

Take Home Exam

(Name)

Instructions:

- Do this yourself, not in teams, please.
- Use any resources – notes, textbook, etc. – that you want to.
- Turn in at the beginning of class on Tuesday 29 April in paper copy or e-mail me a scanned cop or a Microsoft Word file - by then. I will only accept late papers under very exceptional cases.
- Add additional sheets for the essay questions at the end. Indicate which question is being answered on the sheets.
- Good luck.

Question #1

Describe in your own words what a strategic plan is and what you learned in this course, in words that you would use to your English teacher in High School (not just what we talked *about*, but what you *learned* – and note that an English teacher would expect proper grammar, good punctuation, and clear thoughts).

Question #2

The process by which strategies and policies are put into action through the development of programs, budgets, and procedures is: (Choose ONE)

- a) strategy formulation
- b) strategy control
- c) strategy implementation
- d) strategy development
- e) strategy evaluation

Question #3

We talked about a large number of companies that went out of business, or almost so. Give three examples of these companies, what went wrong, and why you think that they were unable to turn things around.

Question #4

Apple was described once as “on a glide path to history.” What did that mean? And what did Apple do about it?

Question #5

Starbucks, Dunkin' Donuts and McDonalds are fighting it out for the coffee and breakfast snack business, with several others such as Panera trying to edge into their business. Describe:

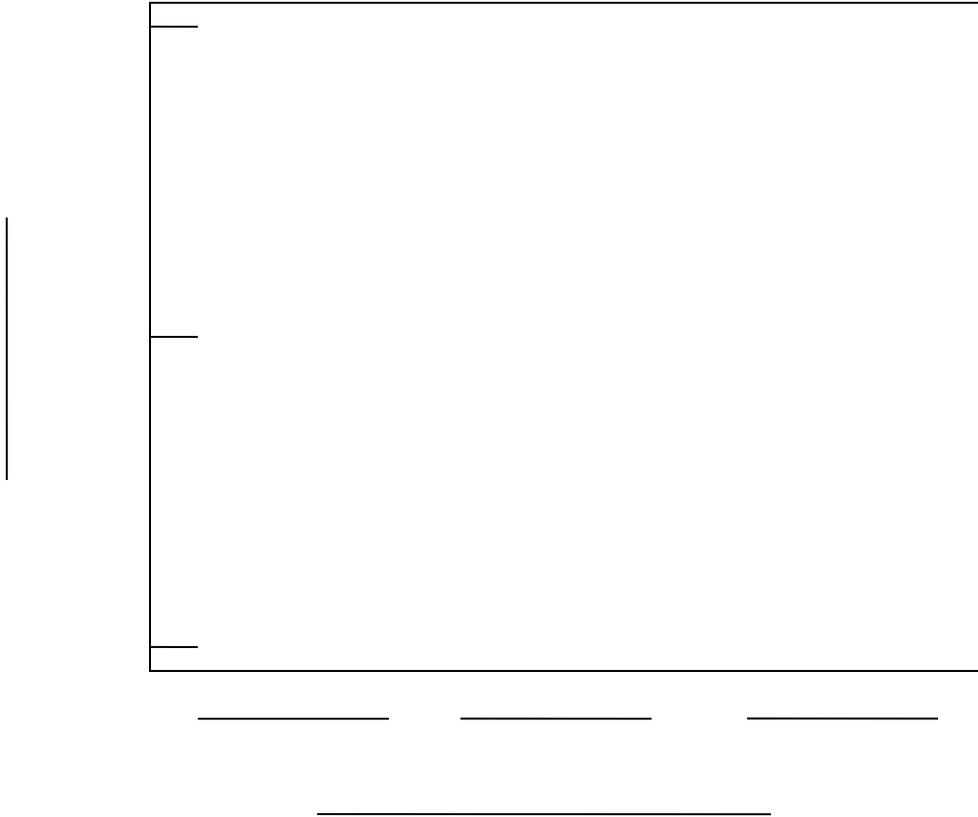
- a) The strategies that each is currently using
- b) The competitive advantages that each currently has
- c) The “unique value position” that each brings to the marketplace.

Question #6

Given the following information, create a Strategic Positioning Chart and show the companies' positions in the marketplace and relative market positions. Be sure to label the axes of the chart.

(Hint: there are at least two ways of doing this. They are both right.)

- (a) Company A – 30% market share, product price is \$1.00 per unit, few product features**
- (b) Company B – 60% market share, product price is \$1.20 per unit, moderate number of product features**
- (c) Company C – 10% market share, product price is \$1.50 per unit, all of the product features of its competitors, and more**
- (d) Total market size is \$10B**



Question #7

Which company in question #6 is following a differentiation strategy (A, B, or C)? _____

Question #8

Does the market situation of three major players, shown in the previous question seem to be a normal, or abnormal one? Why?

Question #9

Give two examples of Business Models:

- (1) _____

- (2) _____

Question #10

If a manufacturing company was following a “Differentiation Strategy,” which of these would very probably be true? (Choose the two that apply)

- Their operational strategy would be geared towards efficiency.
- They would manufacture their product in small batches, ensuring that they met the special requirements of their various distributors and customers.
- Their market is a fast-changing, demanding market with a lot of new entrant competitors.
- They would be looking for other markets for their current products, ones that required minimal changes.

Question #11

Define the term “Low Cost Strategy” and give an example of what a company might do if it was following that strategy.

a) Definition:

b) Example:

Question #12

Strategies: True or False

- a) **True** **False** The best strategy in dealing with a very dangerous and aggressive competitor is a strong, sustained frontal assault, going head-to-head and beating them.

- b) **True** **False** A flanking maneuver is where a company attacks a part of the market where its competitor is weak.

- c) **True** **False** Drastically cutting prices in a market where their market share is eroding due to competitive pressure is an example of “Increasing Expected Retaliation,” whereby a company signals its intention to strongly defend a market.

- d) **True** **False** The aggressive follower in a market usually beats out the first mover, since they have a chance to learn from the first mover’s mistakes.

The following is applicable to all of the rest of the questions:

You have been asked to advise the Board of Directors of SecureU, a small public company that produces, markets, and sells inexpensive home security electronic components and systems (cameras, monitors, door and window sensors, carbon monoxide and heat sensors, central monitoring console, etc.), targeted at the small to medium business (SMB) market.

Here is the company timeline (you may not need all this info to answer the questions, though).

2002 – Initial startup. Freddy Desky and his brother George started the company in their mother’s basement with an initial investment of \$500. Their first product used cheap sensors that are connected to an air horn alarm.

2003 - Sales of \$250,000.

5 employees.

Amazingly, they turned a small profit on their simple alarm system when they got an agreement from a small and medium business (SMB) products catalog firm to include their system, exclusively, in their catalog.

2004 – Sales of \$1,500,000.

20 employees.

Developed own PC-based software system that monitors all of the sensors and launches a phone call to the police or fire.

2005 – First round of financing (\$1,000,000) by a local Venture Capital (VC) firm.

Sales of \$3,500,000.

200 employees, half in manufacturing roles.

Freddy’s brother, George, leaves the firm to become a monk in El Salvador, buying his 50,000 shares from the company at \$0.10 each.

2006 – Sales of \$3,650,000.

210 employees.

2007 – Second round of financing for \$10,000,000 by a mid-range VC firm to allow it to expand its marketing and sales reach. VC firm required that the founder/president step down to the role of CTO and that a new President be installed.

Hired a 20 person sales force to directly sell to SMBs.

\$5,000,000 sales.

230 employees.

Spending \$2,000,000 on Sales and Marketing.

2008 – Went public in March. Initial public offering of 2,000,000 shares at \$2/share (VCs, management and others held an additional 18,000,000 shares).

\$7,500,000 sales.

Spend \$2,250,000 on Sales and Marketing

Profits of \$.075 per share.

230 employees

Share price on NASDAQ on October 7, 2007 is \$5/share. That day, George sells his 500,000 shares and returns from the monastery in El Salvador.

2009 – Sales of \$6,000,000.

Projected spending of \$2,500,000 on sales and marketing.

250 employees.

Projected profits of (-\$60,000) for the year.

Stock price as of 12/11/08 of \$1.50/share.

Question #13

The company has been operating without a strategic plan, serving its small and medium business (SMB) customers, but seems to be struggling lately during the current downturn. The Board has brought you in to create a strategic plan. This is your first presentation. Describe to them (in language similar to what you would use to your mother) why they should invest the time in doing a strategic plan and describe the characteristics of a good strategic plan.

Question #14

Describe to the Board the four basic steps in the strategic planning process and each of their potential importance to the future of SecureU.

ADDITIONAL INFORMATION

The Board has the following members:

- Joseph Jones, the President and CEO. Caucasian, 32 years old, with a background in marketing mobile phones and other hand-held consumer electronics. He was brought in by the VCs to run the company when they invested two years ago.
- Alfred White III, Chairman of the Board. Caucasian, 47 years old, with a finance background. Installed as Chairman by the Venture Capital firm that invested in the company.
- Freddy Desky. Caucasian, 30 years old. CTO and founder of the company who produced the innovative hardware designs that allowed him to sell home security systems for 50% less than their competitors when they started.
- Jeffrey Turner. Caucasian, 31 years old. Whiz kid and former president of his own consumer electronics company in the entertainment field that he sold for \$50M to Sony. Former college roommate of Freddy Desky.

Question #15

What do you think of the make-up of the Board of Directors? Is it the right board to help set the future of the company?

Question #16

Freddy's brother, who has left the monastery and is now an activist shareholder has proposed that SecureU should create a foundation that provides and installs below-cost security systems for households below the poverty level in high crime areas. The activist suggests that it would only decrease SecureU's profits by a small amount – perhaps costing only 6% to 12% of gross revenue. A discussion ensues during the annual meeting, with a shareholder, a retired policeman, arguing that the singular purpose of a corporation like SecureU is to deliver the maximum profits to shareholders – profit in the form of dividends and increasing stock price that he needs to live on as a retiree. You are asked to voice your opinion by the President.

- (a) What do you say?
- (b) Support your position with arguments, numbers, etc., including examples of some companies that believe the same as you.

Question #17

You prepared an EFAS for SecureU, now you are looking it over. What changes should you make before presenting it? (Hint: there are no mistakes in the math)

EFAS for SecureU Inc.

External Factors	Weight	Rating	Weighted Score	Comments
Opportunities				
Increasing growth of existing SMBs in urban areas of US	0.05	4.0	0.2	Larger SMBs more likely to need security systems.
Increase in formation rate of SMBs during tough economic times	0.10	3.9		More new customers.
Increase R&D expenditures and build new products on current PC-based central controller.	0.2	3.8		Could provide higher margins, and become platform for enhanced software packages.
Aging baby boomers may offer a new and growing attractive market for home security offerings.	0.05	4.1		Would be a new market for most current products
Threats				
Drop in crime rate in most major metropolitan areas	0.1	3.8		Reduces the “FUD” factor in our sales
SecureU’s costs manufacturing costs are rising faster than revenues	0.2	3.7		Outsource our manufacturing?
Movement of consumers to all-inclusive security services and away from installing their own systems.	0.3	3.8		Our major competitor is well-positioned to take advantage of this.
TOTAL	1.00			

Question #18

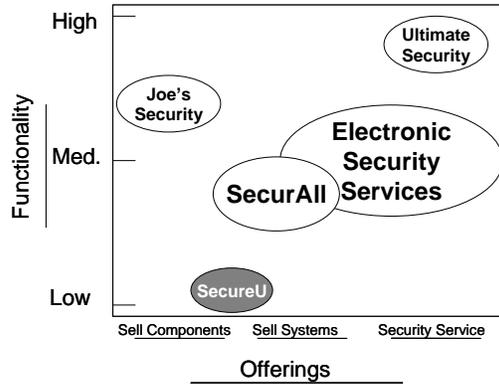
You prepared SWOT table, now you are looking it over. Several of the Board Members are used to seeing standard SWOT tables. **What changes should you make before presenting it?** (Note: EITHER recreate the table with the changes made or just describe the changes that should be made.)

<p><u>STRENGTHS</u></p> <ul style="list-style-type: none"> <input type="checkbox"/> <u>Market-leading smoke alarm</u> <input type="checkbox"/> <u>CO sensor market growth</u> 	<p><u>PRODUCT OPPORTUNITIES</u></p> <ul style="list-style-type: none"> <input type="checkbox"/> Increase R&D – build on PC customer controller <input type="checkbox"/> Increasing growth of number of SMBs due to tough economic times <input type="checkbox"/> Aging baby boomers may offer a new and growing attractive market for home security offerings.
<p><u>THREATS</u></p> <ul style="list-style-type: none"> <input type="checkbox"/> Others are providing Security Services instead of Security Products <input type="checkbox"/> Rising SecureU internal manufacturing costs 	<p><u>WEAKNESSES</u></p> <ul style="list-style-type: none"> <input type="checkbox"/> Lower margin than most competitors <input type="checkbox"/> Lack of strong systems solution due to low functionality PC-based controller <input type="checkbox"/> Sales down in 2008.

Questions #19 #20

Below is a competitive matrix, with the y-axis showing how sophisticated is the offering (basic towards the bottom, lots of functionality towards the top) and the x-axis showing what the major offerings are (just selling components – cameras, sensors, etc. - that others put together to make a security system; selling complete systems, including the alarm monitoring panel and/or software running on a local PC; offering not only products (their own and reselling others’), but a full security service for security monitoring -including installation, 24 hour a day monitoring staff, calling the police or fire company in an emergency, etc.

- (a) **What competitive strategy has SecureU been operating with?**
What does a company that adopts this strategy focus on?
- (b) **What competitive strategy has Ultimate Security adopted?**
What does a company that adopts this strategy focus on?

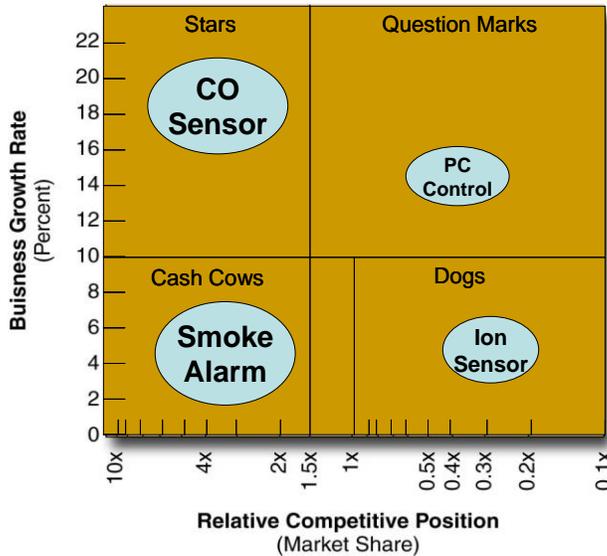


Questions #21 #22

An example of a BCG Growth-Share Matrix is shown below for the several products that SecureU offers.

#21: Which product should be first on the list for moving to off-shore manufacturing or some other strategy to reduce costs? Second on the list?

#22 Which product should SecureU consider dropping? Why?



Question #23

At the end of a long discussion about possible things to do (see the list below), one of the Board members suggests that a good strategic direction would be to change the business model of the company. Which one of these discussion items must he be referring to?

- a) Issue more stock in the company and use the proceeds for more R&D to build out a PC-based controller product line
- b) Provide security services rather than sell security products
- c) Reduce the sales team size and use more internet-based marketing & sales for the products

- d) Maintain dominance in SecureU's current niche by keeping prices low through outsourcing manufacturing to China.

Question #24 #25

The CTO is advocating that the company invest much more in R&D, developing new products and services that use the internet for remote security notification, remote viewing of a customer's premises, and other functions. He would like to become the R&D leader in the space, rather than following the current strategy.

#24: What are some of the pros and cons of becoming a R&D leader rather than a follower?

#25 Do you think it would be a good idea for this company? Why?

Question #26

What recommendations would you give the company for their three year strategic plan, given where they are, the current recession, and their very focused target market? Support your answer.

----- **END** -----

PLEASE ATTACH ADDITIONAL SHEETS