

**THE OPEN UNIVERSITY OF SRI LANKA  
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC  
ADMINISTRATION  
FINAL EXAMINATION – 2014  
MCP 1653 – STRATEGIC MANAGEMENT  
DURATION: THREE HOURS and THIRTY MINUTES (3½ HOURS)**



**Date: 3<sup>rd</sup> August, 2014**

**Time: 9.30 am – 1.00 pm**

**Instructions:**

**Question One is compulsory.**

**Answer FOUR questions including question One.**

**This paper contains five questions and has five pages.**

**Question ONE (Compulsory)**

Read the following case 'The Hotel Tree of Life, Kandy' and attempt the questions given at the end.

**THE HOTEL TREE OF LIFE (TOL), KANDY**

The City of Kandy is in the Hill Country in the center of Sri Lanka, 120 km and 3 hours driving time north east of Colombo. Kandy is Sri Lanka's second largest city with a population of 100,000. It was the capital of the last Sinhalese Kingdom, which fell to the British in 1815. The rich cultural heritage of Kandy is second to none in Sri Lanka, and the famous Temple of the Tooth (Dalada Maligawa) with the sacred tooth of the Buddha, and other religious sites, are within easy reach.

At an altitude of 500 meters above sea level, Kandy avoids the sticky heat of the coastal regions. It is cool at night, and the environment is one of perpetual spring.

**The Hotel**

*The Hotel Tree of Life* ([www.hoteltreeoflife.com](http://www.hoteltreeoflife.com)) is actually located at Yawalatenna, Barigama, Werellagama, about 13 km north of Kandy and several hundred meters above the town itself. Hotel Tree of Life is a beautiful, five star hotel property with first class service, a full range of facilities, and located on a hilltop with spectacular views. It would be considered a first-rate property in any resort area in the world. Unfortunately, circumstances in Kandy and in Sri Lanka have made The Hotel Tree of Life (and other Sri Lankan hotels) face problems in relation to marketing and financial difficulties compared to other similar hotels.

The hotel has 40 air-conditioned rooms with television, refrigerators and private balconies. It has high occupancy on weekends, with couples and families from Colombo who come to relax and escape the heat. Similarly, it is overbooked (and charges triple usual rates) during the *Kandy Esala Perahera*, a 10-day festival in the month of Esala (July or August), and during Sri Lankan New Year in April. The hotel is also a popular location for wedding and other receptions, and guests at these events who have come from a distance may stay at the hotel for several days. The hotel has a large, fully equipped conference center but is not often used for local meetings or conferences because of its distance from downtown Kandy.

The hotel offers a 3 km walking path through lovely gardens and rainforest with sightings of wild boar or grazing deer, a large swimming pool, two restaurants for Sri Lankan and western cuisine, an *Ayurvedic* Center, billiard room, a croquet field, extensive grounds, mountain bike rentals, and fishing in an adjacent pond. There is an in-house discotheque and nightclub open on Fridays and Saturdays.

And there is history. The old wing of the hotel is a hundred years old and was an estate bungalow during the British era, occupied in 1944 by Lord Louis Mountbatten.

But in spite of these attractions, during weekdays when no special events are scheduled it is common to only have two to five of the 40 rooms occupied. There are many weeks when the hotel's weekday occupancy is around 15 percent. With a staff of close to 50 people, the hotel is not covering its operating expenses, and is certainly not earning any return on its substantial capital investment.

*The Hotel Tree of Life* charges a list price or "rack rate" in non-festival periods of \$75, and a rate to tour packagers of about \$40, both of which include half-board (breakfast and dinner). The hotel's cost-per-room-per-night (employees, taxes, etc.) for an unoccupied room is about US\$19. The additional marginal cost for occupancy (room linen, supplies, and meals) is about US\$10.

The hotel's marginal cost for a night's occupancy (room linen, supplies, and meals) is US\$25-30.

### **Segmentation for Hotel Customers**

The hotel's basic problem is a lack of tourists of all kinds. Because of Sri Lanka's long-standing ethnic problems, every western nation had a travel advisory warning its nationals against visiting the country, and the number of tourists entering Sri Lanka was essentially flat from 1993 to 2000. However, after 2009 this warning was

lifted and the Government of Sri Lanka has made several efforts to improve travel and tourism industry in Sri Lanka, with special attention to foreign markets.

Those travelers who do reach Kandy fall into several distinct segments:

1. More affluent Sri Lankans, primarily from Colombo, who arrive for short stays, usually traveling by automobile;
2. Less affluent Sri Lankans who arrive for short stays or family visits, usually by train or bus, and who usually stay with friends or relatives or in guesthouses;
3. Younger international travelers who are adventuresome, who tend to be budget conscious, and who arrive by train or bus, and tend to stay in guest houses or less expensive hotels in the downtown area;
4. Older international travelers, who are less budget conscious and arrive in tour groups by bus or in a private car with a driver. Such groups tend to follow an itinerary and occupy accommodation pre-arranged by a travel agent either in Colombo, or abroad.

*The Hotel Tree of Life* draws almost all its patrons from groups 1 and 4.

### **The Competition**

Kandy has an abundance of guesthouses, some in lovely, luxurious houses. It has many good hotels, and many of these are in the hills offering good views. Competing in the upper end of the hotel market are the *Queens Hotel* with 50 rooms, the *King's Park Hotel* with 50 rooms, the *Hotel Thilanka* (40 rooms) and *Swiss Residence Hotel* (40 rooms). All these have rack rates of about US\$50 per room, negotiated (between the hotel and the traveler) average rates of about US\$40 per room, and tour packager rates of US\$35. *Le Kandyan Resorts*, has 100 rooms, with a rack rate of US\$70 and a tour packager rate of about US\$40-45. None of these hotels has higher than a 60 percent occupancy rate in non-weekend, non-festival periods, and the average for all the hotels is an occupancy rate of 40 percent.

These hotels could lower their negotiated rates by US\$10 and compete directly with guesthouses, but they choose not to, in part because they would then have to pay a "commission" on the lower rate. The reason is that many tourists are brought to guesthouses by "touts", who meet travelers at the train or bus and steer them to a particular guesthouse, in return for a commission from the guesthouse and a tip from the tourist.

### **The Issue**

As the decades long civil war was over, the number of western tourists visiting Kandy, the Hill Country and the ancient cities north of Sri Lanka will increase by five to ten times within the next five years is expected. Further, there will be more Asian travellers from India and China to Sri Lanka and it is expected that these tourists will outnumber European travellers.

#### ***Attempt the following;***

- i. Describe the core competencies and key performance indicators for Hotel TOL? (08 Marks)
- ii. As per the above case what are the short term and long term issues faced by the management of Hotel TOL. (08 Marks)
- iii. Carryout an environmental analysis for Hotel TOL. (10 Marks)
- iv. Using TOWS matrix or Grand Strategy Matrix, identify suitable strategies for Hotel TOL for the above issues. Justify your answer. (12 Marks)
- v. Explain the measures you suggest in implementing strategies stated in iv above. (08 Marks)

### **Question TWO**

- a) Explain the Ansoff product/market growth matrix with suitable illustrations. (08 marks)
- b) Using an organization of your choice, critically examine the key benefits and constraints for each of the strategy directions proposed in the Ansoff matrix. (10 marks)

### **Question THREE**

“Central Bank of Sri Lanka states that 'almost all' banks and finance companies have submitted plans to merge or acquire others in a regulatory driven push to consolidate and reduce the number of financial institutions in the country” –News.

- a) Explain the differences of Mergers and acquisitions. (08 Marks)
- b) What are the strategic implications for mergers and acquisitions for banks and financial institutes in Sri Lanka? Explain. (10 marks)

**Question FOUR**

Explain ANY THREE of the following concepts related to strategy. (06 marks each)

- a) Balanced scorecard and its applications for strategic control and strategy formulation.
- b) The McKinsey 7S Framework and how it could be helpful for a strategist.
- c) Vertical Integration and adoption of vertical integration strategies in competitive markets
- d) BCG matrix for portfolio analysis and its limitations
- e) Strategic Business Unit (SBUs) and managing SBUs under a company's portfolio.

**Question FIVE**

The five forces model introduced by Michael E. Porter facilitates organizations to analyze their competitive position to decide on new strategies.

- a) Explain the Michael E Porter's five forces model and practical implications of the model. (08 Marks)
- b) Assume you are in the telecommunication industry in Sri Lanka and wishes to introduce a new product to the electronic communication market. Explain how you would use the five forces model to assist your decision. What are the limitations to use this model in forming your decision? (10 Marks)

(Copyright Reserved)