

MANAGEMENT PROGRAMME

Term-End Examination

MS-011 : STRATEGIC MANAGEMENT

Time : 3 Hours]

[Maximum Marks : 100

(Weightage : 70%)

Note: There are two Sections. Section-A and Section-B.

Attempt any three questions from Section-A. All questions carry equal marks. Section-B is compulsory.

Section-A

1. How are strategic alternatives identified in an organization? Discuss.
2. Explain the PESTLE framework and how it helps in identifying major trends for different industries.
3. Explain the concept of focus strategy and its relevance in the present context. Discuss with the help of suitable examples.
4. How can an organization expand through integration? Illustrate with the help of suitable examples.



5. Write short notes on:
- (a) Mother-Daughter structure
 - (b) Global product structure

Section-B

6. Read the following case and answer the questions given at the end:

Case Study

On Tuesday, February 19, 2008 Toshiba announced that it would stop manufacturing HD-DVD discs and players. The announcement marked the end of the battle between Toshiba and Sony to establish the format standard for the next generation of digital versatile discs (DVDs).

In the history of standards wars, the war between the rival DVD formats was surprisingly short. The coalescing of technological development of next generation DVDs around two competing formats only began in 2002 and open warfare did not break out until summer 2005, when attempts to reach agreement on a single standard finally broke down. Products featuring the new technologies did not appear until April 2006 in the case of HD-DVD and

June 2006 in the case of Blu-ray. Products based upon one or other of the two formats competed for market supremacy for a mere 18 months. Then, it was all over. During the first six weeks of 2008 Toshiba position crumbled and Sony emerged victorious.

The Technology

The optical disc was invented in 1958 by David Paul Gregg, whose patent was registered in 1961. The first commercial product using the technology was the laserdisk system launched by Philips and MCA in 1978. However, optical disks failed to displace video cassettes as a video storage medium.

The breakthrough for optical discs was Philips and Sony Corporation's development of the compact disc in 1983, which became the dominant medium for audio recordings. The CD was followed by the DVD, which was introduced to Japan in 1996, the US in 1997, and Europe in 1998. The successful launch of the DVD was the result of an industry-wide forum that forced the proponents of different formats to agree a common technological standard. This industry group became the DVD Forum.

The impetus for developing high-definition DVD came from the emergence of high-definition television (HDTV) during the 1990s. With HDTV seen as the next wave in consumer electronics, there came the need for storage medium capable of holding high-definition images. The distinctive feature of both HD-DVD and Blu-ray formats was the use of short-wavelength blue laser technology instead of the red lasers used in earlier generation. Blue lasers allowed a vast increase in the amount of data that could be stored on a standard 12-centimetre disc.

The key difference between HD-DVD and Blu-ray was in the thickness of the DVD's protective plastic layer: the HD-DVD attained the 0.6 mm thickness common to conventional DVDs; Blu-ray featured a 0.1 mm coating. The result was that dual layer Blu-ray DVD could hold 50 GB (gigabytes) of data, compared to 30 GB for a dual-layer HD-DVD. This compared 8.5 GB for a conventional DVD.

For content owners—film studios in particular—Blu-ray had an additional advantage. While both formats incorporated the new AACSS (Advanced Access Content System) anti-piracy device. Blu-ray included an additional layer of protection.

However, Microsoft was concerned that the additional protection provided by Blu-ray restricted the ability of PC users to integrate video images with other computer functions. In July 2005, Bill Gates argued that the Blu-ray standard had to change to "work more smoothly with personal computers".

Blu-ray's technical refinements came at some cost. HD-DVDs could be manufactured by modifying the production line used for making ordinary DVDs: "It is a simple and low-cost step to go from manufacturing standard DVDs to producing HD-DVDs," said Mark Knox, a Toshiba spokesman. "The changes [for a factory] cost less than \$150,000." Blue-ray discs required major changes in manufacturing processes and manufacturing equipment. The implication was that, for content owners and consumers, Blu-ray discs would be more costly.

Neither format could be played on existing DVD players. Moreover, HD-DVD players could not play Blu-ray discs, and vice versa. Hence, movie studios and video games publishers faced the prospect of having to stock media in three formats: HD-DVD,

Blu-ray, and conventional DVDs. Both HD-DVD and Blu-ray players were “backward compatible,” that is they could play conventional DVDs.

As far as economizing on the number of formats that content producers needed to manufacture and distributors needed to stock, one of the advantages envisaged by the HD-DVD camp was the ability to produce an HD-DVD disc of a game or movie that also included a standard DVD version of the content. In September 2006, Toshiba announced: “Toshiba, in collaboration with disc manufacturer Memory Tech Japan, has successfully combined an HD-DVD and DVD to a single 3-layer, twin-format disc. The resulting disc conforms to DVD standards so it can be played on DVD players, and also on HD-DVD players.”

Moreover, the benefits of Blu-ray's greater storage capacity were not readily apparent at the time. Existing high-definition formats for full-length movies could be easily accommodated on both types of disc. Blu-ray's ability “to fit an entire season of a television series” on a single disc, and “offer multiple versions of the same film” seemed marginal benefits to most consumers. The case

for Blu-ray over HD-DVD seemed to rest primarily on its potential for accommodating future developments in video entertainment: "You open up a whole new spectrum of creative possibilities," said Tim Baxter, senior vice-president of strategic marketing at Sony Corp. of America. "This format is about gearing up for this holiday season and the next 10 years."

Battle Commences

During the buildup to the product launches, both sides worked hard to enlist allies. The Blu-ray Disc Association formed in February 2002; it included Hitachi, Panasonic, Pioneer, Philips, Samsung, Sharp, Sony, and Thomson as founder members, and was later joined by Dell Computer, Mitsubishi, and TDK. The HD-DVD Promotion Group comprised Toshiba, NEC, Sanyo, Microsoft, Kenwood, Intel, Venturer Electronics, and Memory-Tech Corporation. Some companies were members of both groups. These included Hewlett-Packard, LG, Acer, Asus, Lite-On, Onkyo, Meridian, and Alpine.

Blue-ray was the favorite among the leading film studios: Disney, Fox, Lions Gate, MGM, and of

course Sony Pictures had aligned with Blu-ray, while Universal was the only major studio to join the HD-DVD camp. Paramount (including subsidiaries Nickelodeon Movies, MTV Films, DreamWorks Pictures, and DreamWorks Animation) and Warner Brothers supported both standards.

Even while both camps were developing products incorporating the two incompatible standards, attempts to avoid a costly format war was continued. However, on August 22, 2005, the Blu-ray Disc Association and DVD Forum announced that the negotiations to unify their standards had failed. From then on the race was on to bring discs and hardware to market as quickly as possible in order to build market share leadership.

HD-DVD was first to market with the Toshiba HD-A1 launched in the US on April 18, 2006 at a retail price of \$499. The Samsung BD-P1000 was the first Blu-ray disc player. It was launched at the end of June, 2006 at a retail price of \$999.

In April 2006, Universal and Warner Brothers both began releasing HD-DVDs of existing movies at prices of between \$29 and \$35. Sony Pictures

was first to release movies on Blu-ray, with an initial release of eight movies at \$28.95 to coincide with the launch of the Samsung BD-P1000. However, the early Blue-ray movies suffered from major quality problems. Several movies suffered from poor film-to-disc transfers and until October 2006 only single-layer recording was possible on Blu-ray discs which limited their capacity to 25 GB.

The other two major product categories incorporating the new-generation DVD drives were personal computers and video game consoles. Both Toshiba and Sony were major players in personal computers. Toshiba released an HD-DVD-compatible notebook, the Qosmio G35-AV650. In May 2006, Sony launched a Vaio notebook with a Blu-ray drive. By the end of 2006, NEC and Hewlett-Packard had introduced notebooks with HD-DVDs, while Dell joined Sony in adding Blu-ray to one of its notebook models.

In video game consoles, the market leaders were Sony with its Playstation and Microsoft with its Xbox. The battle for the next generation of consoles began with Microsoft's launch of its Xbox 360 in November 2005. The X box 360 came with a

standard DVD drive . In November 2006, Microsoft launched an HD-DVD drive as a separate plug-in unit for its Xbox 360 priced at \$200 in the US and £130 in the UK. Microsoft's reluctance to include a built-in HD-DVD player was a result of, first, the lack of games developed to exploit HD-DVD capabilities and, second, its belief that online access to games would displace DVD distributed games within a few years.

For Sony, its new PS3 video game console formed a central component of its Blu-ray strategy. Sony's decision to launch its PS3 with a Blu-ray disc player was widely viewed as a strategic blunder. It delayed the launch of the PS3, giving Microsoft lead-time of over a year in the new generation of consoles. It also greatly increased the cost of PS3. The cost and complexity of developing games that utilized the technical potential of Blu-ray meant that very few new high-definition games were available at launch. Launched at a price of \$499 in the US, the PS3 was seen as something of a desperate gamble by Sony, faced with the market momentum of Xbox 360 and the low-cost challenge of the Nintendo Wii. At \$499 it was estimated that Sony would lose over \$200 on every unit sold.

Video games developers and publishers were slower than the movie studios to sign up for one or other of the rival formats. However, on January 7, 2007 Sony received a major boost when Electronic Arts (the world's biggest games software company) and Vivendi Universal Games (owner of Activision Blizzard) joined the Blu-ray association.

Distributors bore considerable cost burdens because of the standards war. The leading retailers (including Wal-Mart, Target, and Best Buy) and movie distributors such as Blockbuster and Netflix felt obliged to carry both formats.

Tipping Point

The central battle was for the support of the movie studios. Despite the initial preference of the majority of the major studios for Blu-ray, financial and other incentives resulted in several defections. Early in 2005, Warner Brothers and Paramount had backed HD-DVD, but in October 2005 both announced support for both formats. However, in August 2007, Paramount and DreamWorks Animation SKG dropped Blu-ray and announced that their high-definition movies would be released

exclusively on HD-DVD. The studios mentioned cost and technical advantages but most observers believed that the offer from Toshiba of \$150 million in cash and promotional guarantees was a bigger factor. Sony's influence with the movie studios was reinforced by two factors: first, its ownership of Sony Pictures; second, the strong Hollywood connections of Sony's CEO, Sir Howard Stringer.

Growing frustration with dual formats resulted in several distributors abandoning HD-DVD. In June 2007, Blockbuster, the largest US movie rental company, adopted Blu-ray exclusively after test marketing both formats and finding that over 70% of high-definition rentals were Blu-ray discs in July 2007. Target Corporation began carrying only Blu-ray standalone players in its stores.

During 2007, sales of Blu-ray decisively overtook sales of HD-DVD in both hardware and software with PS3 providing a particularly strong boost for Blu-ray. Home Media Research estimated that for 2007 as a whole Blu-ray outsold HD-DVD players by three to one in the US, 10 to one in Europe and 100 to one in Japan.

A critical event in the battle was Warner Brothers' announcement on January 4, 2008 that it would drop support for HD-DVD from June 2008. The significance of Warner's move was that it was the biggest player in DVD movies. Toshiba responded by cutting the price of its HD-DVD players by up to 50%; however there was little it could do to prevent the chain reaction that followed the Warner announcement. In January 2008, UK retailer Woolworths said it would stock only Blu-ray discs from March 2008. On February 11 2008, Best Buy began recommending Blu-ray as the customer's digital format choice. Then, on February 15, 2008, Wal-Mart, the largest DVD retailer in the US announced that it would discontinue HD-DVD products from June 2008. Also in February, Netflix, the largest online video rental service, began phasing out its HD-DVD inventory.

On February 19, 2008, Universal Studios—the only studio to have consistently supported HD-DVD from the outside—defected to Blu-ray. On the same day, Toshiba announced it would cease developing, manufacturing, and marketing HD-DVD players and recorders. The next day Paramount, the remaining movie studio supporter of HD-DVD, announced its move to Blu-Ray.

Even before Toshiba's announcement the fate of HD-DVD was clear. On February 16, 2008, the *New York Times* published its obituary.

HD-DVD, the beloved format of Toshiba and three Hollywood studios, died Friday after a brief illness. The cause of death was determined to be the decision by Wal-Mart to stock only high-definition DVDs and players using the Blu-ray format. There are no funeral plans.

Costs and Benefits

No reliable data are available concerning the cost and benefits of the DVD war to the main participants. Clearly Toshiba was the chief loser in financial terms. The Nikkei business daily reported that for its financial year ending March 31, 2008 Toshiba was likely to book a 100 billion yen loss (\$986 million) relating to the termination of its HD-DVD project. However, most observers believed that the full cost, including R&D expenditures, incentive payments to partners, forced price reductions on hardware, and inventory write-offs, would be much greater.

To what extent was Sony a winner? Its costs included not only the massive R&D expenditures

on Blu-ray but also the costs of supporting its alliance partners, price cuts in hardware and software, and the significant cost of delaying the launch of PS3 until Blu-ray was ready. Moreover, the revenues generated by Sony's Blu-ray technology would be limited, first, by Sony's offer of highly favorable licensing terms in order to attract supporters to the Blu-ray camp and, second, by the likelihood that the commercial life of Blu-ray would be short. Professor Pai-Ling Yin of MIT's Sloan School of Management stated:

Technology markets are characterized by waves of innovation, where the latest and greatest of last year is replaced by the latest and greatest of next year. Joseph Schumpeter described this pattern as "the perennital gale of creative destruction". Blu-ray and HD-DVD are simply the next generation of discs, replacing the standard DVD of the last generation. Thus, there is but a limited amount of time (until the appearance of the next generation technology) for the firms and the technology of this generation to reap the rewards of being the shiny new item on the block.

By failing to agree on a common standard, the time available to exploit the current generation of media

storage technology before it was rendered obsolete was greatly reduced. "The reality is that relative to the sales that could have been garnered from faster and higher volumes of DVD players had Sony and Toshiba been able to come to some agreement, both firms have lost."

Questions:

- (a) What were the reasons for the war between Toshiba and Sony regarding DVD?
- (b) What was the result of the DVD war between the two companies? Explain.

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