



THE OPEN UNIVERSITY OF SRI LANKA
 COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC
 ADMINISTRATION PROGRAMME
 FINAL EXAMINATION 2013
 STRATEGIC MANAGEMENT MCP1653

DURATION: THREE (03) HOURS

DATE: 17th August, 2013

TIME: 9.30 am – 12.30 pm

INSTRUCTIONS

- Answer **Four (04) questions including Question (Q1) (compulsory question).**
- Write legibly and be focused.
- Question No.1 carries 46 marks and questions in Part-B carries 18 marks each.

Question ONE

Healthcare sector in Sri Lanka

As one of the national priorities, Sri Lanka provides free universal healthcare with its over 590 Government hospitals. OPD facilities are readily available in public (general) hospitals situated in major towns and cities, with laboratory and radiology facilities common in most. To a greater extent in the teaching hospitals in Colombo, Colombo South, Colombo North, Kandy/ Peradeniya, Galle and Jaffna any situation can be handled. For emergencies, especially accidents, due to the high investment in equipment and staff training in the public healthcare sector many opt for public sector hospitals.

In addition to public sector hospitals, there are around 200 private sector hospitals which have fully fledged large medical hospitals with wide range of medical facilities under one roof. This private sector healthcare is popular with both expatriates and Sri Lankans returning to the country; many of whom will always commend the level of care received.

Government encourages investments in healthcare industry through various incentives while having regulatory mechanisms to monitor the operations of the private sector hospitals. Infrastructure, quality of services and also the human capital base in the healthcare sector have been rapidly improving in both the Government and Private health care sector.

Public expenditure on health sector in Sri Lanka remains around 2% of the GDP, in spite of increased private sector investment and expenditure. At this level of expenditure, the

achievements in terms of positive health indicators related to public health of Sri Lanka looks quite impressive.

- Average Life Expectancy at birth 75.1 years
- Infant Mortality: 9.5 per 1000 births (a regional low) (Central Bank: 2012)

CIC Holdings

CIC Holdings is a public quoted company in Sri Lanka actively engaged in agriculture, paints, industrial chemicals, consumer and health care business. Up to 2003 healthcare business of CIC Holdings was very negligible and consisted of 2 pharmaceutical agencies and a medical diagnostic business. They are primarily marketers and distributors of pharmaceutical and diagnostic products of world's leading manufacturers. End 2003, one of the largest pharmaceutical agencies of CIC decided to move out of CIC citing weak distribution network of the company. At the same time remaining pharmaceutical agency too was searching for another distributing partner to move out of CIC Healthcare. At this time the top management of CIC Holdings decided to hire a new Divisional Director to handle their pharmaceuticals and healthcare business.

In 2003, when new divisional director took over the position, he streamlined the distribution network of CIC Healthcare division and managed to hold on to existing pharmaceutical business and initiated measures to increase the sale of the existing products. As a result, they were able to almost double the sales during first year of taking over of business and were able to make the business profitable. In the next few years organization secured around 30% growth from existing products and new pharmaceutical businesses as well.

The organization markets their products to retail pharmacists through a network of sub distributors. Retail pharmacy margin is around 15%, where as sub distributor margin is around 6%. Importer would typically enjoy a margin of 25%, approximately.

Pharmaceutical market in Sri Lanka is around SL Rs. 49 billion. Drugs worth SL Rs. 21 billion is consumed by the Government hospitals and these are purchased through public tenders. Pharmaceutical market annually grows by 15% on average as per market research data. Almost 90% of the pharmaceutical requirement to the country is imported from subcontinent and rest of the world. Only few Sri Lankan manufacturers contribute to Sri Lankan requirements of pharmaceutical products. There is 20% price advantage for Sri Lankan manufacturers in government tenders but most of the time Indian manufacturers beat local manufacturers because of their size of operation. Private sector pharmaceutical market worth over SL Rs. 28 billion in Sri Lanka is fiercely competitive with more than 65 importers. Pharmaceutical imports to country are tax free and VAT

free. Therefore, even with high regulatory environment lots of players from subcontinent are operating in the local market.

In 2005 CIC Healthcare division needed higher growth projections and the management decided to get into a totally new area of business, medical devices marketing. Before joining CIC Healthcare division, the Divisional Director had experiences in handling and marketing medical devices and therefore CIC Healthcare division started venturing into the same. The main customer of medical devices business is the Government hospitals network and the private sector hospital market accounted for nearly 10% of the medical devices market. Therefore, the new business had a sizable amount of tender based businesses. In the next few years they managed to get new business of medical devices and they had a growth in excess of 30 to 35% year on year, but they had to invest on human capital and inventories to build the business, and also heavy investment in business promotion activities as well. Therefore, business was not making much profit through sales at private sector hospitals market and the CIC Healthcare division also had to continue with tender sales which organization viewed as not regular and not secure.

The total medical devices market in Sri Lanka is around 17 billion and it is growing around 10 % annually. No manufacturers in Sri Lanka, except one large surgical glove manufacturer and almost everything is imported to the country.

The recent budget proposals of the Government of Sri Lanka declared pharmaceutical sector as one of the focused sectors and offered tax benefits. If new or existing manufacturer invest over US \$ 10 million in pharmaceutical manufacturing the investor would get 7 year tax holiday and after 7 years corporate tax would be 12%. If the investment is less than US \$ 10 million there would be a tax holiday of 5 years and 12% corporate tax thereafter.

After 10 year of operation CIC Holdings, healthcare business has grown to be one of the biggest in the country and they are ranked among first 5 healthcare solutions providers in the country. But still the top management feels that they are vulnerable due to following reasons

- Pharmaceutical business is at the mercy of manufacturers and if they are not happy with service provided they can shift to any other distributor
- Medical devices business is mostly dependent on the Government tenders and therefore uncertainty of business due to financial position of the Health ministry, which controls the spending at Government sector hospitals.

Therefore top management of CIC Holdings is looking for a totally a new strategy to take the organization to the next level.

Assume you are the head of healthcare business and; you are required to make a report with the following.

- a) Explain the concept of "Strategic Business Unit" (SBU) related to the above.
(08 marks)
- b) Identify the possible core competencies of CIC healthcare business for the success of this business venture.
(08 marks)
- c) Conduct a SWOT analysis for the Business.
(10 marks)
- d) Explaining the importance of McKinney 7s model to assess and monitor changes in the internal situation of an organization, give an account of the current position of CIC healthcare business.
(10 marks)
- e) Providing justifications propose a suitable strategy(ies) for CIC healthcare business.
(10 marks)
(46 Marks)

Question TWO

Briefly discuss the Ansoff product/market growth matrix using one of the service/manufacturing organizations of your choice. Critically analyze the benefits and constraints for each of the strategy directions proposed as per the matrix. (18 Marks).

Question THREE

"Mergers and Acquisition is the most common means of entry into new markets-John Kay.

- a) Explain the differences of Mergers and Acquisitions. (08 Marks)
- b) What are the strategic implications for Mergers and acquisitions? Explain.
(10 marks)
(Total-18 Marks)

Question FOUR

According to Michael Porter, for an organization to have distinct advantage, management must select a competitive strategy by capitalizing on the strengths of the organization and also taking the industry in which it operates into consideration.

- a) Explain Porter's generic Strategy. (08 Marks)
 - b) Critically evaluate the strategy using the example of consumer durables. (10 Marks)
- (Total 18 Marks)

Question FIVE

"Monitoring and control are an integral part of strategic management."

- a) Explain the concept of "controlling" in strategic management. (08 marks)
 - b) "Many control mechanisms available for strategists at organizations." Elaborate with examples. (10 marks)
- (Total 18 Marks)

Question SIX

Explain following concepts.

- a) Value chain
- b) Balance Score Card
- c) Blue Ocean Theory
- d) VRIN framework
- e) Core competencies

(Total 18 Marks)