



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS
DEPARTMENT OF BUSINESS ADMINISTRATION
UNIVERSITY EXAMINATION FOR:
MASTER OF BUSINESS ADMINISTRATION Y2S1
BSM 5101: STRATEGIC MANAGEMENT
SPECIAL/SUPPLEMENTARY EXAMINATION

SERIES: SEPTEMBER 2018

TIME: 3HOURS

DATE: Sep 2018

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of FIVE (5) questions. *Answer Question One and Any other two (3) questions.*

Do not write on the question paper.

Question One (compulsory – 25 Marks)

Read the Case below and answer all the questions that follow

The Challenges Facing Burger King Buyer 3G Capital by Diane Brady.

When it comes to the pitfalls of operating a fast-food chain, Burger King has experienced them all: falling profits and sales, angry franchise owners, mediocre innovation, growing competition, and a razor like focus on the very customers who have been hardest hit during the recession. So when a little-known investment outfit called 3G Capital said it would buy the Miami-based chain for about \$4 billion on Sept. 2, an obvious question was: why?

Burger King may be the world's No. 2 hamburger chain, but it's a distant runner-up, with 12,174 restaurants worldwide vs. 32,466 for McDonald's. McDonald's averages about twice the sales volume per U.S. outlet, and its stock has far outperformed that of its rival on the strength of new products such as coffee drinks and smoothies. Burger King, in contrast, has seemed fixated on hawking a \$1 double cheeseburger—now \$1.29 following a bitter lawsuit with franchisees who claim it's a money loser. The chain has also narrowed its target audience, chasing young men with cheeky ads, while McDonald's has gone for broad family appeal. Sources close to 3G say the partners are betting they'll be able to trim costs (though no more than 10 percent) and ramp up international expansion to make the deal work. (3G has also been in the news lately as the employer of Marc Mezvinsky, Chelsea Clinton's new husband.) Most of 3G's money comes from three Brazilian billionaires: Jorge Paulo Lemann,

Marcel Herrmann Telles, and Carlos Alberto da Veiga Sicupira. They've offered investors \$24 per share, 46 percent more than Burger King's Aug. 31 closing price. If the deal goes through—which is likely, given the support of the board and the private equity firms that hold 31 percent of shares—the chain will go private for the second time in less than a decade. (TPG Capital, Goldman Sachs Capital Partners, and Bain Capital bought Burger King from Britain's Diageo for \$1.5 billion in 2002 and took it public in 2006.) Investors then expect 3G to expand in faster-growing markets such as Latin America and Asia. Burger King declined to comment beyond public releases. In a letter to franchisees, 3G Capital Managing Partner Alex Behring, who will be co-chairman of the chain once the deal closes, wrote about 3G's "hands-on management approach" and intention to invest in the brand.

Cost-Cutting Expected

Yet the first priority, given the Brazilian investors' past record, is likely to be a rapidfire push to cut costs. That's certainly been the case at Anheuser-Busch Inbev, the world's largest brewer, which Lemann's group helped create when InBev, the Belgian brewer it had a stake in, completed a hostile takeover of the American brewer two years ago. Lemann, Telles, and da Veiga Sicupira all sit on the board of the merged company. After the merger, former Anheuser-Busch employees soon lost perks ranging from business-class flights and BlackBerrys to free cases of beer. About 1,400 quickly lost their jobs. Gone were the lush furnishings and private planes. Even Brazilian-born Chief Executive Officer Carlos Brito flies economy class. Through a spokesman, 3G issued a statement saying "any potential opportunities for cost efficiencies will be managed with the overall benefit of the company in mind, without compromising the franchisees." A person familiar with 3G's plans for Burger King says the company is ripe for cost-cutting, especially at company-owned restaurants, which are typically less profitable than those operated by franchisees. This person says labour costs are high at these restaurants, as is overhead at the Miami headquarters. Burger King has had a turbulent history. Under Diageo, a former chain executive says, it was largely left alone and milked for cash, with the unit treated as an outpost for leaders in training. Once it moved into private equity's hands, the focus switched to differentiating the brand from McDonald's, with a focus on young men, for whom high-calorie burgers and ads with dancing chickens or a creepy-looking king seemed cool. The investors also focused quickly on returns: They initially kicked in \$325 million of their own money, collecting more than that in special dividends. With added fees, funds from the initial public offering, and proceeds from the current sale, Burger King has been an investment winner even as its sales lagged behind rivals.

Franchisee Woes

Franchisees say they've shouldered the burden of efforts by Burger King management to keep the chain competitive amid the recession. That includes the controversial double cheeseburger. "Margins were crushed," says Steve Lewis, who operates 36 Burger King franchises in the Philadelphia area. Moreover, he says, sales of new, premium-priced menu items like the Steakhouse XT burger haven't kept up once the brand stops advertising them. "Overall menu development has been horrible," Lewis says, adding that the chain has come up with little besides the bargain burger to woo customers into stores: "We disregarded kids, we disregarded families, we disregarded moms." Franchisees have also disregarded their aging restaurants, says Jordan Krolick, president of consulting firm Tound & Drowth, who has held senior positions at Arby's and McDonald's. "You can change the menu, you can change the advertising, but you're not going to get customers to see those changes without fresh, new, clean-looking facilities," he says.

Brand experts add that the chain doesn't match McDonald's for customer loyalty. Chris Malone, chief advisory officer at Relational Capital Group, recently completed a study that showed McDonald's significantly outperformed in both "warmth" and "competence" in consumers' minds. He argues that Burger King has "put a lot of energy into gimmicky advertising" at the expense of products and service. Mark Kalinowski, an analyst at Janney Montgomery Scott, adds that the brand simply isn't unique in consumers' eyes, noting "it's not enough these days to be an alternative to McDonald's." Despite its challenges, there are some positives for 3G. Because the chain has stable cash flow and modest capital investment needs, 3G was able to get JPMorgan Chase and Barclays to lend it about \$2.8 billion of the \$4 billion price. It's also taking over at a time when Burger King is innovating more: On Sept. 7, the chain announced nine new breakfast items, including blueberry biscuits and a pancake platter. And 3G's experience and connections in Brazil could help Burger King expand in that market, where many U.S. chains have had difficulty finding qualified franchisees. That won't happen overnight. Yet, sources close to the company say, unlike typical private equity firms that often try to squeeze a return on their investment in five years, 3G's investors are willing to wait a decade to get their money out. (Source: <http://www.businessweek.com/magazine/>)

Required:

- a) Discuss the four main types of generic strategies that are available for businesses and identify the generic strategy adopted by Burger King. Support your answer with materials from the case. (10 marks)
- b) Compare Burger King's way of doing business with that of McDonald's, and suggest how the former could improve. (5marks)
- c) Discuss two grand strategies and tactics that 3G Capital would most likely adopt for Burger King. Support your answer with materials from the case. (10 marks)

Question Two

- a) Dynamic capabilities are Practical examples that fall within the Eisenhardt and Martin view, where these are seen as specific tools and processes that facilitate management. Using relevant practical examples, explain four examples of these capabilities in organizations (15mks).
- b) Highlight three factors that are involved in the process of monitoring and review of organizational performance (10mks).

Question Three

- a) Write short notes on the strategic importance of emerging markets and explain the four types of companies according to the two dimensional framework(15mks)
- b) "Rummelt (1996) outlined the four generic criteria that can be used to evaluate any strategy." Write short notes on these general criteria (10mks)

Question Four

- a) Discuss the application of professor Michael porter's Diamond Model in the Kenya's vision 2030, and how Kenya will be expected to become competitive globally(15mks)
- b) "ABC company has been registering a declining trend in the sale of its Tyre products. As their consultant you have realized that this trend has been caused by the external factors to the business." Advise the company on a suitable tool for the above exercise (10mks)

Question Five

- a) Using the Value Chain Analysis concept, discuss how you would manage the competitiveness of a company in its quest to achieve competitive advantage. (10mks)
- b) ABC limited, a newly established company could want to open a local detergent manufacturing plant in Kenya by the mid 2019. You have been appointed as a consultant to help the company conduct an industry and competition analysis. Discuss the main issues or activities that you could analyze in order to understand the detergent industry, competition level and structure in Kenya with the aid of a suitable strategic management model (15marks)