

## FINAL EXAMINATION

December 2013

P-15(BSCM)

Syllabus 2012

### Business Strategy and Strategic Cost Management

Time Allowed: 3 Hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.*

#### SECTION A (50 marks)

##### (Business Strategy)

Question No. 1 and 2 are compulsory.

Answer any two from the rest in this section.

(Please answer all parts of the question at one place)

1. (a) Fastfix is a small company operating in a single city. Its business is repairing laptops. It has earned a good name for its fair charges and speedy delivery. For the next five years, the environment offers the following information: Many school students are being given laptops by the school themselves and this trend is likely to continue for another five years. College students and coaching centres provide new laptops to all the students during the admission. The fees are inclusive of these costs.

Tablets are first replacing laptops in certain market segments and models are changing every six months. If there are major repairs, richer people discard the products and go in for new products or newer versions. However, there are rural markets and certain parts of urban markets which will still be interested in the low-cost repaired and re-sold products.

Considering the above case of Fastfix it will limit its operations to only one city. You are required to give:

- (i) A vision statement;
  - (ii) A mission statement;
  - (iii) Does SWOT analysis exist?
  - (iv) Some parameters that could be used in such the above situation relating to the financial and growth perspectives in a Balance Score Card (BSC).
- (b) A case of Business Intelligence in Aviation—The entire matrix of India's aviation industry has challenged ever since no-frills airlines made air travel affordable for the country's growing middle class. Given that Low Cost Carriers (LCC) are the future air travel in India, LCC are practically non-existent in now-a-days. What is the reason behind such sorry state of affairs among airlines? The answer lies in 'pricing'. Experts say that Indian LCC have not been able to price their tickets right and at one point even brought their fares close to that of Full Service Carriers (FSC).

According to global standards, the average cost per passengers for LCCs should be \$35 lower than that of FSCs. But this is contingent on better utilization of aircraft through faster turnarounds i.e., the time taken between landing and the next flight. This is where technology initiatives such as Corporate Performance Management using Business Intelligence (BI) tools can come very handy.

- (i) What is 'Business Intelligence'?
- (ii) How to create a 'Business Intelligence Strategy' in aviation industry?
- (iii) How 'Business Intelligence' can enhance the overall decision-making process in Low Cost Airlines Carriers.

(2+2+2+2)+(2+2+3)

Please Turn Over

20

2. (a) What are 'Core Products'? Give three examples of companies and their core products.

(b) In a small town called Vellore in South Indian State of Tamilnadu, there is now one famous deemed university called the Vellore Institute of Technology (VIT). Its founder, Mr. Viswanathan, has adopted a unique model of building formidable Core Competencies. He has made huge investments in creating world-class infrastructure, which has attracted the best minds as students not only from various parts of India, but also from other countries of the world, including developed countries like Canada and several African nations. What has really mattered is that the quality of teaching has improved, as VIT has been able to attract high calibre teachers from all over the country. The National and International seminars that it has been able to conduct, very regularly, has opened up many vistas of knowledge, and opened up many doors, in the international arena, through very innovative tie-ups with foreign universities. In fact, VIT is just one example of a deemed university that has made India proud. Since, it supplies high quality information technology professionals to all IT companies world-wide, VIT has already made a name for itself, among such companies. The campus recruitments are one hundred percent. This has made it a very formidable learning centre in India.

There are few tests useful for identifying a core competence. Does it fit to VIT?

- (c) What do you understand by the term 'Strategic Drift'? How can an organisation prevent it?

(3+3)+(1×4)+(1+4)

3. HP and Microsoft global strategic alliance is one of the longest standing alliances of its kind in the industry, with more than 25 years of combined market place leadership focused on helping customers and channel partners around the world to improve productivity through the use of innovative technologies. Branded the HP and Microsoft Frontline Partnership, the companies share technology, engineering and marketing resources to create and promote solutions based on industry-standard computing platforms that help solve some of the most challenging IT problems. HP and Microsoft have jointly engineered solutions that deploy smoothly, seamlessly and delivered competitive advantage. Over the time, the alliance has expanded from its earliest roots focused on the desktop PC to include innovations in the data center and emerging technologies for businesses of all sizes. The alliance also has expanded to provide opportunities for our more than 32,000 joint resellers and ecosystem partners.

- (i) Define strategic alliance. Identify three basic types of strategic alliances.

- (ii) What are the advantages of the HP and Microsoft global strategic alliance?

(1½+1½×3)+(½×8)

4. (a) Write two uses of 'Strategic Group Analysis' in business.

- (b) How does a 'Value Chain' analysis help a firm to gain competitive advantage?

- (c) Write the benefits that can be derived from 'unrelated diversification'. What are the two ways that an unrelated diversification strategy can create value?

(2+3)+(1+2+2)

5. (a) Define 'Core Competency'. What tests are to be applied to identify core competence? Why core competencies are relevant?

- (b) "Instead of setting a high price, the firm may set a low price for a new product by adding a low mark-up to the full cost." What should be the pricing strategy for the above mentioned statement? Under what circumstances such strategy is adopted?

(1+3+2)+(1+3)

Submited

**SECTION B (50 marks)**  
**(Strategic Cost Management)**

Question No. 6 is compulsory.

Answer any two from the rest in this section.

(Please answer all parts of the question at one place)

6. (a) What do you understand by 'Project Life Cycle'?
- (b) The data of running costs per year and resale price of equipment A whose purchase price is Rs. 2,00,000 are as follows:

| Year-                  | I   | II | III | IV | V  | VI | VII |
|------------------------|-----|----|-----|----|----|----|-----|
| Running cost (Rs.'000) | 30  | 38 | 46  | 58 | 75 | 90 | 110 |
| Resale value (Rs.'000) | 100 | 50 | 25  | 12 | 8  | 8  | 8   |

- (i) What is the optimum period for replacement?
- (ii) When equipment A's age is two years old, equipment B which is a new model for the same usage is available. The optimum period for replacement is 4 years with an average cost of Rs. 72,000. Should equipment A be changed with equipment B? If so, in which year it will be replaced?  $3+(3+1+3)$
7. (a) Agarwal Fasteners Pvt. Ltd. Specializes in manufacturing critical stainless steel fasteners as per industry standards and specific customer requirements for a wide variety of industries. Founded in 1974, Agarwal Fastener manufacturers and imports best quality tools, reliable fasteners using modern multi stationed equipment. Having its manufacturing plant in Mumbai, Agarwal Fasteners has a direct sales team in Maharashtra and supplies its products to the rest of India through its dealer and reseller network. Due to its focus on quality and timely delivery, the company has witnessed growth and expansion in its business over the last three decades. "Since we specialize in providing customized fasteners as per specific requirements of our clients, we need to deal with various vendors across the world for raw materials and also manufacturer for many high qualities tools and dies in house. We hence needed robust, modular and secure ERP software with tightly integrated inventory, operations and accounting modules that could help link our warehouse to the shop floor," says Vikram Agarwal, Managing Director, Agarwal Fasteners Pvt. Ltd.

What distinct benefits Agarwal Fasteners Pvt. Ltd. expects from Enterprise Resource Planning (ERP)?

- (b) Why 'Lean Accounting' is needed?

- (c) A transport business makes a journey regularly, and has established that the standard fuel cost for each journey is 20 litres of fuel at Rs. 40 per litre. New legislation has forced a change in the vehicle used for the journey and an unexpected rise in fuel costs. It is decided retrospectively that the standard cost per journey should have been 18 litres at Rs. 50.5 per litre.

Required:

Calculate the original and revised flexed budgets if the journey is made 120 times in the period.

| (d) Items           | 31.03.2012 (Rs. in Lakhs) | 31.03.2013 (Rs. in Lakhs) |
|---------------------|---------------------------|---------------------------|
| Sales               | 120                       | 129.6                     |
| Prime cost of sales | 80                        | 91.1                      |
| Variable Overheads  | 20                        | 24                        |
| Fixed Expenses      | 15                        | 18.5                      |
| Profits             | 5                         | (4)                       |

During 2012-13, average prices increased over these of the previous year:

- (i) 20% in case of sales;  
(ii) 15% in case of prime cost; and  
(iii) 10% in case of overheads.

Prepare a profit variance statement from the above data.

$5+2+(1+1)+(1/2 \times 14+4)$

Please Turn Over

8. (a) An automobile production line turns out about 100 cars a day, but deviations occur owing to many causes. The production is more accurately described by the probability distribution given below:

| Production per day | Probability | Production per day | Probability |
|--------------------|-------------|--------------------|-------------|
| 95                 | 0.03        | 101                | 0.15        |
| 96                 | 0.05        | 102                | 0.10        |
| 97                 | 0.07        | 103                | 0.07        |
| 98                 | 0.10        | 104                | 0.05        |
| 99                 | 0.15        | 105                | 0.03        |
| 100                | 0.20        | <b>Total</b>       | <b>1.00</b> |

Finished cars are transported across the day, at the end of the each day, by ferry has space for only 101 cars.

Required:

- What will be the average number of cars waiting to be shipped?
- What will be the average area of empty space on the boat?

The fifteen random numbers are given: 20, 63, 46, 16, 45, 41, 44, 66, 87, 26, 78, 40, 29, 92, & 21

- Mention different types of 'Non-conventional Variance Analysis'.
- Two similar products A and B, manufactured by a company for a production period have the following data:

| Particulars              | Product A | Product B |
|--------------------------|-----------|-----------|
| Selling price (Rs./unit) | 50        | 70        |
| Variable cost (Rs./unit) | 30        | 40        |
| Labour hours per unit    | 2         | 6         |

Total fixed costs that have to be incurred irrespective of the type of product amounts to Rs. 1,80,000. Besides, there are specific fixed costs of Rs. 60,000 to be incurred only if A is produced and Rs. 72,000 to be incurred only if B is produced. Assume no inventory. At present, 7,500 units of A and 7,500 units of B are sold.

Required:

- What is the current Break-Even Point (BEP)?
- What is the minimum number of units to achieve BEP?
- If there are only 10,000 labour hours possible in production period, what would be the optimum product-mix?

- What is meant by 'Learning Curve'? Mention two areas where learning curve technique is useful in business.

$$(3+3)+(1 \times 4)+(2 \times 3)+(2+2)$$

9. (a) The importance of exceptional quality is demonstrated by the Walt Disney Company in operating its theme parks. The focus of the parks is customer satisfaction. This is accomplished through meticulous attention to every detail, with particular focus on the role of employees in service delivery. Employees are viewed as the most important organisational resource and great care is taken in employee hiring and training. All employees are called "cast members", regardless of whether they are janitors or performers. Employees are extensively trained in customer service, communication, and quality awareness. Continual monitoring of quality is considered important, and employees meet regularly in teams to evaluate their effectiveness. All employees are shown how the quality of their individual jobs contributes to the success of the park.

Which element of Total Quality Management (TQM) is used in the Walt Disney Company?

- (b) A company produces four products, viz. P, Q, R, and S. The data relating to the production activity are as under:

| Product | Quantity of production | Material cost/unit (Rs.) | Direct labour hours/unit | Machine hours/unit | Direct labour cost/unit (Rs.) |
|---------|------------------------|--------------------------|--------------------------|--------------------|-------------------------------|
| P       | 1,000                  | 10                       | 1                        | 0.50               | 6                             |
| Q       | 10,000                 | 10                       | 1                        | 0.50               | 6                             |
| R       | 1,200                  | 32                       | 4                        | 2.00               | 24                            |
| S       | 14,000                 | 34                       | 3                        | 3.00               | 18                            |

Production overheads are as under:

- Overheads applicable to machine oriented activity Rs. 1,49,700
- Overheads relating to ordering materials Rs. 7,680
- Set up cost Rs. 17,400
- Administration overheads for spare parts Rs. 34,380
- Material handling costs Rs. 30,294

The following further information have been compiled:

| Product | No. of set up | No. of materials orders | No. of times materials handled | No. of spare parts |
|---------|---------------|-------------------------|--------------------------------|--------------------|
| P       | 3             | 3                       | 6                              | 6                  |
| Q       | 18            | 12                      | 30                             | 15                 |
| R       | 5             | 3                       | 9                              | 3                  |
| S       | 24            | 12                      | 36                             | 12                 |

Required:

- Select a suitable cost driver for each item of overhead expenses and calculate the cost per unit of cost driver.
- Using the concept of Activity Based Costing, compute the factory cost per unit of each product.  
(1×5)+(2×5)+5