No. of Printed Pages : **12** **MS-011**

MANAGEMENT PROGRAMME

Term-End Examination

December, 2018

MS-011 : STRATEGIC MANAGEMENT

Time : 3 hours *Maximum Marks :* ***100***

(Weightage 70%)

Note : *(i)* *There are two Sections : Section - A and Section - B.*
(ii) *Attempt* ***any three*** *questions from Section - A.* ***All*** *questions carry* ***equal*** *marks.*
(iii) ***Section - B is compulsory*** *and carries* ***40*** *marks.*

SECTION - A

1. "Strategy implementation is as good as starting a new business".
Discuss strategy implementation in detail in the above context.

2. What are the types of resources that have been identified under 'Resource Based view' of the firm ? Also explain the strategic importance of these resources.

3. (a) Identify the causes of experience curve effect.
(b) Discuss experience curve effect and its applicability and the limitations.

4. "The decision to enter a foreign market can have a significant impact on a firm". In this context, discuss international expansion by firms and the advantages and disadvantages involved in it.

5. Explain the following :

(a) Balanced Score Card

(b) Strategic Control Process.

SECTION - B

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

Arvind Mills ... in the New Millennium

ARVIND MILLS : THE BACKGROUND

Prior to the 2000s, the Arvind Mills performed well above its rival at the national and international levels. Though the operation of the company had been mainly confined to the textiles and within it to the denim segment, the company was able to generate a large profit for its shareholders. Till the year 1998, the company had continuously disbursed dividends.

Around 1997, the denim industry throughout the world was highly fragmented and the top five players collectively accounted for only 10% of global capacity - there was no way that Arvind's size could influence global trends. Moreover, denim was mostly a commodity and driven by various forces such as fashion, demand - supply imbalance, etc., over which Arvind had no control. By the mid-90s, denim had been ruling record high prices and stacks of new capacity came up all over the world, including China. And, like in all other commodities, a disaster was waiting to happen.

ARVIND MILLS NEAR DEATH

In 1998-1999, the company hoped to get the benefit of its massive investments in denim facility. However as luck would have it, there was sudden drop in the prices touching as low as ₹ 78 per meter. Usually the effect of low denim price is offset with high gabardine prices but during the period 1997 to 2000, the prices of both nosedived. Historically, gabardine and denim prices move counter-cyclically, 'but what knocked the bottom out from denim was the introduction of wrinkle free gabardine, according to Sanjay Lalbhai chairman of Arvind Mills.

During the same period the cotton prices - one of the main ingredients for denim manufacturing - also picked up, throwing the company's cash flows totally out of gear. The prices of naphtha - the main feedstock for Arvind's captive plants - doubled from ₹ 7 to ₹ 15 per kg. A weakening rupee exchange rate further complicated matters.

At the international level, despite its global presence and ambitions, Arvind could not anticipate the implications of the North Atlantic Free Trade Agreement (NAFTA), which was signed in 1996. According to its norms, any fabric or garment could move across Mexico, Canada and US duty free, but a 17% duty would be charged on garments made with fabric manufactured outside these countries. Because of favourable trade conditions, Mexico soon emerged as a new garment cluster with US fabric companies sending textiles there for garmenting. Till this development, Arvind Mills stitched large amounts of jeans labels for garment makers around the globe. For the buyer the cost for a staple pair of jeans was $6. But the duty meant another dollar per pair. The new trade bloc had made Arvind uncompetitive. All this happened within a year.

Although the company could offset some of its losses by slowing down production, it also had a forward - supply agreements with its buyers, and since the Letter of Credit had been opened, there was very little scope for retraction.

At the same time, the project costs for the Santej plant escalated to ₹ 1500 crore from an earlier estimated cost of ₹ 1100 crores. The debt had piled up because of the continued downward slide in the rupee and the inability of the company to pay interest on its loans. All this led to the credit re-rating of the company. From 'highest safety' in 1997, AM was downgraded to 'default' in 2000 by Crisil. During this time, some of the senior - most executive quit, further aggravating the deteriorating condition. Prominent among them were Ganesh Shermon, human resource chief; Vikram Rao, head of the shirting's business; Arun Pande, head of knits; Pallav Chandra, Arvind's chief designer; and S. Padmanabhan, head of Ruff 'n' Tuff.

INITIATIVES BY ARVIND MILLS TO REGAIN VITALITY

In 1999, Arvind Group, reached an agreement with its lenders who had formed a lender steering committee representing 60 percent of the total debt. The company agreed for massive restructuring of its operations and overhauling its strategy. This way the group was able to successfully restructure ₹ 2000 crores of debt and keep the FIs at bay.

Among the several initiatives taken by the company between 2000-2002, one of the prominent decisions was to differentiate it as a maker of value added denim in the global denim trade. Such a strategy had saved the company in the past and helped strengthen its bottomline. The company established a 15 - member research cell to work on new designs and quality of denim. It worked jointly with international consultants like Lawrence. 'We are redefining our core competency; it's not size, but its product innovation. We are now in a position to lead denim fashion,' according to Milind Hardikar, head of the denim business. Differentiated denim was going to be the main focus area of the group. In year 2002 around 75 percent of Arvind's capacity was involved in the differentiated denim segment. That meant that even if denim, the commodity, failed, Arvind Mill will be safe and insulated.

In 2002, to remove the uncertainty of fluctuations in raw material prices (such as cotton and naphtha), the company entered into forward agreements with suppliers. To maximize returns from the massive investments at the Santej plant, Arvind reprogrammed its operations to make smaller runs possible.

The group took other steps to derisk its business model. One was to go for the 'nominated' segment. Under it, the company dealt directly with denim apparel labels like Levis, Gap etc. Earlier Arvind sold its fabric to a garment maker who then sold the stitched stuff to some labels of which Arvind would not be even aware of. Arvind could now interact directly with a garment manufacturer. In 2002, about 75 percent of Arvind's business came from the nominated segment with international brands like Tommy Hilfiger, Zara, Levis and Next moving up from 20 percent five years earlier.

Arvind thus created a new business model by moving away from being just a manufacturer. In the process it became a service - oriented company that was managing multiple relationships with key customers, delivering on time, maintaining quality, etc. From this perspective, manufacturing capability was just the back end. Anang, head of Santej unit, said that they were 'half manufacturing, half servicing.'

Shirtings from the Santej plant were outsourced by labels such as Marks & Spencers, Gap, and Saitt. For the future Arvind has no intentions of settings up apparel manufacturing in denim, but for shirtings and trouser bottoms, it planned getting into the garment making business. 'The future focus is on going up the value chain into garments. Also, after 2005, quota restrictions would go, making things easier for us,' Anang said further.

GLOBALIZATION AT ARVIND MILLS

In the new millennium, Arvind Mills has been concentrating on the developed market segment mainly because of its growth and large profit potentials. To increase export competitiveness, the company restructured its processes through various steps such as brand promotion, marketing initiatives, product improvement, innovations, etc. Some of the restructuring initiatives were :

1. *"Design Your Fabric"*

   This concept was initiated in 2002 and it is mainly aimed at designing the fabric in accordance with the requirements of its global clients such as GAP, Levi's, etc. Conventionally, the company showcases a couple of collections in a season, from which clients take their pick. But under this programme, the sourcing clients could procure products as per their specifications and requirements.[1] 'The latest offering in the market is 'Designer Denim', which is a designer's delight, where all kinds of multicolour designs and patterns are woven into denim using high technology Jacquard looms,' said Hardikar. According to him, '65 percent of Arvind's denim production is exported, and the balance 35 percent is sold in the domestic market.[2]

2. *New Ranges*

   In 2002 the company launched a new premium denim product 'Wild and Free' in the price range of $2-3.5 per meter. The Wild & Free range includes innovative products like denim with colored wafts PU-coated denims, designer denims, polyester denims, tinted denims, striped denims and signature denims. This product range was designed keeping in mind new exports markets like Australia, Korea, Taiwan, Bulgaria and Romania. About the strategy Mr. Milind Hardikar said that : 'In future bringing out innovative products will be the main activity of the company. This will be supported by building deep relationships with global brands across continents.'[3]

3. *Gulf-region Initiatives*

The gulf region provides ample scope for growth. In order to tap the potential, AM changed its strategy for the gulf region. 'We will open seven exclusive stores in the gulf region in the next one year', said Darshan Mehta, president of Arvind Brands.

Such efforts ensured greater brand visibility which further helped the company to consolidate itself in the region. At the same time the company entered into an exclusive arrangement with around 100-odd multibrand outlets in Kuwait, Bahrain and UAE so as to ensure availability of products over a wider geographical area of the region.

4. *Brand Promotion*

In the domestic market, the group had its popular brands such as Newport, Ruggers, Ruf & Tuf and Excalibur.[4] Arvind Mills entered into an exclusive tie-up with major global brands like Arrow, Lee Wrangler, etc. to manufacture and promote their brands. In 2003, Arvind reached an agreement with Tommy Hilfiger, one of the largest-selling apparel brands in the US, to produce and market exclusively their products in India. 'Our strategy is to cater to international brands by developing and designing products as per their specific needs.' Said Rajat Pass, marketing head of Arvind Mills' India.[5]

5 ***Other Marketing Initiatives***

The group had taken large number of marketing initiatives to increase its sale and to enhance the visibility of its products. In 2003, the group revamped the marketing strategy for Wrangler brand. Under the strategy the group planned to focus at the metros. It was implemented by expanding its distribution network and opening five flagship brand stores in four major metros, each about 1,000 sq. feet and cutting down the distribution network at the bottom level by 20 percent. 'The idea was to create grater brand visibility and high recall among the customers,' according to Ms. B. Hyma, head of Wrangler unit at Arvind Mills.[6]

In 2002, the company also lunched 'threads of life' initiatives to showcase the collection of shirtings and bottom weight fabric for the next fashion season for international garment majors. The products that were included were performance fabrics such as with soil and stain release finish, water and oil repellant Teflon, anti microbial finish and those with fragrance, Stretch fabrics such as satin - linen stretch and polyester Lycra fabrics, seersuckers and jacquards, cross hatch and natural look fabrics.[7]

JANUARY 1, 2005 : THE START OF THE NEW ERA FOR THE INDIAN TEXTILE INDUSTRY

With the removal of the textile quota from the January 1, 2005 the Indian textile industry has entered a new phase that ought to result in a high growth, profitable and consolidated industry on the global map. Earlier, because of quota restrictions, the Indian textile industry was at the disadvantage as compared to its neighbours such as Bangladesh and China. This was the main reason why the textile industry had not been able to utilize its potential to the full extent, although the low cost labour and other advantages in India are as comparable to that of China and Bangladesh. Before January 2005, India's quota for textile exports to the US was only 2 percent of the total imports to that country and only 4 percent to European Union, whereas in case of China these were 19 percent for US and 21 percent for European Union.

Indian textile industry can dominate the global markets due to its inherent competitive advantages. With the Multi Fibre Agreement (MFA) coming to an end in December 2004, the textile sector in India will get significant opportunities to capitalize on expanding overseas markets. According to DHL-McKinsey Apparel and Textile Trade report :[8]

1. Indian can emerge the second-biggest winner after China, once the export quotas are dismantled.
2. India's share in global textile trade - estimated at $248 billion - is expected to increase to 6.5 percent by 2008, from the current 4 percent.
3. With institutional and infrastructural reforms, textile exports will grow 15 - 18 percent annually to touch $25 - 30 billion by 2013. At present export from India stand at ₹ 55,000 crore ($11.8 billion) and by 2006 they will double to ₹ 110,000 crore ($23.7 billion).

4. Of the ₹ 55,000 crore worth of textile exports from India, garments account for ₹ 25,000 crore ($5.3 billion), fabrics and made-ups for ₹ 21,000 crore ($4.5 billion) and the rest come from handicrafts and other items.

Some opportunities where the government and Private, sectors can rapidly collaborate to reap the benefits of emerging situation in the post-2004 scenario are :

1. Setting up specialized textile park, apparel parks, Export Oriented Units (EOU) and Export Processing Zones (EPZ).

2. Foreign labels like Wal Mart, Levis, Gap, JC Penny, Marks & Spencer are fast expanding their budgets to increasingly by garments and fabrics from India.

3. Walmart alone bought $200 million worth of fabrics in 2003, a figure which is expected to increase to $5 billion by the end of 2006.

4. European giant GAP is also outsourcing apparel from India.

5. Singapore-based Crocodile International has announced its plans to invest in the country.

ALSO ...A NEW ERA FOR ARVIND MILLS

Arvind Mills is in a position to benefit immensely from the aboliton of the garment quota under World Trade Organisation (WTO). Prior to January 1, 2005 its role was limited to production of denim for multinational brands. 'But after 2005, when the quotas get lifted, we will become equally or more competitive,' says Jayesh Shah, director (finance) of Arvind Mills.[9] He pointed out that the economics of trade show that margins in garments will be much more than in fabric as labour costs, in which India enjoys a distinct advantage, is 80 percent of the cost price of garments, while it is just 10 percent in case of fabrics.

To deal with the new challenges, Arvind Mills established a new unit near Bangalore for manufacturing jeans for the US and European markets. The new unit has a production capacity of a 3 million pieces of jeans on a single shifts basis. The group planned to double capacity in year 2005 to 6 million pieces. The demand was there.

It appeared that Arvind Mills was finally out of the woods!

Questions :

(a) What new business model did Arvind Mills follow to regain its lost glory ? Discuss.

(b) Do you think that the organisation has succeeded in coming out of the adversities ? Justify.