

THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES – LEVEL 6
FINAL EXAMINATION - 2007



059

STRATEGIC MANAGEMENT - MCU 4201

DURATION: THREE AND HALF (3½) HOURS

This paper contains SIX questions and has FOUR PAGES.

Date: 1st July, 2007

Time: 9.30 a.m. - 1.00 p.m.

ANSWER QUESTION NO. ONE (COMPULSORY) AND THREE FROM OTHERS.

- Answers should be methodical and focused. Cite suitable Sri Lankan examples for your explanations where necessary.
- Maximum marks: 100 [Part A – 52 marks and Part B – (16x3) = 48]

1. Read the case of Solex Engineering Enterprise and answer the question at the end.

SOLEX ENGINEERING ENTERPRISE (SEE)

The company:

Solex Engineering Enterprise (SEE) is a Sri Lankan organization formed as a partnership by two brothers in 1980. They had a keen interest to explore into new paths in the mechanical engineering discipline. They started with manufacturing water pumps to the local market. Initially SEE marketed its products under different labels. In 1995 they expanded operations and moved to a better location, approximately 7km from Colombo with a production facility covering an area of 10,000 m², in the industrial area of Peliyagoda, and started their own marketing under the brand name "SOLEX".

The mission of the company is to provide a total pumping solution with excellent quality products supported by an efficient after sales service, for the home and industry.

Business activities

At present SEE has become one of the leading water pump manufacturers in Sri Lanka with the brand Solex in Sri Lankan centrifugal water pump market, securing no. 2 position for the last eight years. They enjoy a 35% share of the centrifugal electric water pump market in highly brand conscious water pump market in Sri Lanka. SEE feels that they could achieve this position due to their innovative approach towards customer satisfaction and the dedication of their employees influenced by the unique company culture.

At present SEE markets a wide range of centrifugal water pumps, i.e., end suction pumps, submersible pumps, high pressure pumps and tailor made pumps powered by electricity and kerosene and diesel engines, water and gully bowsers, cylinder sleeves, brake drums, woodworking machines, ferrous and non-ferrous castings to local and foreign markets. The R & D teams are now working on air compressors, house hold appliances and automotive batteries.

SEE has achieved a turnover of Rs. 1000 million during the year 2006 with its nearly 500 employees.

The water pumps market in Sri Lanka

The water pump market in Sri Lanka can be categorized in to various uses such as the domestic range, agricultural sector and industrial pumps. It is filled with locally manufactured and imported water pumps. The water pumps for households market is the largest in the industry and therefore the competition in this sector is very high.

The major local market players are Jinasena, Solex, Singer and Agrotech. Jinasena is the most reputed brand name in the local water pump market for decades. This brand has earned a priceless goodwill for the excellence in product quality and after sales services. It had secured the largest market share for domestic and agricultural water pump market for decades and the Solex became the largest competitor in the market.

The imported water pumps were available in the local market for a long. The major segment for such pumps was various industrial customers. In mid 1990 the water pump market was full of low priced Chinese made water pumps and in early 2000 the Indian made pumps too entered the market. These low priced entries made a vibration to the Sri Lankan water pump market but failed to establish a brand name for any of the makes. Subsequently due to the devaluation of Sri Lankan currency the prices of these imported pumps rose, however still these pumps hold the lowest price range in the market. From the view point of the customers they still prefer the local made branded pumps and in the long term they seemed to be cost effective than the imported products, (after sales services, availability of spare parts, durability and power consumption.) as per the dealers opinion.

In year 2007, Jinasena limited started offering polymer based water pump under Jinasena brand name at a lower price than conventional pumps made of metal. They went ahead with marketing campaigns stating that polymer water pumps are better in health aspects since no harmful metals get into water through the pump. Further, they state that in future all their domestic water pumps will be made using polymer technology.

With regard to the present situation in domestic water pump market, Marketing Manager of SEE stated that the water pump industry was currently under severe pressure due to the influx of inferior quality, cheap Chinese pumps. "These cause a significant loss to the consumer in the long run, in terms of electricity, cost of repairs, etc. We thought it fit to introduce this five-year warranty, in a bid to protect the local consumer and industry, by encouraging a demand for locally made water pumps and thus curbing the dumping of substandard products in Sri Lanka."

Present business activities of Solex

"SOLEX" markets a complete range of centrifugal water pumps, covering most of the aspects of Sri Lankan water pump market. The company has established a strong, loyal dealer network with over 800 dealers to penetrate into the retail market and has established links in the industrial and supplier markets. The company has its marketing team with necessary technical expertise to look after the retailer network and the industrial customers.

Production facility and capacity

SEE has a fully automated ferrous and nonferrous foundry occupying 3000m² and a machine shop of 7000m² with a work force over 200 people. They use modern technologies to meet the stringent quality standards specified by their industrial and retail customer base for its large portfolio of products, and is capable of producing top quality cast iron, non-ferrous products from 0.5 kg to 500.0 kg per item. The foundry has a production capacity of 400 M.T. per month.

The products are always subject to stringent tests at the foundry laboratory to ensure the consistency of the mass production and to support the TQM.

SEE started making their own dies and moulds in 1990 using conventional methods for simple products and moved to manufacture dies and moulds for complex products using 5 Axis CNC (computerized numerical control) machining centres and CNC lathe machines supported by modern CAD/CAM software.

SEE formed a strategic business unit to cater to the die and mould industry in the recent past taking the rapid market development into account. During its first year the SBU has been able to develop a good client base due to the higher level of quality. Now SEE produces die and mould for the leading water pump manufacturers in Sri Lanka.

Further, to face high cost in importing electric induction motors of good quality due to escalating foreign currency rates SEE started manufacturing their own induction motors to replace them with foreign makes. Some of the raw materials for manufacturing motors as well as water pumps are imported and there are many suppliers to SEE. The materials purchased locally also have multiple suppliers.

(source: industry news and publications of Solex engineering enterprise)

Questions:

- a) Identify the key business lines of the Solex engineering enterprise. (04 marks)
- b) State the key success factors of this enterprise? What are the strengths and weaknesses of SEE? (06 marks)
- c) Explain the integration strategies adopted by SEE. (08 marks)
- d) What diversification strategies were pursued by the management of SEE? Explain. (08 marks)
- e) As a strategist express your opinion on management of SEE implementing integration and diversification strategies mentioned above. Establish your answer with issues in the business environment of SEE. (12 marks)
- f) Using Michel Porters industry analysis model express your opinion on the future of water pump manufacturing business lines of the company. (14 marks)

Note: State the assumptions you have used when answering this question

2. "There is an increasing trend in using strategic management practices in business today."
 - a) Explain the key elements in strategic management practices. What features would have attracted the businesses to use strategic management practices in their organizations? (08 marks)
 - b) Explain the key stages of a strategic management model. (08 marks)
3. a) Explain the importance of having a formal vision and mission statement for an organization. (08 marks)
- b) What key features should be present in a mission statement? Explain. (08 marks)
4. Explain what is meant by environmental scanning in strategic management? Why do strategists always insist in environmental scanning? Explain. (16 marks)
5. Organizational culture and organizational structure plays a key role in the successful implementation of strategies.
 - a) Do you agree with the above statement? Give reasons for your answer. (08 marks)
 - b) Explain how an organizational structure could become an internal strength. (08 marks)
6. BCG matrix for business portfolio analysis can be used to analyse a the business portfolio of an organization.
 - b) Explain the BCG matrix for business portfolio analysis. (08 marks)
 - b) Explain the funding requirements for different categories of businesses categorized under the BCG matrix for business portfolio analysis. (08 marks)

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