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UNIVERSITY OF RUHUNA
FACULTY OF MANAGEMENT AND FINANCE
Bachelor of Business Administration Degree Programme 3000 Level
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BBA 32013 – STRATEGIC MANAGEMENT

Duration: Three hours

The question paper contains six (06) questions.

Instructions:

- **Answer for four (04) questions including question number ONE.**

QUESTION ONE

Read the case titled “EasyJet Airlines” and answer the questions given below.

EasyJet Airlines

EasyJet Airlines has long been one of the standout performers in the Europe airline industry. It was founded by Stelios Haji-loannou, who reportedly gained an interest in the aviation business after being approached as a shareholder in Virgin Atlantic Airways limited. He recognized the vacant niche in the market and decided to examine the prospects for launching his own airline, having secured a commitment of \$5 million loan from his father. He imitated the American airline operator Southwest Airline, which had successfully adopted the practice of price elasticity to be competitive with traditionally cheaper air buses and attract customers that wouldn't normally have considered air travel. Thus, the cheap travel cost is the principle became a cornerstone of EasyJet's operations. He started the operations in 1995 based on London Luton Airport. EasyJet's early marketing slogan was "making flying as affordable as a pair of jeans".

While operators like American Airlines and United Airlines route passengers through hubs, EasyJet Airlines flies point-to point, often through smaller airports. Further, EasyJet has committed airport slots of each airport it flies. EasyJet owns 137 aircrafts with Europe's most modern fuel-efficient fleet aged 2.7 years averagely. Usually, the company stocks fuel a year advance to keep away from short term oil price fluctuations. Stelios believes on telephone booking and third party booking for the flights at the beginning. However, after recognizing the

importance of e-commerce application for the business, Stelios had made investments for totally changed the booking system into internet booking through their technologically developed and updated website. Teamwork and co-operation of employees certainly a reason for the EasyJet airline's success which is shown with the profound financial reserves of the company. Further, the success of the company depends on the strong management team of the airline. Ray Webster, the New Zealand airline strategic manager joined EasyJet as the general manager with entire responsibility from the beginning.

EasyJet flies only with one type of plane, the Boeing 737. This reduces the costs relating to training, maintenance, and inventory while increasing efficiency in crew and flight scheduling. The operation is nearly ticketless, with no seat assignments, which reduces cost and back-office accounting functions. There are no meals or movies in flight, and the airline will not transfer baggage to other airlines, reducing the need for baggage handlers. The key points of EasyJet's business model are high aircraft utilization, quick turnaround times, charging for extras (such as priority boarding, hold baggage, and food) and keeping operating costs low. Further, EasyJet encourages their customers to use internet booking system by offering discounted rates than telephone booking to reduce the call center operating costs. Onboard sales are an important part of the airline's additional revenue; gifts such as fragrances, cosmetics, gadgets and EasyJet-branded items are sold on board, as well as tickets for airport transfer services or train tickets. This is another source of profit for the company by using the flight attendants on the flight.

EasyJet also has high employee productivity. One-way airlines measure employee productivity by using the ratio of employees to passengers carried. According to figures from company 10-K statements, in 2008 EasyJet had an employee-to-passenger ratio of 1 to 2,400, the best in the industry. By comparison, the ratio at United Airlines was 1 to 1,175 and, at Continental, it was 1 to 1,125.

EasyJet devotes enormous attention to the people it hires. On average, the company hires only 3% of those interviewed in a year. When hiring, it emphasizes teamwork and a positive attitude. EasyJet rationalizes those skills can be taught, but a positive attitude and a willingness to pitch cannot be. EasyJet also creates incentives for its employees to work hard. All employees are covered by a profit-sharing plan, and at least 25% of an employee's share of the profit-sharing plan has to be invested in EasyJet Airlines stock. This gives rise to a simple formula: the harder employees work, the more profitable EasyJet becomes, and the richer the employees get. The results are clear. At other airlines, one would never see a pilot helping to check passengers onto

the plane. At EasyJet, pilots and flight attendants have been known to help clean the aircraft and check in passengers at the gate. They do this to turn around an aircraft as quickly as possible and get it into the air again because an aircraft does not make money while it is on the ground. This flexible and motivated workforce leads to higher productivity and reduces the company's need for more employees. Because EasyJet flies point-to-point rather than through congested airport hubs, there is no need for dozens of gates and thousands of employees to handle banks of flights that come in and then disperse within a two-hour window, leaving the hub empty until the next flights reach a few hours later. The result is that EasyJet can operate with far fewer employees than airlines that fly through hubs.

Questions

- I. Identify the strategic resources, and competencies of EasyJet Airlines. (06 marks)
 - II. How does EasyJet secure the competitive advantage? (06 marks)
 - III. Do you agree with EasyJet could bring their service as per their slogan of "making flying as affordable as a pair of jeans"? Justify your answer. (03 marks)
 - IV. Discuss the human resource strategy of the EasyJet and explain how does it contribute for achieving competitive advantage. (10 marks)
- (Total marks 25)

QUESTION TWO

"Business environment is characterized by unpredictability, uncertainty and volatility"

- I. Define the term 'external audit'. (03 marks)
 - II. Discuss the importance of assessing specific environment with five forces model. (06 marks)
 - III. Briefly explain the application of porter's five forces model with an example from a certain industry. (06 marks)
- (Total 15 marks)

QUESTION THREE

“Internal environmental analysis enables managers to discover potential sources of competitive advantage and to develop strategy with reasonable expectations of competitive advantage”

- I. Name the approaches that can be used for internal environment analysis of a firm. (02 marks)
 - II. Elaborate the value chain framework. (06 marks)
 - III. Discuss how an organization can apply the value chain analysis for gain competitive advantages of either “cost leadership” or “differentiation”. (07 marks)
- (Total 15 marks)

QUESTION FOUR

“Corporate-level strategies are guided to chosen to promote the success of the business level strategies, which allows a firm to achieve a sustainable competitive advantage that leads to gain more market share”

- I. Briefly explain the difference between corporate level strategies and business level strategies. (04 marks)
 - II. Explain three stability strategies and discuss one of those strategies related to when it is appropriate to apply. (05 marks)
 - III. Giving concern on the stages of the product life cycle is important for the selection of either stability strategies or growth strategies or defensive strategies”. Do you agree with this statement? Elaborate. (06 marks)
- (Total marks 15)

QUESTION FIVE

“Strategy analysis and choice largely involve making objective decisions based on subjective information”

- I. Briefly explain the three stages of strategy formulation framework. (03 marks)
- II. Following information are related to a cosmetic manufacturing company. Examine the information and answer the questions given below.

Brands	Revenue (Rs. Mn)	Largest competitor's market share	Company market share	Market growth rate
A	65000	60%	60%	3%
B	35000	30%	5%	12%
C	15000	45%	30%	13%
D	5000	10%	1%	5%

- a. Calculate the percentage values of revenue contribution and relative market share for each brand of the firm. (03 marks)
 - b. Based on the above information draw the BCG matrix and position the four brands of the company on BCG matrix. (05 marks)
 - c. Propose the most appropriate strategies for each brand of the company based on the quadrant they are in the BCG matrix. (04 marks)
- (Total marks 15)

QUESTION SIX

Briefly explain five of the following terms.

- I. Strategic management process
- II. Key performance indicators
- III. Vertical integration
- IV. Turnaround strategy
- V. McKinsey 7-S framework
- VI. Business process reengineering

(03 marks for each topic)
(Total 15 marks)
