**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**FACULTY OF COMMERCE**

**DEPARTMENT OF BUSINESS MANAGEMENT**

**STRATEGIC MANAGEMENT II – CBU 4207**

**SUPPLEMENTARY EXAMINATION – JULY 2014**

**TIME ALLOWED: 3 HOURS 30 MINUTES**

## INSTRUCTIONS TO CANDIDATES

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

## INFORMATION TO CANDIDATES

(i) Question **one** carries **40** marks.
(ii) All questions **in Section B** carry **20** marks each
(iii) Questions may be answered in any order.
(iv) As much as possible, use relevant examples.
(v) This paper contains **seven** questions.

## SECTION A (Question 1)

## CASE STUDY: A NEW LOOK FOR LIZ CLAIBORNE

Liz Claiborne, like other well-known apparel makers, embarked on a major product expansion strategy in the 1990s when it acquired many smaller-branded clothing and accessory companies and internally ventured new brands of its own.

The company's goal was to achieve greater operating efficiencies so that rising sales would also result in rising profits. By 2005, it had grown to 36 different brands, but while revenues had soared from $2 billion to more than $5 billion, its profits had not kept pace. In fact, profits were falling because costs were rising due to the enormous complexity and expense involved in managing so many brands. Also, in the 2000s, clothing retailers like Wal-Mart, Macy's, and Target were increasingly offering their own private-label brands; this put pressure on apparel makers to reduce their prices if they wished to keep selling their brands in these store chains. Liz Claiborne recruited a new CEO, William McComb, to turn around the troubled company. Within months, he decided to reverse course, shrink the company, and move to a new form of organizational structure that would reduce the problems associated with managing its 36 different brands and once again allow it to grow, but this time with increasing profitability. McComb believed the company had developed a "culture of complexity" that had gotten out of control. Liz Claiborne's core merchandising culture that had made it so successful had been lost because of its rapid growth and overly complex organizational structure.

Liz Claiborne's former top managers had created five different apparel divisions to manage its 36 brands; brands were grouped into different divisions according to nature of the clothing or accessories they made. For example, luxury designer lines such as Ellen Tracy were grouped into one division; clothes for working women such as its signature Liz Claiborne and Dana Buchman brands were in a second division; trendy, hip clothing directed at young customers such as its Juicy Couture line were in a third division, and so on. Each division was controlled by a separate management team, and each division performed all the functional activities that marketing and design needed to support its brands.

The problem was that over time it had become increasingly difficult both to differentiate between apparel brands in *each* division, as well as between the brands of *different* divisions, because fashion styles change quickly in response to changing customer tastes. Also, costs were rising because of the duplication of activities between divisions, and, as noted earlier, increasing industry competition was pressuring the company to lower prices to retail stores to protect its sales. McComb decided to streamline and change Liz Claiborne's organizational structure to meet the changing needs of customers and increasing competition in the retailing industry. First, he decided the company would either sell, license, or close down 16 of its 36 brands and focus on the remaining 20 brands that had the most chance of generating good future profits. To better manage these 20 brands, he reorganized the company's structure and reduced its five divisions to just two. This eliminated an entire level of top management. It also eliminated the duplication in marketing, distribution, and retail functions across the original five divisions. The result was a huge drop in operating costs and a simpler organization to manage. The two remaining divisions were now its retail division called "direct brands" and its wholesale division called "partnered brands."Its new structure was intended to bring focus, energy, and clarity to the way each division operated.

The retail division, for example, was responsible the brands that were sold primarily through Liz Claiborne's retail store chains, such as its Kate Spade, Lucky Brand Jeans, and Juicy Couture chains. The goal of grouping together its fastest growing brands was to allow divisional managers to make better marketing and distribution decisions to differentiate its products and attract more customers. On the other hand, the problem in the wholesale division, which sells branded apparel lines such as Liz Claiborne and Dana Buchman directly to department stores and other retailers, is to reduce costs to slow down the growing threat from private labels. For example, sales of Macy's private labels increased from 15% in 2005 to 18% in 2007. If managers of the wholesale division could find ways to reduce costs by turning inventory over more quickly, sharing marketing costs, and so forth, it could offer stores such as Macy's lower prices for its clothing, encouraging them to stick with its brands and still make higher profits. McComb realized that to reduce complexity and allow each division to build the right merchandising culture, it was necessary to change Liz Claiborne's organizational structure. From grouping clothing brands into divisions according to their quality or price, he changed to two divisions in which clothing

brands were grouped according to the needs of each division's customers— either the people in its stores or the retail chains that buy its clothes to resell to individual customers.
The real problem is that each division faces a quite different set of strategic and operational problems; with its new structure, managers in each division can focus on solving a specific set of problems to achieve the best performance from their particular brands. McComb's hope is that the company's sales will grow rapidly, but this time its new structure will lead to rising profitability.

Source: Adapted from Hunger D,J and Wheelen T,L (2008), *Strategic Management and Business Policy*, 12th edition, Pearson, Boston

**REQUIRED:**

(a) Explain how the enormous complexity involved in running so many brands could have led to a downturn in profits at Liz Clairborne. **[16 marks]**

(b) Assess the extent to which the changes implemented by McComb were going to be effective in relation to improving organizational performance.

**[9 marks]**

(c) Given the changes instituted by McComb, how can strategy supportive policies assist in minimising operational problems in Liz Clairborne divisions.

**[15 marks]**

## SECTION B

### QUESTION 2

a) Using relevant examples, evaluate the effectiveness of the balanced scorecard as a performance metric in organizations.

**[14 marks]**

b) Analyze the extent to which technology sourcing is strategically important is driving innovation in contemporary organizations. **[6 marks]**

**QUESTION 3**

'Conflict is detrimental to strategy implementation and should therefore be eliminated'. Discuss. **[20 marks]**

**QUESTION 4**

'The triad of vertical differention, horizontal differentiation and integration form the building blocks of organizational structure'. Assess the impact of vertical differentiation decisions on organizational efficiency and effectiveness.

**[20 marks]**

**QUESTION 5**

Discuss the challenges facing Zimbabwean companies pursuant to implementing their intended corporate strategies. **[20 marks]**

**QUESTION 6**

'Corporate managers need to configure their organizational structure and control system in a way that will support efficient and effective management of strategic business units'.

Analyze how corporate managers match structure and control systems to achieve organizational objectives. **[20 marks]**

**QUESTION 7**

'While a considerable amount of a strategic manager`s power is derived from his / her level in the hierarchy, many other informal sources of power are important in the execution of their duties'. Discuss the informal sources of power in organizations.

**[20 marks]**

**END OF EXAMINATION PAPER**