



**UNIVERSITY OF RUHUNA  
FACULTY OF GRADUATE STUDIES**

**Part II First Semester End Examination of Master of Business Administration**

**Degree Programme**

**Examination (January 2020)**

**Academic Year 2018/2019**

**MBA 202: Strategic Management and Corporate Policy      Duration: Three hours**

**Calculators are allowed.**

The Question Paper contains 06 questions.

**Answer question number one and three other questions only.**

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1. Read the case titled “Starbucks Corporation” and answer the questions given below.

**Starbucks Corporation**

In 1971, Starbucks Corporation was founded by Gordon Bowker, Jerry Baldwin, and Zev Siegl in Seattle, Washington. In 1972, they opened a second store in University Village, Washington. Starbucks began selling and distributing coffee at wholesale businesses. Even though it did offer samples to customers, Starbucks didn't start out selling coffee by the cup. In fact, its initial focus was selling whole ground coffee and whole bean, coffee machines and equipment. Starbucks ordered its coffee-bean from Alfred Peet but later on the three partners bought a used roaster by setting up roasting operations in a nearby ramshackle building and developed their own blends and flavors. By the year 1980s the company had four Starbucks Stores in Seattle area and had been profitable every year. The key in the original Starbucks success was the cofounder's knowledge of the product and service, and the carefully chosen location of the stores in Seattle. Later on, Siegel left the company and Jerry Baldwin took over day-to-day management of the company. Gordon Bowker remained as an owner but devoted most of his time in his Design Firm.

In 1981, Schultz Howard (who was Vice President and General Manager of the US operations for Hammarplast and a Swedish maker of stylish kitchen and house wares) visited this little company

in Seattle, WA and noticed that it was more than just a regular coffee shop; it had a soul, a passion and authenticity. People there were educated to quality coffee, and they in turn were educating their customers. The original Starbucks stores were very successful in Seattle, and this was apparently due to a good mix in a deep knowledge for a high quality product, customer education and good business sense. However, anybody can get educated to good coffee, and a few small shops like Starbucks would be eaten out by competition if they don't plan on expansion; this is what Howard Schultz understood right away. In 1987, Howard Schultz purchased Starbucks Corporation and he became the new CEO and Chairman. Schultz knew that, in order to lead the people at Starbucks, he needed to blend in the culture, and build trust and credibility. He made a strong point in acclimating himself to this new life in the Pacific Northwest. The seeds of the Starbucks Corporation were planted there: deep knowledge of the product and service, trust and credibility, and the beginning of a vision for the future. In it, Schultz depicts how the company scaled its operations from a few hundred stores to over thirteen thousand stores. Overtime, Starbucks Corporation became a giant among the coffeehouse industry. By having the innovative idea, in 1987, Schultz opened 125 new stores in the market and deliver high results to investors in the company. Schultz decided to keep the official brand name as Starbucks for competition purposes only, because the brand name already had recognition in the market. The effort of the Starbucks management team was to continue opening more local stores as they had initially planned and to expand their service forces globally by opening more than 4,000 new store locations worldwide.

After 1992, Starbucks went public by creating a new perception of business value and Starbucks was able to finance its international expansion by building a solid presence in the stock market. Starbucks receives strong financial support from its stockholders. Furthermore, historical sales have provided a great appreciation to the company's stock price. In 1993, Starbucks expanded its horizons by entering into a business venture with Barnes and Noble on the East Coast of Washington. The goal was to sell Starbucks coffee in bookstores where people came to spend quality time reading books. At that time, Starbucks had licensed 12 stores and was operating 260 company-owned facilities with revenues of \$176.5 million and reaching net earnings of \$8.3 million. In 2000, management of Starbucks decided to expand the business concept out of the U.S. by opening a total of 200 new store locations. As soon as the concept was introduced overseas, 150 new stores were opened in the Asia-Pacific region by opening the first stores in Dubai and

Hong Kong, as well as in Japan and the United Kingdom. Starbucks Corporation found a unique market niche in continental Europe by opening the first store in Zurich, Switzerland. The international expansion relied on new products and services to drive future growth and Starbucks was able to engage in innovative avenues by introducing its products into grocery stores, warehouse clubs, and retail outlets to increase public awareness. Starbucks appeals to an educated, upscale consumer. Starbucks saw the opportunity to offer classical music, books, and movies.

Starbucks Corporation, in 2002, encountered its first major loss (i.e., \$3.9 million) in the market from its Japanese operation expansion. This loss did not discourage leaders from continuing to foster new opportunities in the market. As a result, Starbucks opened its first store in Turkey and as a strategic alliance acquired 129 Seattle's Best Coffee houses. Moreover, in 2004, Starbucks announced plans to open 15,000 new stores domestically and 30,000 internationally. By 2007, the economic recession hit the Anglo-Saxon market and along with the economic recession McDonald's entered into the coffee business. The economic recession forced Starbucks to close 600 stores because of bad performance in the U.S. market. In 2009, Starbucks began a new business venture by opening 200 new stores and launched the new Starbucks card iPhone app to attract more customers, as well as opened new stores in Aruba, Poland, and East Africa. In 2010, Starbucks expanded its digital network to provide unlimited Wi-Fi and reinvested in the company's brand name by expanding its line of business to El Salvador, Hungary, and Sweden. In 2011, Starbucks Corporation celebrated its 40th anniversary, supporting the outreach of the global community by opening new stores in Guatemala. The total number of stores that Starbucks Corporation had in place as of 2012 was 17,651 in all over the world. Starbucks Corporation is known as a roaster, marketer and retailer of specialty coffee and it has set a retail footprint in the global coffee retail industry. In emerging economies market such as Brazil, Russia, India and China has expanded new stores by acquiring local companies. However, higher commodity costs, intense competition, and legal proceedings could have an adverse impact over the business, operating results and financial condition of the company.

Senior management and Schultz of Starbucks worked together to locate professionals who would be suited to adequately manage and deliver the outcomes of Starbucks Corporation in the global arena. In 2000, Orin Smith became the new CEO of Starbucks. Smith recruited seasoned professionals in specific areas in the company such as finance, legal, supply-chain operations, and management information systems. Smith brought a transformational leadership style to Starbucks

and serving as a role model by keeping a clear path of the company's direction, following the vision and mission statement of Starbucks Corporation.

Starbucks vision is "To establish Starbucks as the most recognized and respected brand in the world and become a national company with values and guiding principles that employee could be proud of" and the Mission is "To establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow". The six principles include i) Provide a great working environment and treat other with respect and dignity, ii) Embrace diversity as an essential component in the way we do business, iii) Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee, iv) Develop enthusiastically satisfied customers all of the time, v) Contribute positively to our communities and our environment, vi) Recognize that profitability is essential to our future success. Starbucks' vision, mission and leadership guidance were to encourage employees and investors to drive Starbucks in a healthy financial avenue and to continue growing its venture capital investment overseas. Schultz wanted Starbucks to be a great place to work by providing employees with a great pay, great benefit plan, and stock purchase plan for employees. So he did everything in his power to create a good place for the employees. Starbucks will always appreciate the employee as the revenue which is increasing every year and by the efficient and hardworking employees. The drastic increase in profit cannot be recognized without the support of the employees who attracts the customers to a long term relationships with the coffeehouse. Providing a fringe benefit package allowed it to attract motivated people with above average skills and good work habits and also to make the employee to be loyal with Starbucks.

In 2007, among the Fortune 100 Best Companies, Starbucks Corporation was listed as number 16 because it had implemented spirituality in the workplace as an innovative approach to enrich ethical values of management and employees. Five factors come along with the implementation of spirituality at work: (a) leadership position in the market, (b) financial sustainability of the organization, (c) work environment, (d) commitment to innovation, and (e) meeting CSR requirements. Shareholders of Starbucks concluded that spirituality at work helped Starbucks to increase worker productivity and employees' motivation levels to strive for excellence. The evolution of Corporate Social Responsibility (CSR) was one avenue of innovation for Starbucks which helps to protect both the brand image and the environment. Additionally, CSR has given

Starbucks a new position in the market by demonstrating a balance among economic prosperity, social integrity, and environmental responsibility as well as long-term commitment and sustainability. Starbucks contributes to CARE a worldwide relief effort that sponsored health, education, and humanitarian aid programs in all third world countries where they purchased coffee supplies. And striving to buy, sell, and use environmentally friendly products. Social media is a valuable tool for Starbucks because it drives the sustainability of the company's brand. In addition, integrating the team management as part of the cultural aspect of the organization is a key because it helps solidify the business transition in the market. The rationale for the expansion of Starbucks was to enable the company to increase the position of its products in different markets around the globe. In addition, opening new stores set a leading path for Starbucks in the market because the company was specializing in success and continued to have positive effects among its competitors. Moreover, Starbucks holds strong values related to the sustainability of employees, coffee farmers, and coffee growing practices. The supply chain of the company's retailing venture has created new partner efforts.

At present, Starbucks product range was expanded. Starbucks purchases and roasts high-quality, whole bean, specialty coffees and sells them along with fresh, rich-brewed, Italian style espresso beverages, a variety of pastries and confections, coffee-related accessories and equipment. Also, Starbucks produces and sells bottled Frappuccino coffee drinks, Starbucks DoubleShot coffee drink, a line of super-premium ice cream, premium chocolate, sandwiches, salads, a line of innovative premium teas produced by Tazo Tea Company, an exclusive line of Starbucks Barista home espresso machines, coffee brewers and grinders as well as coffee mugs, compact discs and assorted gift items. Starbucks segments its market as Commuters and Captive Consumers. For the commuters, Starbucks has the Drive-through coffee houses and for the captive consumer, Starbucks has the mobile café.

#### Questions:

- i. Do a SWOT (Strength, Weaknesses, Opportunities, and Threats) analysis for the Starbucks Corporation. (08 Marks)
- ii. Explain how the Starbucks Corporation practices the Triple Bottom Line (TBL) concept in achieving its vision and mission. (08 Marks)
- iii. Discuss the Functional strategies of the Starbucks Corporation. (12 Marks)

[Total 28 Marks]

2. "In majority of cities in Sri Lanka, retailing is increasingly handled by supermarket chains. Assume that the management of your company is contemplating to set up a supermarket chain by taking into account the likely Key Success Factors (KSFs) in the supermarket sector".
- i. Describe the term, Key success Factors in relation to strategy formulation. (06 Marks)
  - ii. Determine four (04) likely KSFs in a typical supermarket operation and briefly explain the reasoning behind your answer. (06 Marks)
  - iii. Briefly explain four (04) advantages that the 'First Mover' can obtain by setting up operations in the market first. (06 Marks)
  - iv. Define competitive advantage and explain how 'core competencies' and distinctive competencies' are related to the competitive advantage of a company. (06 Marks)

[Total 24 Marks]

3. "When formulating and implementing a strategy, structure should follow strategy and be compatible with the chosen strategy as only such congruence would facilitate implementation"
- i. Critically comment on this statement. (08 marks)
  - ii. Describe the approach to organizational structure, control, and culture one could expect to find in a company which is pursuing a cost leadership vs. one is pursuing a differentiation strategy. (08 Marks)
  - iii. Define the concept of 'Value Chain' and diagrammatically illustrate it. What is meant by 'Primary activities' and 'Supportive activities' of the value chain? Explain how the value chain can assist in conducting a strategic analysis. (08 Marks)

[Total 24 Marks]

4. "Business firms practice diversification strategy for expanding their businesses into multi-businesses sectors rather than limiting to a single business sector".
- i. Briefly explain the purposes of the diversification strategy. (04 Marks)
  - ii. Compare the three forms of diversification strategies that can be practiced by a business firm. (06 Marks)
  - iii. Select a leading business firm in Sri Lanka and discuss how this firm practices the multi-business strategy to enhance its image and competitive position in the market. (14 Marks)

[Total 24 Marks]

5. "Boston Consulting Group (BCG) Matrix and General Electric's (GE) Strategic Planning Grid are the two popular techniques for evaluating strategic alternatives".

- i. Discuss briefly the dimensions used in developing the GE's Strategic Planning Grid. (06 Marks)
- ii. Mention the advantages of using the GE's Strategic Planning Grid comparatively with the BCG Matrix in evaluating the strategic alternatives available to a business firm. (04 Marks)
- iii. Construct the GE's Strategic Planning Grid and plot the business units on the grid by using the following information and determine the suitable strategies for each Strategic Business Unit (SBU) in the grid.

Factor of Industry Attractiveness	Weight	Rating		
		SBU 1	SBU 2	SBU 3
Industry growth rate	0.30	2	3	3
Industry Profitability	0.24	4	2	3
Market Segmentation	0.18	5	2	4
Innovations	0.16	4	3	5
Trends in Prices	0.12	3	2	3
Factor of Competitive Strengths	Weight	Rating		
		SBU 1	SBU 2	SBU 3
Market share	0.26	4	3	4
Brand Loyalty	0.25	4	4	5
Company's profitability	0.20	3	3	3
Distinctiveness	0.16	3	4	5
Customer Responsiveness	0.13	5	4	4

(14 Marks)  
[Total 24 Marks]

6. Compare and contrast the followings.

- i. Vertical Integration strategy vs Horizontal Integration strategy
- ii. Cost Leadership strategy vs Differentiating strategy
- iii. Retrenchment vs Lean manufacturing
- iv. Feed-back control vs Feed-forward control

(06 marks per each)  
[Total 24 Marks]

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