SOUTH EASTERN UNIVERSITY OF SRI LANKA

THIRD EXAMINATION IN BACHELOR OF SCIENCE IN MANAGEMENT AND INFORMATION TECHNOLOGY 2010/2011

SEMESTER-1, JULY / AUGUST-2012

MIT 31023 - Strategic Management

Answer all questions Time: 03 Hours

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01. Read the following case and answer the questions given at the end.

Nike International Ltd.

Bill Bowerman and Phil Knight founded Nike Inc. as Blue Ribbon Sports in 1962. The partners began their relationship at the University of Oregon where Bowerman was Knight's track and field coach. The Blue Ribbon Sports (BRS), the name of the partnership between Knight and Bowerman that they formed with only $1,000 in capital. BRS changed its name to Nike, Inc.in 1972 and debuted itself at the 1972 Olympic trials. Nike popularity grew so much that in 1979 they claimed 50% of the U.S. running market. A year later with 2,700 employees, Nike went public selling 2 million shares on the New York Stock Exchange. Nike also expanded its product line to include specialty apparel for a variety of sports. In 1990, Nike surpassed the $2 billion mark in consolidated revenue with 5,300 employees worldwide.

The athletic footwear industry is a very competitive and mature market. The leaders of this industry are very well established. Leaders like Nike and Reebok have made the industry what it is today. Consequently, long-time competitors like Saucony and K-Swiss have been struggling for years just to keep their brands alive. This cutthroat environment has hindered the entry of new competitors. Economies of scale also contribute to the lack of newcomers into this market. In order to have an edge over the leaders, companies must be able to compete at all levels such as reasonable pricing, efficient production, and high product quality. These things are difficult to achieve without the resources of an established manufacturer. Another key barrier to entry is the access of traditional distribution channels. When combing the shelves at stores like Sports Authority and Foot Locker, it is evident that the leaders dominate the shelves. Lesser-known brands are viewed by retailers as being too risky to replace an established brand name like Nike or Reebok on the shelf. These walls seem to be breaking down with the help of the Internet. The costs of overhead that come along with traditional brick and mortar retail distributors are being significantly diminished. New entrants are now able to slide into markets without these high startup costs, making it more profitable to begin production.

Nike's distinctive competency lies in the area of marketing, particularity in the area of consumer brand awareness and brand power. While the reasons that Nike is successful in marketing the products are numerous, this key distinctive competency towers over our competitors. As a result, Nike's market share is number-one in the athletic footwear industry. Two key attributes of a distinctive competency are its inability to be easily replicated and the value or benefit it offers to consumers. As Nike becomes a more integrated part of American and world culture, the brand power becomes increasingly difficult to replicate. The premise of a trademark and a slogan is that they are a company's fingerprints. Nike is able to capitalize on its unique identity due to our industry-leading financial strength. Nike reaches millions of consumers through large-scale marketing campaigns made possible by significant budgetary appropriations. Few companies have such a recognizable image and the resources to promote it. This ultimately translates into added value for consumers. The public benefits from the strength of Nike's image at the point of purchase. For decades, consumers have come to associate the Nike image with quality products. Younger consumers especially benefit from this positive influence. This image is something that competing companies cannot easily duplicate by simply enhancing the physical characteristics of their products.

Nike's management analyzes its internal environment and makes decisions based on that analysis. Because of Nike's marketing research, the company has decided to revamp its apparel division to be more fashion savvy. As a result of product and pricing research, Nike has decided to continue to focus on the high end market while increasing its market share in the middle and low price ranges in an attempt to broaden Nike's product spectrum. Nike's failure to foresee problems in relation to labor and factory conditions at production locations has resulted in bad publicity and declining sales as society and consumers call for more "socially responsible" companies.

Nike utilizes innovation to produce top quality athletic footwear and apparel. As a result of devoting vast resources to the research and development of its products, Nike has captured the largest market share in the athletic footwear and apparel industry and continues to be the leader of quality products. The competitive strategy that Nike introduced at the end of the 1990's concentrates on honing the focus of Nike's marketing strategies and product offerings through product differentiation. Nike realizes that the team-mentality that captured the spirit of athletics in the late 1980's and early 1990's has been replaced by a sense of individualism. Younger consumers especially, look to extreme sports and retail outlets such as Ambercrombie & Fitch and Old Navy to find a sense of individual style. Nike responding to this movement in a number of ways. While retaining company's long-standing tradition of placing performance through new-product development as a top priority, a never-before seen element of fashion will receive a second-place priority built into company products and image.

The key threat for Nike, Inc. is market saturation. The problem is that the athletic shoe market is already full of different brands and companies. Now, there is very little room for new companies. There is also very little room for new product innovation and growth of market share for companies like Nike, Inc. Since Nike is currently holding the lead in the market as far as market share, there is little room for them to expand. Nike is one of the most successful manufacturers of athletic footwear, competing with Reebok, L.A. Gear and Adidas, as well as with manufacturers of casual footwear.

Reebok, in terms of their products, is not entirely different from Nike. Reebok is involved in the design and marketing of both athletic and non-athletic footwear and apparel, as well as other various fitness projects. Reebok's market share is a distant third in the footwear industry at 11.2% (compared to 30.4% and 15.5% for Nike and Adidas respectively). Despite the tough times Reebok has recently come upon, reasons for optimism remain. Reebok has managed to hold the loyalty of a large portion of the industry's female consumers market. While Reebok's spending on advertising has fluctuated, individual product designs have come and gone, female consumers have, as a group, remained loyal to Reebok and their products. Reebok can use their distinctive competency to wound Nike. If Reebok can expand their appeal to incorporate female consumers who are not currently Reebok customers, Reebok could expand their market share and take customers away from Nike products. (Summary from Nike Inc. Case Study)

Questions

i. What do you see as the strengths and weaknesses of Nike?

(10 Marks)

ii. Briefly explain the current strategies of Nike and what strategies Rebook should formulate to improve its performance.

(10 Marks)

iii. Describe why Nike has been successful in the athletic footwear industry? What are some potential risks associated with the strategies of this company? Briefly explain.

(15 Marks)

(Total 35Marks)

02.

(i) Define the term strategic management and describe the phases of strategic management process.

(06Marks)

(ii) Strategic flexibility demands a long term commitment to the development and cultivation of critical resources. It also demands that the company become a learning organization. Explain various theories of organizational adaptation based on these statements.

(06Marks)

(iii) Briefly explain the following with examples.

a. Vision

b. Mission

c. Goals

d. Objectives

e. Values

(08 Marks)

(Total 20Marks)

03.

(i) (The EFAS and IFAS tables plus the SFAS matrix have been developed as an output of SWOT analysis. Define the term Environmental Scanning and explain its relationship with strategy formulation.

(07Marks)

(ii) What is functional strategy? Describe the various types of functional strategies.

(06Marks)

(iii). Michael Porter proposes two generic competitive strategies for outperforming other organizations in a particular industry. These strategies are called generic because they can be pursued by any type or size of business firm, even by non-profit organization. Describe on these strategies with Sri Lankan examples.

(07 Marks)

(Total 20Marks)

04. (i) Define the term strategy implementation and briefly explain control process in strategic management.

(07Marks)

(ii) Describe the role of strategic information systems in strategic evaluation and control?

(08Marks)

(iii) According to porter, "Differences among competitor value chains are key sources of competitive advantage".

Define the concept of sustained competitive advantage? And explain how value chain analysis is used to identify and evaluate resources and capabilities.

(10Marks)

(Total 25Marks)