NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF BUSINESS MANAGEMENT

STRATEGIC MANAGEMENT - CBU 4107

FINAL EXAMINATION-DECEMBER 2013

TIME ALLOWED: 3 HOURS 30 MINUTES

INSTRUCTIONS TO CANDIDATES

Answer question **one** and any **three** questions from section B

INFORMATION TO CANDIDATES

(i) All questions in Section B carry **20** marks each
(ii) Questions can be answered in any order
(iii) Credit will be given for use of appropriate examples
(iv) This paper contains **seven** questions

SECTION A

Question 1

Case study: M –PESA, Growth and Prospects

Launched in Kenya in 2007, M-PESA is an award winning mobile phone based money transfer service provided by Safaricom, an affiliate of UK based Vodafone group. M-PESA allows users to save money, to send balances via mobile phone to other users such as sellers of goods and services, and to redeem deposits for regular money through a network of retail agents and has gained widespread trust and financial inclusion into Kenya's economy since its launch. People discovered it was more efficient than going to the post office, transporting money in cash, or using bus companies on the backdrop of minimal involvement of banks. Buoyed by the phenomenal success of M-PESA in Kenya, Safaricom, which is now seeking to leverage its resource endowments and its distinctive competencies to expand into other countries, will face new barriers to entrance in target country segments.

M-PESA is in the mobile money services industry, providing financial services with branchless banks. The mobile money industry opened as many mobile businesses indicated their interests – the development of M-PESA, Orange's decision to deploy mobile money in the Ivory Coast etc.The mobile industry in Kenya is now in the origination phase, since awareness is prevalent and firms need to improve conditions by investing to lower regulatory barriers and share information and hence improve speed.

M-PESA has been able to create significant advantages over its rivals because it dominates the current market in Kenya, where it was first launched. In fact, as of November 2009, about 25% of Kenya's population (8.6 million people) were M-PESA subscribers and the number is still growing. In addition to having a large market share, the company also boasts robust customer satisfaction numbers. A recent survey reveals that 98% of customers are happy with the M-PESA service and 84% claim that if they lost the service, it would have a significant negative effect on their lives.

Although M-PESA has struggled a bit in other areas of the world, including Tanzania, it is still the dominant player in Kenya where there are numerous competitors. Although it had to contend with hurdles like earning the trust of Kenyans in the introduction stage, M-PESA has managed to achieve high brand equity, which essentially encapsulates trust, through their parent company, Safaricom. As a matter of fact, some market research has now shown that M-PESA is even a stronger brand than Safaricom. From this successful branding, more and more people started jumping on the M-PESA train, allowing them to leverage network effects on their rivals. This is because most of their money transfers are from person-to-person, so the more users of M-PESA there are, the more likely that new customers are going to join. This also creates a sort of switching costs for customers because in order to switch, they would be leaving behind all the customers that currently use M-PESA's service.

Further, Safaricom has first-mover advantage over its competitors because its product, M-PESA, was the first mobile-phone money transfer service in Kenya. Safaricom's first-mover advantage has allowed them to capture the mobile-phone money transfer market and to continue to gain leverage over its competitors. Generally, M-PESA has been so dominant due to the concept of network effects and it continues to be more valuable as more people use the M-PESA mobile phones. According to Mohit Agrawal, a telecommunications expert, Safaricom has been able to leverage itself and rapidly expand its customer base by "keeping the pricing of the M-PESA product very transparent and lower than other alternatives for example, free registration and no monthly fee helped the agents in persuading the potential user to subscribe to the service."

In early 2009, the Zain Group, a telecommunications company similar to Safaricom, released a mobile commerce service called "Zap" in Kenya, Tanzania, and Uganda to compete with M-PESA. Like M-PESA, Zain customers can register for the Zap banking and payment services for free. Since Safaricom launched M-PESA in Kenya in March of 2007, nearly two years before Zain launched Zap, Safaricom has had a significant market advantage. The M-PESA brand continued to be more valuable as more people began to use these mobile phones and because of the absence of other competitors for a span of two years. By 2011, Safaricom's market has expanded to Tanzania, Afghanistan, and South Africa.

One way Zain is trying to compete with Safaricom is by expanding its market even farther. As of June 30, 2011, Zain has a commercial presence in Sudan, Saudi Arabia, Jordan Lebanon, Iraq, Kuwait, and Bahrain. Also, Zain may be able to take advantage of M-PESA's "cash float" problems. M-PESA relies on banks for its liquidity. In Bukura, Kenya, a majority of the transactions tend to be withdrawals and M-PESA agents must process these withdrawals by maintaining their cash float by travelling to the bank on a regular basis. Since most of the banks are located in urban centres, these trips tend to be very time consuming and can cost M-PESA agents a portion of their income. This is not very efficient as some customers must travel to these urban areas to obtain their money.

The biggest challenge that M-PESA faces is due to cash float constraints. M-PESA retail outlets cannot always meet requests for withdrawals, especially large withdrawals. Also, the agent commission structure discourages outlets from handling these large withdrawals. If they take too many withdrawals, especially large withdrawals, then they may run out of cash to facilitate other deposits later on. This forces customers to split their transactions up over time, which is often inconvenient while discouraging customer trust in M-PESA as a mechanism for long-term saving. The challenge that still remains for M-PESA is to become a "vehicle for delivery of a broader range of financial services to the bulk of the Kenyan population." Currently, there is limited evidence that people are willing to use the M-PESA account itself as a store of value. However, if the company gains more trust this evidence may increase. M-PESA would also need to connect to a broader range of financial institutions. In order to do this the Central Bank of Kenya would need to finalize regulations to allow non-bank outlets and platforms such as M-PESA as a channel for formal deposit-taking.

(Source: Adapted from www.safaricom.co.ke)

Required:

(a) Using Porter's Five Forces Model, analyse the competitive forces shaping Safaricom's mobile money transfer industry currently and in the future. **[15 Marks]**

(b) Discuss the factors driving the competitiveness of Safaricom in the Kenyan mobile money transfer industry. **[12 Marks]**

(c) Suggest strategic initiatives that Safaricom can pursue to outperform competitors like the Zain Group in the mobile money transfer business. **[9 Marks]**

(d) What measures can Safaricom implement to effectively deal with the challenges M-PESA is facing pursuant to providing exceptional value to its customers? **[4 Marks]**

SECTION B

Question 2

'Without strategic management, an organisation will drift into the future on the basis of a passive strategy synthesised from its routine day to day activities.' Using examples, show why strategic management has become so important in relation to driving the competitiveness of contemporary corporations. **[20 Marks]**

Question 3

With reference to an organisation of your choice, analyse how the firm manages its value chain to achieve competitive advantage. **[20 Marks]**

Question 4

a) Discuss the four grand strategies an organization may pursue to ensure a specific sense of overall direction. **[16 Marks]**

b) 'Professor Henry Mintzberg asserts that an organisation `s **realized strategy** may differ from its **intended strategy**.' Explain why an organisation's realized strategy may differ from its intended strategy. **[4 Marks]**

Question 5

You have just joined an organisation that has historically relied on the SWOT (Strengths, Weakneness, Opportunities and Threats) taxonomy to strategically assess the extent of its internal environment `s alignment to external realities. However, there is a growing consensus that SWOT analysis has failed to provide the organisation with a comprehensive and objective assessment of its internal environment. As the company `s Chief Operating Officer, compile a report detailing an alternative strategic internal assessment tool your organisation could employ for better results. **[20 Marks]**

Question 6

Using relevant examples, illustrate how Zimbabwean firms could employ Michael Porter `s generic strategies to drive their competitiveness in business markets**.** **[20 Marks]**

Question 7

a) Given that the essence of strategy is to outperform competition, evaluate any **three** factors that could be employed as tests of a winning strategy. **[6 Marks]**

b) 'Strategic Management is a process for conducting the entrepreneurial activities of a firm for renewal, growth and transformation.' Discuss the responsibilities included in the strategic management process. **[14 marks]**

END OF EXAMINATION