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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

CA PROFESSIONAL (STRATEGIC LEVEL – I) EXAMINATION

EFFECTIVE FROM DECEMBER-2012

14304 –STRATEGIC MANAGEMENT PROCESS

PILOT PAPER

Time allowed: 3 hours

Marks: 100 marks

Instructions to candidates:

- (1) Answer **All questions**
- (2) Begin each answer on a **separate page**. Submit **all workings**
- (3) All answers should be in **English language**, in the **answer booklets** provided.

Question No. 01

STARBUCK: RE-CREATING ITS UNIQUENESS

Inspired by Italian coffee bars, Starbucks's founder Howard Schultz set out to provide a completely new consumer experience. The trademark of any Starbucks coffee house is its ambience—where music and comfortable chairs and sofas encourage customers to sit and enjoy their coffee beverages. While hanging out at Starbucks, they can use the complimentary wireless hotspot or just visit with friends. The barista seems to speak a foreign language as she rattles off the offerings: CafféMisto, Caramel Macchiato, Cinnamon Dolce Latte, Espresso Con Panna, or a Mint Mocha Chip Frappuccino, among some 30 different coffee blends. Dazzled and enchanted, customers pay \$4 or more for a Venti-sized drink. Starbucks has been so successful in creating its ambience that customers keep coming back for more.

Starbucks's core competency was to create a unique consumer experience the world over. That is what customers are paying for, not for the cup of coffee or tea. The consumer experience that Starbucks created was a valuable, rare, and costly-to-imitate intangible resource. This allowed Starbucks to gain a competitive advantage.

While intangible resources are often built through learning from experience, intangible resources can atrophy through forgetting. This is what happened to Starbucks. Recently, Starbucks expanded operations by opening over 16,000 stores in some 50 countries. It also branched out into desserts, sandwiches, books, music, and other retail merchandise, straying from its core business. Trying to keep up with its explosive growth in both the number of stores and product offerings, Starbucks began to forget what made it unique. It lost the appeal that made it special, and its unique culture got diluted. For example, baristas used to grind beans throughout the day whenever a new pot of coffee had to be brewed (which was at least every eight minutes). The grinding sounds and fresh coffee aroma were trademarks of Starbucks stores. Instead, to accommodate its fast growth, many baristas began to grind all of the day's coffee beans in the morning and store them for the rest of the day.

Coming out of an eight-year retirement, Howard Schultz again took the reins as CEO and president in January 2008, attempting to re-create what had made Starbucks special. In late 2009, Starbucks introduced via, its new instant coffee, a move that some worried might further dilute the brand. In the fall of 2010, Schultz rolled out a new guideline: Baristas would no longer multitask, making multiple drinks at the same time, but would instead focus on no more than two drinks at a time, starting a second one while finishing the first. The goal was to bring back the customer experience that built the Starbucks brand.

- a) Identify the strengths of Starbucks
(03 marks)
 - b) The unique resources of an organization affect many products and services and provide a competitive advantage in the marketplace. In this context, the Resource-Based View (RBV) of strategy provides a framework to understand the unique resources of a firm. Briefly discuss the RBV giving examples from Starbucks.
(12 marks)
 - c) Why did Starbucks lose its uniqueness? Explain the generic strategy approach of Michael Porter and identify how Starbucks proposed strategy matches with generic strategy.
(10 marks)
- (Total 25 Marks)

Question No. 02

“The core of the Strategic Management is to develop the astute strategies to attain long - term competitive advantage of business organizations.”

- a) “Strategic Management is a process”. Describe the major phases of strategic management process.
(07 marks)

- b) “Strategy may operate at different levels of an organization”. Identify and describe the levels of strategy in an organization giving examples.

(06 marks)

- c) Explain the term “Mission Statement” and briefly describe five (05) characteristics of an effectively written mission statement.

(07 marks)

(Total 20 Marks)

Question No. 03

The business environments both internal and external in which business operates facilitate firms to choose an appropriate strategy.

- a) Cite 2 items under each of the letters in the acronym PESTEL as applicable to a Sri Lankan export firm and clearly indicate how each item can make a threat or create an opportunity to the Sri Lankan export firm

(10 marks)

- b) Assuming that you are working in a firm which manufactures ceramic products, describe how value chain approach could be used to analyze the internal environment of the firm.

(10 marks)

(Total 20 Marks)

Question No. 04

The profitability of an industry is determined by the dynamic or ever changing influences of the industry’s structure. Porter’s Five Forces Framework identifies five structural determinants: intensity of competition, threat of new entrants, threat of substitutes as well as bargaining power of suppliers and buyers.

- a) Explain how economies of scale and experience in the business might constitute barriers for companies entering an industry.

(05 marks)

- b) Discuss the possible limitations of economies of scale and experience in the business as entry barriers in the case of new technology introduction.

(05 marks)

- c) Describe the effect of internet in evaluating the industry using five forces framework.

(10 marks)

(Total 20 Marks)

Question No. 05

Choosing appropriate strategies to implement and evaluate these strategies are essential for the reaching for the set objectives of the firm”

- a) Explain the importance of the programs of activities, policies and procedures in the process of strategy implementation.

(05 marks)

- b) Identify and describe the financial measures firm can use to evaluate the performance of the strategies implemented.

(05 marks)

- c) Explain why Balanced Scorecard is important in evaluating the performance of strategy adopted.

(05 marks)

(Total 15 Marks)