

Schultz's basic insight was that people lacked a "third place" between home and work where they could have their own personal time-out, meet with friends, relax and have some sense of gathering. The business model that evolved out of this was to sell the company's own premium roasted coffee, along with freshly brewed espresso-style coffee beverages, a variety of pastries, coffee accessories, teas and other products, in a coffeehouse setting. The company devoted, and continues to devote, considerable attention to the design of its stores

to create a relaxed, informal and comfortable atmosphere. Underlying this approach was a belief that Starbucks was selling far more than coffee – it was selling an experience. The premium price that Starbucks charged for its coffee reflected this fact.

From the outset, Schultz also focused on providing superior customer service in stores. Reasoning that motivated employees provide the best customer service, Starbucks executives developed employee hiring and training programmes that were the best in the restaurant industry. Today, all Starbucks employees are required to attend training classes that teach them not only on how to make a good cup of coffee but also the service-oriented values of the company. Beyond this, Starbucks provides progressive compensation policies that gave even part time employees stock option grants and medical benefits – a very innovative approach in an industry where most employees are part-time, earn minimum wages, and have no benefits.

Unlike many restaurant chains, which expanded very rapidly through franchising arrangements once they established a basic formula that appears to work. Schultz believed that Starbucks needed to own its stores. Although it has experimented with franchising arrangements in some countries and in some situations in the United States such as at airports, the company still prefers to own its stores whenever possible.

This formula met with spectacular success in the United States, where Starbucks went from obscurity to one of the best-known brands in the country in a decade. As it grew, Starbucks found that it was generating an enormous volume of repeat business. Today, the average customer comes into Starbucks around twenty times a month. The customers themselves are a fairly well-heeled group – their average income is about USD80, 000.

As the company grew, it started to develop a very sophisticated location strategy. Detailed demographic analysis was used to identify the best locations for Starbucks stores. The company expanded rapidly to capture as many premium locations as possible, before its



imitators could. Astounding many observers, Starbucks would even sometimes locate stores on opposite corners of the same busy street – so that it could capture traffic going in different directions down the street.

By 1995, with almost 700 stores all across the United States Starbucks began exploring foreign opportunities. The first stop was Japan, where Starbucks proved that the basic value proposition could be applied to a different culture setting (there are now 600 stores in Japan). Next, Starbucks embarked on a rapid development strategy in Asia and Europe. By 2001, the magazine *Brandchannel* named Starbucks one of the ten most influential global brands, a position it has held ever since. But, this is only the beginning. In October 2006, with 12,000 stores in operation, the company announced that its long-term goal was to have, 40,000 stores worldwide. Looking forward, it expects 50% of all new store openings to be outside the United States.

Starbucks in Malaysia

Starbucks Coffee International and Berjaya Corporations Berhad jointly own Berjaya Starbucks Coffee Company Sdn. Bhd. The company's main office is at Level 10, Berjaya Times Square, Kuala Lumpur.

The company operates Starbucks retail locations throughout peninsular Malaysia and is committed to offer the world's finest coffee while enriching Malaysians' life one cup at a time.

The first Starbucks retail store in Malaysia was opened in KL Plaza on the 17th of December 1998. To date, the company has 88 outlets (58 in the Klang Valley, 11 in Penang, 4 in Johor Bahru, 1 in Pahang, 2 in Malacca, 2 in Negeri Sembilan, 1 in Perak, 2 in Kedah, 3 in Sabah, 1 in Sarawak and 3 in Genting Highlands).

OldTown Café

White Cafe Sdn Bhd, which owns the famous Ipoh White Coffee Brand, was founded in 1999 by a group of Ipohians in Malaysia. Long before that, back in 1958, the location was just an ordinary coffee shop called White Cafe. At that time, inspired with a vision and passion to make and serve fine coffee to customers, its owner created a formula for brewing white coffee from blended coffee beans and other ingredients. At White Cafe, he began to serve this unique white coffee to the neighborhood. The aroma of the white coffee soon gained popularity within the township and the news of its unique taste and smoothness spread from Ipoh to other towns in Malaysia. Eventually, customers from various towns would make special trips to Ipoh to savor the renowned White Coffee, making White Cafe a crowded and popular place.

To reach out to customers proactively, White Cafe transformed itself into a franchising business in 1999 by standardizing its operations and products. With proper planning, outlets were established in Ipoh, Kuala Lumpur, and other large towns in Malaysia. In 2006, outlets of OldTown Cafe were established in countries outside Malaysia such as Taiwan and Indonesia. On 6 February 2009 it had 119 outlets in total.

The OldTown outlets are generally subdivided into sections. Chairs and tables are placed in the open area of the outlet without any fancy decorations or air conditioning. The uniqueness of this arrangement is that customers can enjoy the outdoor scenery and fresh air. More importantly, it brings back the coffee-tasting memories of the older generation.

While OldTown focuses on promoting the authentic Malaysian coffee, which is a collective memory of many local Malaysians, it also serves typical Malaysian food such as nasi lemak, curry dishes, and Chinese noodles.

However, it is facing increasing competition from multinational brands such as Starbucks, which serves a variety of coffee drinks and has a pleasant atmosphere that can keep customers in the shop. OldTown Cafe is aware of the situation, and in early 2008, it plans to design new strategies to cope with the changing environment.

Source: Highly adapted from: Charles W.L. Hill & Gareth R. Jones (2008), Strategic Management – An Integrated Approach, Houghton Mifflin Company, Boston, USA. Pp107

Question 1

Identify the resources, capabilities and distinctive competencies of Starbucks. **(10 marks)**

Question 2

How do Starbucks' resources, capabilities, and distinctive competencies translate into superior financial performance? **(10 marks)**

Question 3

How secure is Starbucks' competitive advantage? What are the barriers to imitation? **(10 marks)**

Question 4

In view of Starbucks' inroads in this country, what generic strategy or strategies do you think OldTown Café should embark on to ensure the competitiveness of its business? **(10 marks)**

SECTION B: Essay-type questions. [60 marks].

Answer any **THREE (3)** of the following questions in this section.

Question 1

Explain and illustrate the product (marketing), organisation (behavioural), and Industry (economy) life cycles, and the ways in which they interrelate to shape the strategic positioning of the firm. You may select any product, organisation and industry of your choice, in Malaysia, to illustrate your answer.

(20 marks)

Question 2

(a) Explain the construction, use and the strengths and weaknesses of the SWOT Analysis.

(10 marks)

(b) Explain and illustrate the meaning of „fit“ in the context of environmental analysis with the help of suitable examples.

(10 marks)

Question 3

Identify and describe the main environmental forces in Malaysia that currently define and shape an industry landscape of your choice. In particular, take note of the conditions driving the processes of industry convergence and divergence. Illustrate where appropriate.

(20 marks)

Question 4

Define and explain the difference between Mission, Goals, Objectives and the ways in which each fits into and form a part of the Strategy Equation. You may use your organisation or any other organisation for illustration purposes. **(20 marks)**

Question 5

Identify the main components of the Key Analysis approach to the Organisational Equation. For illustration purposes, you may use your own organisation or any other organisation as an example. *(Please provide a brief introduction of your organisation or the chosen organisation).* **(20 marks)**

END OF QUESTION PAPER!