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MS-091

MANAGEMENT PROGRAMME

Term-End Examination

December, 2018

MS-091 : ADVANCED STRATEGIC MANAGEMENT

Time : 3 hours | *Maximum Marks : 100*

(Weightage 70%)

Note :
(i) There are two Sections ; Section A and Section B.
(ii) Answer any three questions from Section A.
(iii) Section B is compulsory.

SECTION - A

1. Explain the classification of corporate policy based on the following :
   (a) Scope
   (b) Expression
   (c) Origin
   (d) Functional areas
   (e) Nature of management

2. Write brief notes with respective to corporate governance on the following :
   (a) Kumara Mangalam Birla Committee Report
   (b) Narayana Murthy Committee

3. (a) Discuss the various ways of classifying a market.
   (b) Explain the perfect competition with the help of suitable examples.

4. What are the different steps, which are involved in developing R & D strategy ? Explain giving examples.

5. Discuss with the help of examples different types of social audit.

SECTION - B

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

DOMINO'S

In May 2001, Pavan Bhatia, CEO, Domino's Pizza India Ltd. (Domino's) stepped down from his post. Earlier, in March 2001, at a board meeting, Domino's top management concluded that 'Pavan Bhatia's performance during his 18-month tenure was not up to the mark.' The board felt that Pavan Bhatia had initiated an expansion strategy that was 'reckless and not properly thought out.' However, many analysts did not agree with the board's conclusion. They felt that the board was not considering the possible long-term benefits of Pavan Bhatia's strategy. During March 2000-Juanuary 2001, Pavan Bhatia opened Domino's outlets in small towns and cities. Pizza consumption in these places was very low. Analysts felt that even those willing to opt for the product found the price unacceptable. The cost per meal was too high. In September 2001, due to low footfalls and lower volumes, Hari Bhartia planned to shut down Domino's outlets not only in some small cities but also a delivery outlet in the wealthy Gujranwala Town in North Delhi. One of the two outlets in Ludihiana was also planned to be shut down.

Sky is the Limit

In November 1999, Pavan Bhatia took over as the CEO of Domino's. He seemed to be very ambitious and wanted to make Domino's the largest fast- food chain in India. Pavan Bhatia went about opening Domino's outlets across the country. The number of outlets multiplied four fold to 100 between March 2000 and January 2001. It was the fastest growth Domino's had in any of the 63 countries it operated in. From an average of four stores every year in its first four years of operation, Domino's expanded to more than 100 outlets in 10 months across 30 cities.

Domino's entered into an agreement with a real estate consultant CB Richard Ellis to help with locations, conduct feasibility studies, and manage the construction. Pavan Bhatia said, "We are in the business of selling pizzas, not hunting for real estate. And one of the biggest impediments in retailing is real estate, so we decided to hand over the entire real estate operations to estate consultants CB Richard Ellis." Pavan Bhatia realized that fast track growth could be achieved only by focussing on the core business of selling pizza.

He said, "We realised we'd be wasting too much time, money and resources trying to do it all ourselves. For instance, just acquiring a bunch of permits for each store in each city is itself a big job. Then there are the brokers, city laws, markets, licensing, title infrastructure, water, power, lease agreements, signage and most important, dealing with competing restaurants." CB Richards not only managed to take care of all these hassles but also furnished the outlets.

Domino's also opened outlets at large corporate offices, cinema halls and university campuses. In early 2000, Domino's had opened an outlet at the corporate office of Infosys, Bangalore, which was very successful. It also had outlets at cinema halls-PVR in Delhi, Rex in Bangalore, and New Empire in Kolkata. Pavan Bhatia wanted quantum growth and felt that Domino's needed to tie up with airports, railway stations and petrol pump stations.

Incidentally, CB Richards was already working with oil companies, advising them on how to go about making their petrol pumps ready for competition once private players came in. CB Richards made a recommendation to Indian Oil Corporation (IOC) to let Domino's operate in its petrol pump premises. In December 2000, Domino's entered into an agreement with IOC to provide food products at the latter's 7,500 outlets across the country. In early 2001, Pavan Bhatia signed an agreement with Steve Forte, CEO, Jet Airways, to launch their 'ultimate deep dish,' and 'sweetie pie' products on Jet Airways flights.

Pavan Bhatia said, "For Domino's, sky is the limit. We like to deliver hot, fresh pizzas everywhere, anytime. This tie-up with Jet Airways takes our commitment to customers on the move even a step further."

What Went Wrong ?

Domino's officials felt that there was nothing wrong with increasing the number of outlets. However, analysts felt that the growth had taken place on a business model that was not able to support it.

Unlike other fast-food chains, Domino's operated on company-owned outlets basis, rather than franchise route or a mix of both. Domino's officials argued that this ensured quality and the ability to deliver on time, as the company promised. But this also meant that Domino's had to invest a huge amount in real estate and equipment for each of the new outlets. There were also other overheads such as salaries, keeping inventories, and huge marketing expenses to attract consumers.

To earn a return on these investments, sales in each new outlet had to reach a viable level quickly. Or else, the operation could soon become unviable. It also meant that profitable outlets would end up subsidizing the non-profitable ones. Location of the outlet was an important determinant of profits. Analysts felt that, in its race to dominate the pizza business, Domino's took some wrong steps. For instance, the outlets in Meerut (Uttar Pradesh) and Ghaziabad (Uttar Pradesh) were located in areas that were not very lucrative. Moreover, some outlets were located far from the nearest commissary.

This resulted in a logistical lapse and hence, huge transportation costs. Analysts felt that the worst mistakes were made in Sri Lanka. Domino's invested US$2 million (Rs. 94 million) to open six outlets. To become viable, each outlet had to earn minimum threshold revenue, which according to some analysts, was in the range of Rs. 10,000-Rs. 16,000 per day.

This meant an average footfall of 100-160 per day. The outlets would run into losses, if it was not met. According to reports, three of the six outlets in Sri Lanka were under-performing. Analysts felt that Pavan Bhatia believed spending money to create hype about the brand. For instance, Domino's opened 15 outlets on a single day in early 2000.

And, as it was customary to have outlets inaugurated by film stars, Domino's spent in the range of Rs. 0.3-0.5 million on each film star to inaugurate one outlet. He also initiated an all-India brand-building exercise. Besides TV campaigns, the exercise included the installation of a unique, single toll-free number to order pizzas.

The number ensured that the call would be diverted to the nearest Domino's outlet and the customer didn't have to remember number of specific outlets. Analysts felt that the combination of national advertising and the single toll-free number led to discontent amongst customers who were attracted to dial, but discovered that no outlet existed in their city or town. Many analysts argued that the toll-free number would have worked if Domino's had 1000 outlets. Also, the all-India campaign did not justify the needs of specific outlets or regions.

Many analysts felt that there was nothing wrong Pavan Bhatia's expansion plan. Commenting about the expansion, a consultant associated with the expansion plan said, "One has to take risks to reach economies of scale. Domino's also shook up competition when it reached a target of 100 outlets." According to a company handout released in early 2001, the increase in number of outlets was fourfold during March 2000-January 2001.

Analysts were divided in their opinion about Hari Bhartia's role in all these developments. While some felt that Hari Bhartia was kept in the dark, others felt that he was a silent spectator. Still others felt that Hari Bhartia actually agreed with Pavan Bhatia's strategy, only to make him a scapegoat when things went wrong. Officials who supported Pavan Bhatia's expansion plan felt that Hari Bhartia was completely aware of all the developments. They said that he had actively supported some of Pavan Bhatia's plans including expansion of outlets. However, others claimed that Pavan Bhatia did take some initiatives without prior consent of Hari Bhartia. For instance, marketing expenses of about Rs. 50 million were allegedly spent without prior budgetary approvals. It was also believed that there were no records to account for an expenditure of about Rs. 20 million on the Sri Lanka operations. However, Pavan Bhatia's supporters claimed that such allegations were meant to malign him and nothing of the sort could take place in a professionally run organization.

No Correlation Between Expansion and Sales

Pavan Bhatia's expansion plan would not have come under criticism had actual sales matched the projections. Hari Bhartia said that there was a gap between the two. According to some company officials, in mid 2001, the actual sales were half of projections. As the sales were poor, the burden of huge expenses impacted the bottomline.

This led to serious cash flow problems. A few suppliers said that Domino's was either asking for an increase in the credit period or requested a go-slow on supplies. Others added that although they had no problems with payments, they heard that Domino's was going through a bad phase. Said one, "I too have heard adverse stories about the company. I also know that Domino's is undergoing reorganization. But that should be over in a few months' time and the company will be back on the course."

Analysts also felt that Domino's would be back on course soon, as pizza sales were growing despite new stores coming up near the existing ones, at least in the metros. For instance, the store in Greater Kailash I in New Delhi was among the first to be opened. Sales at this outlet grew though new stores were added in neighbouring areas. However, Domino's needed fresh funds to get out of the financial problems. Indocean Chase, the venture capital firm, which owned one-third stake in Domino's, said it would invest only after the existing problems, were sorted out.

To Grow or Not To Grow

By mid 2001, Domino's future growth plans slowed down. In early 2001, Domino's had announced plans of adding 100 outlets every year, and an investment of Rs. 500 million in 2001. Hari Bhartia said, "The board had never approved either the investment or the plan to start 100 new outlets in a year's time." The plan to open new outlets in Bangladesh was also postponed. These corrective measures were expected to be over by late 2001, Explained Hari Bhartia, "When you grow the way we did last year, (2000), there are bound to be problems, Now, we are dealing with them." He was looking for a new CEO.

Questions :

(a) What were the challenges that Domino's was facing ? How were they able to overcome the challenges ?

(b) Discuss the viability of the expansion strategy followed by Domino's.