25

UNIVERSITY OF ESWATINI

FACULTY OF COMMERCE

DEPARTMENT OF BUSINESS ADMINISTRATION

RESIT/SUPPLEMENTARY EXAMINATIONS

DECEMBER 2021

TITLE OF THE PAPER	:	STRATEGIC MANAGEMENT
DEGREE	:	BACHELOR OF COMMERCE
COURSE	:	BUS 402/BA441 (FULLTIME AND IDE)
TIME ALLOWED	:	THREE (3 HOURS)

Instructions

1. **There are two sections in this examination paper, A and B.**
2. **Section A is compulsory. Answer any three questions in section B**

26

SECTION A-COMPULSORY(40 MARKS)

Question one: Read the case study entitled: **Kmart and Sears, Still Stuck in the Middle**? and answer questions that follow.

On January 22, 2002, Kmart Corporation became the largest retailer in U.S. history to seek bankruptcy protection. In Kmart's petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code, Kmart management announced that they would outline a plan for repaying Kmart's creditors, reducing its size, and restructuring its business so that it could leave court protection as a viable competitor in discount mass-market retailing. Emerging from bankruptcy in May 2003, Kmart still lacked a business strategy to succeed in an extremely competitive marketplace. The U.S. discount department store industry had reached maturity by 2004 and Kmart no longer possessed a clearly-defined position within that industry.

Its primary competitors were Wal-Mart, Sears, Target, Kohl's, and J.C. Penney, with secondary competitors in certain categories. Wal-Mart, an extremely efficient retailer, was known for consistently having the lowest costs (reflected in low prices) and the highest sales in the industry. Having started in rural America, Wal-Mart was now actively growing internationally. Sears, with the second-highest annual sales, had a strong position in hard goods, such as home appliances and tools. Around 40% of all major home appliance sales continued to be controlled by Sears. Nevertheless, Sears was struggling with slumping sales as customers turned from Sears mall stores to stand-alone, big-box retailers, such as Lowe's and Home Depot, to buy their hard goods. Target, third in sales but second in profits, behind Wal-Mart, had distinguished itself as a merchandiser of stylish upscale products. Kmart was also challenged by "category killers" that competed in only one or a few industry categories, but in greater depth within any category than could any department store. Unlike Sears, the company chose not to locate in large shopping malls but to establish its discount stores in highly visible corner locations. By 1990, however, when Wal-Mart first surpassed Kmart in annual sales, Kmart's stores had become dated and lost their appeal. Attempting to avoid this fate, Kmart management updated and enlarged the stores, added name brands, and hired Martha Stewart as its lifestyle consultant. None of these changes improved Kmart's financial situation. By the time it declared bankruptcy, it had lost money in five of the past 10 years. Out of bankruptcy, Kmart became profitable—primarily by closing or selling (to Sears and Home Depot) around 600 of its retail stores. Management had been unable to invigorate sales in its stores. In a surprise move, Edward Lampert, Kmart's Chairman of the

Board and a controlling shareholder of Kmart, initiated the acquisition of Sears by Kmart for $11 billion in November 2004. The new company was to be called Sears Holdings Corporation. Even though management predicted that the combined company's costs could be reduced by $500 million annually within three years through supplier and administrative economies, analysts wondered how these two struggling firms could ever be successful. By the end of 2007, the stock of Sears Holdings had fallen to 111 from its peak of 195 earlier in the year. Like many retailers, both Sears and Kmart struggled to attract shoppers in an overcrowded industry and a slumping economy. Sears Holdings did, however, have $1.5 billion in cash, a significant advantage during lean times, and more than its rivals J.C. Penney, Kohl's, and Macy's combined. The company's debt load was only 25% of the total capital on its balance sheet, compared to 46% for Penney's and 53% for Macy's. It also had significant real estate assets on its balance sheet. For example, Sears owned outright 518 of its 816 locations and many of the Kmart stores were located in strip malls close to large cities. Since fewer shopping malls were now being built, it was becoming harder to find space for "big-box" retailers in metropolitan areas. The most recent quarterly results for 2007 of Sears Holdings reported the third straight quarter of deteriorating profit margins and same-store sales. After months of cutting the number of employees and reducing other expenses, industry analysts felt that there was little left to cut. They were also concerned that management had failed to invest in store improvements. Sears Holdings had just launched a bid in November 2007 to purchase Restoration Hardware, a home-goods retailer. Even though Restoration Hardware was also facing sluggish sales, it was thought that Sears' management could use the acquisition to create an upscale boutique within its stores.

Questions:

a) Why are the two companies, Kmart and Sears in trouble/stuck in the mud? (10 marks)

b) Discuss five strategic issues which emerge from the case study and explain how each might affect Sears(15 marks)

c) Strategy implementation is a wake-up call from catastrophic slumber. What challenges might Sears face in implementing new strategies?(15 marks)

28

SECTION B

ANSWER THREE QUESTIONS

20 MARKS EACH (TOTAL, 60 MARKS)

Question two

a) Quite often, firms with a cost leadership advantage do not necessarily cut back on price. Why is this so? (10 marks)

b) Matsapha Unique Boutique sales apparels from Europe's best cloth manufacturers and as such, has attracted Eswatini's class of rich young lady's who are fashion-centric. If Matsapha Unique Boutique is to remain competitive through differentiation, what will be the unique elements or characteristics of its purchasing or human resources strategy? Discuss (10 marks)

Question three

a) A corporation's directional strategy is composed of three general orientations. Discuss them **(10 marks)**

b) Discuss three growth and two retrenchment strategies giving appropriate examples of an organization which you are familiar with. **(10 marks)**

Question four

a) Why should an organization pursue a stability strategy?(10 marks)

b) The BCG (Growth-Share) Matrix is old but has stood the test of time. How significant and practicably usable is it today, in the light of vast developments in management tools that help assess market conditions? (10 marks)

29

Question five

a) For a weak company in the same industry, harvesting or defensive strategies might be considered. In your opinion, why might strategic control initiatives fail to yield the much-needed results? explain (10 marks)

b) In your opinion as a student of strategic management, how can an organization use the 3 interlocking aspects (intent, choice and assessment) of strategy formulation to revamp her competitive position? Explain(10 marks)

Question six

a) With your knowledge of Strategic Management, how can a firm use the Resource Based View of the firm to formulate business strategies? (10 marks)

b) You have been approached by a local businessman based in Matsapha who intends to either diversify his business operations in a new unrelated industry or adopt a concentric strategy. In your opinion, why should he pursue a concentric strategy over an unrelated diversification strategy? (10 marks)