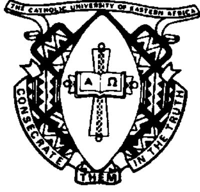

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MAIN EXAMINATION

MAY – AUGUST 2019 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF MARKETING AND MANAGEMENT

MBA EVENING PROGRAMME

CMM 619: CASES IN STRATEGIC MANAGEMENT

Date: JULY 2019	Duration: 3 Hours
INSTRUCTIONS: Answer Question ONE and choose one of the TWO or THREE Questions	

Q1. Answer carefully the following strategic management concepts:

a) Explain what is strategic management, the strategic management process, and its uses. Wherever appropriate use your own examples to fully explain these concepts. **(5 marks)**

b) What is corporate governance? Explain the main protagonists and the role each plays in strategic management. What did you learn from the American Red Cross case study? **(5 marks)**

c) What are the vision and mission statement? Why do we need to bother about having the vision and mission statements? What is the vision and mission of Amazon.com Corporation? **(5 marks)**

d) Prepare a vision and mission statement for a company you dream to establish. **(5 marks)**

Q2. Case Study 1:The Boston Beer Company

History

The Boston Beer Company was founded by Jim Koch in 1984 after the discovery of his great-great-grandfather's family microbrew recipe in the attic of his home in Cincinnati, Ohio. In his kitchen, Jim Koch brewed the first batch of what is today known as Samuel Adams Boston Lager. Through use of the family recipe, Jim handcrafted a higher-quality, more flavorful beer than what was currently available in the United States.
Samuel Adams beers were known for their distinct taste and freshness. Although different brewers had access to the rare, expensive Noble hops that Samuel Adams used, its special ingredients remained a secret and were what gave its brews their

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distinct flavor. Jim Koch refused to compromise on the components that made up the full, rich,
flavorful taste of Samuel Adams beer. As his business began to grow, Jim moved his brewing operations into an old, abandoned brewery in Pennsylvania. This was subsequently followed by the opening of the extremely popular Boston Brewery in 1988. In the mid-1990s, Jim further expanded his business operations by purchasing the Hudepohl-Schoenling Brewery in his hometown of Cincinnati, Ohio. In 1995, The Boston Beer Company Inc. went public.
Jim Koch was viewed as the pioneer of the American craft beer revolution. He founded the largest craft brewery, brewing over 1 million barrels of 25 different styles of Boston Beer products and employing 520 people. Nevertheless, Boston Beer was only the sixth-largest brewer in the United States, producing less than 1% of the total
U.S. beer market in 2010. Since its inception, Jim Koch has had numerous offers from the large brewing companies
to buy him out, but he has consistently declined them. He wanted to remain independent and never compromise on the full, rich, flavorful, and fresh taste of Samuel Adams beer. Jim never altered his great-great-grandfather's original recipe created over a century ago.

Corporate Mission and Vision

The mission of the Boston Beer Company was "to seek long-term profitable growth by offering the highest quality products to the U.S. beer drinker."1 As the largest craft brewer, the Boston Beer Company had been successful for several reasons: (1) premium products produced from the highest-quality ingredients; (2) an unwavering commitment to the freshness of its beer; (3) constant creativity and innovation that resulted in the introduction of a new flavor of beer every year; and (4) the passion and dedication of its employees. The Boston Beer Company's vision was "to become the leading brewer in the Better Beer category by creating and offering high quality full-flavored beers."2 The Better Beer category was comprised of craft brewers, specialty beers, and a large majority of the imports. As of 2010, Samuel Adams was the largest craft brewer and "the third largest brand in the Better Beer category of the United States brewing industry, trailing only the imports Corona and Heineken."3 In 2007, the Boston Beer Company had revenues of $341 million with COGS of $152 million and $22.5 million of net income. From 2007 to 2009, revenues grew by 22% to $415 million with COGS of $201 million and $31.1 million in net income. Management expected sales to be $430 million in 2010. The Boston Beer Company had no long-term
debt and only 14 million shares outstanding. In August 2010, the stock price was $67.

The Beer Industry

The domestic beer market in 2010 was facing many challenges. In 2010, domestic beer overall sales declined 1.2%. Industry analysts predicted inflation-adjusted growth to be only 0.8% through 2012.4 Decreases in domestic beer sales as a whole were mainly due to decreased alcohol consumption per person. U.S. consumers were drinking less beer because of health concerns, increased awareness of the legal consequences of alcohol abuse, and an increase in options for more flavorful wines and spirits.

To gain more market share in a highly competitive market, the industry was shifting to the mass production of beers, leading to industry consolidation. There were two major players in the brewing industry in the United States: AB InBev (Anheuser-Busch) and SABMiller PLC (SABMiller). SABMiller PLC was a 2007 joint venture of SABMiller and Molson Coors. Anheuser-Busch had been purchased in 2008 by Belgium producer InBev, the second-largest beer producer in the world.

The domestic beer industry also contained some opportunities. Although sales of domestic beer were flat, the past decade showed increases in the domestic consumption of light beer and the craft beer categories. The Better Beer category (comprised of craft, specialty, and import beers) was growing at an annual rate of 2.5% and comprisedroughly 19% of all U.S. sales. Beers were classified as “better beers” mainly because of higher quality, taste, price, and image, compared to mass-produced domestic beers. The craft beer segment grew an estimated 9% in 2010. In an industry dominated by male customers, females were viewed as an opportunity. Research showed that womenwere most concerned about the calories in beer. However, 28% of these same women answered that they were presently drinking more wine.

The growth in craft beer sales was good news for the Boston Beer Company, which positioned itself in this category and was the largest and most successful craft brewer in the United States. It ranked third overall in the U.S. Better Beer category, trailing only two imports: Corona from Mexico and Heineken from The Netherlands.

Domestic Beers

Two major players in the U.S. domestic beer market—AB InBev and MillerCoors—accounted for roughly 95% of all U.S. beer production and sales, minus imports. MillerCoors LLC controlled roughly 30% of the U.S. beer market. MillerCoors recently entered the Better Beer category by acquiring, in whole or in part, existing craftbrewers and by importing and distributing foreign brewers’ brands. In 2010, the company experienced double-digit growth with its Blue Moon, Leinenkugel’s, and PeroniNastroAzzurro brands.AB Inbev was the number-one brewer in the U.S. market in terms of both volume and revenues. Its dominant position allowed it to exert significant influence over distributors, making it difficult for smaller brewers to maintain their market presence or access new markets. Inbev was created in the 2004 merger of the Belgian company Interbrew and the Brazilian brewer AmBev, and subsequently purchased Anheuser-Busch in 2008.

Craft Beer Segment

Sierra Nevada Brewing Company was the second-largest craft beer maker in the United States. Founded in Chico, California, in 1980, the company’s mission was to produce the finest-quality beers and ales, and believed that its mission could be accomplished “without compromising its role as a good corporate citizen and environmentalsteward.” Its most successful brands included the hop-flavored Pale Ale, as well as Porter, Stout, and wheat varieties. Sierra Nevada, like Samuel Adams, produced seasonal brews including Summer Fest, Celebration, and Big Foot. Although Sierra Nevada beer had been distributed nationally for some time, sales were still strongeston the West Coast.

New Belgium Brewing Company was founded in 1991 in Fort Collins, Colorado. Its Fat Tire brand made up two-thirds of the company's total sales.6 New Belgium currently had nine total craft beer brands, in addition to seasonal and limited brands. Its products were offered in 25 western and midwestern states. New Belgium, like Sierra Nevada, focused on being eco-friendly and stressed employee ownership in its mission.

Imports
GrupoModelo was founded in 1925 and was the market leader in Mexico. Its most successful product, Corona Extra, was the United States' number-one beer import out of 450 imported beers. AB Inbev held a 50% noncontrolling interest in GrupoModelo. Heineken, the third-largest brewer by revenue, positioned itself as the world's most valuable international premium beer. Heineken had over 170 international, regional, and local specialty beers and 115 breweries in 65 countries. It had the widest presence of all international brewers due to the sales of Heineken and Amstel products.

Flavored Malt Beverage Category
Samuel Adams also competed in the "flavored malt beverage" (FMB) category with Twisted Tea. The FMB category accounted for roughly 2% of U.S. alcohol consumption. Twisted Tea competed mainly with beverages such as Smirnoff Ice, Bacardi Silver, and Mike's Hard Lemonade. FMB products all targeted relatively the same consumers. Since pricing was similar, these products relied heavily upon advertising and promotions.

Current Challenges
The Boston Beer Company had been growing revenues by 22% over the past two years, and the craft beer industry as a whole continued to experience double-digit growth as well. However, there were some challenges ahead if the company was to successfully achieve its mission and continue this level of growth.

1. Probably the most critical challenge was the increased level of competition in the craft beer industry. "Volume sales within the craft beer industry increased 20% during 2002–2010 to 220 million cases,"and this astonishing growth attracted many players into this market, especially imported beers such as Corona and Heineken, and the top two brewers AB Inbev and MillerCoors.
2. Through mergers and acquisitions, the major competitors achieved cost savings and greater leverage with suppliers and distributors and preferential shelf space and placement with retailers.
3. A continuous increase in production costs of all basic beer ingredients, such as barley malt and hops, as well as packaging materials like glass, cardboard, and aluminum continued into 2010 with further increases in fuel and transportation costs. The global inventory of the company's "Noble" hops declined, and the harvest in recent years of its two key hops suppliers in Germany did not meet the high standards of the Boston Beer Company. As a result, Boston Beer received a lower quantity at a higher price than expected.
4. The company purchased a brewery in Breinigsville, Pennsylvania, in 2008 for $55 million. Although this brewery was expected to increase capacity by 1.6

million barrels of beer annually, it required significant renovations before it could produce quality beer.

United Airline Dilemma

United Airlines recently approached the Boston Beer Company with an interesting opportunity. United wanted to offer Samuel Adams Boston Lager to fliers on all of its flights. This would provide the Boston Beer Company increased national exposure and could result in a significant increase in beer sales. However, United Airlines would only sell Samuel Adams Boston Lager in cans, not bottles.

The Boston Beer Company had never sold any of its beers in cans because management believed that metal detracts from the flavor of the beer. Management felt that the "full-flavor" of Samuel Adams could only be realized using glass bottles. Should Boston Beer's management rethink its decision not to distribute its beer in cans to take advantage of this opportunity? Many years ago, Jim Koch said that there would never be a "Sam AdamsLight Beer," but he eventually reversed that decision and Sam Light became a huge success.

Required:

1. Show you strategic analysis - Currently, what are the most critical external factors that have the greatest impact on the firm? What strength and weakness does the firm have?

2. Determine strategic option and choose the right strategy - What are the strategic options available for the firm to be successful? Which strategies would you suggest? Why?

3. Show the way of implementation - How should Boston Beer Company implement the strategiesyou have chosen to be effective?

Q3. Case Study 2:BERGER KING

Originally called Insta-Burger King, the company was founded in Florida in 1953by Keith Kramer and Matthew Burns. Their Insta-Broiler oven was so successful atcooking hamburgers that they required all of their franchised restaurants to use theoven. After the chain ran into financial difficulties, it was purchased by its Miamibasedfranchisees, James McLamore and David Edgerton, in 1955. The new ownersrenamed the company Burger King, and the restaurant chain introduced thefirst *Whopper* sandwich in 1957. Expanding to over 250 locations in the UnitedStates, the company was sold in 1967 to Pillsbury Corporation.

The company successfully differentiated itself from McDonald's, its primaryrival, when it launched the *Have It Your Way* advertising campaign in 1974. UnlikeMcDonald's, which had made it difficult and time-consuming for customers to specialorderstandard items (such as a plain hamburger), Burger King restaurants allowedpeople to change the way a food item was prepared without a long wait.Pillsbury (including Burger King) was purchased in 1989 by Grand Metropolitan,which in turn merged with Guinness to form

Diageo, a British spirits company. Diageo’smanagement neglected the Burger King business, leading to poor operating performance.Burger King was damaged to the point that major franchises went out of businessand the total value of the firm declined. Diageo’s management decided to divestthe money-losing chain by selling it to a partnership private equity firm led by TPG
Capital in 2002.
The investment group hired a new advertising agency to create (1) a series of newad campaigns, (2) a changed menu to focus on male consumers, (3) a series of programsdesigned to revamp individual stores, and (4) a new concept called the BK WhopperBar. These changes led to profitable quarters and reenergized the chain. In May 2006,the investment group took Burger King public by issuing an Initial Public Offering(IPO). The investment group continued to own 31% of the outstanding common stock.

Business Model
Burger King was the second-largest fast-food hamburger restaurant chain in the worldas measured by the total number of restaurants and systemwide sales. As of June 30,2010, the company owned or franchised 12,174 restaurants in 76 countries and U.S. territories,of which 1,387 were company-owned and 10,787 were owned by franchisees.Of Burger King’s restaurant total, 7,258 or 60% were located in the United States. Therestaurants featured flame-broiled hamburgers, chicken and other specialty sandwiches,
French fries, soft drinks, and other low-priced food items.
According to management, the company generated revenues from three sources:(1) retail sales at company-owned restaurants; (2) royalty payments on sales and franchisefees paid by franchisees; and (3) property income from restaurants leased to franchisees.
Approximately 90% of Burger King restaurants were franchised, a higher percentagethan other competitors in the fast-food hamburger category. Although such a high percentageof franchisees meant lower capital requirements compared to competitors, italso meant that management had limited control over franchisees. Franchisees in theUnited States and Canada paid an average of 3.9% of sales to the company in 2010.
In addition, these franchisees contributed 4% of gross sales per month to the advertisingfund. Franchisees were required to purchase food, packaging, and equipment fromcompany-approved suppliers.Restaurant Services Inc. (RSI) was a purchasing cooperative formed in 1992 to actas purchasing agent for the Burger King system in the United States. As of June 30, 2010,RSI was the distribution manager for 94% of the company’s U.S. restaurants, with fourdistributors servicing approximately 85% of the U.S. system. Burger King had long-termexclusive contracts with Coca-Cola and with Dr Pepper/7UP to purchase soft drinks forits restaurants.
Management touted its business strategy as growing the brand, running great restaurants,investing wisely, and focusing on its people. Specifically, management plannedto accelerate growth between 2010 and 2015 so that international restaurants wouldcomprise 50% of the total number. The focus in international expansion was to be

in(1) countries with growth potential where Burger King was already established, such asSpain, Brazil, and Turkey; (2) countries with potential where the firm had a small presence,such as Argentina, Colombia, China, Japan, Indonesia, and Italy; and (3) attractivenew markets in the Middle East, Eastern Europe, and Asia.
Management was also working to update the restaurants by implementing its new20/20 design and complementary Whopper Bar design introduced in 2008. By 2010,more than 200 Burger Kingrestaurants had adopted the new 20/20 design that evokedthe industrial look of corrugated metal, brick, wood, and concrete. The new design wasto be introduced in 95 company-owned restaurants during fiscal 2011.
Management was using a "barbell" menu strategy to introduce new products at boththe premium and low-priced ends of the product continuum. As part of this strategy,the company introduced in 2010 the premium Steakhouse XT burger line and BK Fire-Grilled Ribs, the first bone-in pork ribs sold at a national fast-food hamburger restaurantchain. At the other end of the menu, the company introduced in 2010 the quarter-poundDouble Cheeseburger, the Buck Double, and the US$1 BK Breakfast Muffin Sandwich.
Management continued to look for ways to reduce costs and boost efficiency. ByJune 30, 2010, point-of-sale cash register systems had been installed in all companyownedrestaurants, and in 57% of its franchise-owned restaurants. It had also installeda flexible batch broiler to maximize cooking flexibility and facilitate a broader menuselection while reducing energy costs. By June 30, 2010, the flexible broiler was in 89%of company-owned restaurants and 68% of franchise restaurants.

Industry

The fast-food hamburger category operated within the quick service restaurant (QSR)segment of the restaurant industry. QSR sales had grown at an annual rate of 3% overthe past 10 years and were projected to continue increasing at 3% from 2010 to 2015.The fast-food hamburger restaurant (FFHR) category represented 27% of total QSRsales. FFHR sales were projected to grow 5% annually during this same time period.
Burger King accounted for around 14% of total FFHR sales in the United States.The company competed against market-leading McDonald's, Wendy's, and Hardee'srestaurants in this category and against regional competitors, such as Carl's Jr., Jack inthe Box, and Sonic. It also competed indirectly against a multitude of competitors in theQSR restaurant segment, including Taco Bell, Arby's, and KFC, among others. As theNorth American market became saturated, mergers occurred. For example, Taco Bell,
KFC, and Pizza Hut became part of Yum! Brands. Wendy's and Arby's merged in 2008.
Although the restaurant industry as a whole had few barriers to entry, marketing andoperating economies of scale made it difficult for a new entrant to challenge establishedU.S. chains in the FFHR category.
The quick-service restaurant market segment appeared to be less vulnerable to arecession than other businesses. For example, during the quarter ended May 2010, bothQSR and FFHR sales decreased 0.5%, compared to a 3% decline at both casual

diningchains and family dining chains. The U.S. restaurant category as a whole declined 1%during the same time period.

America's increasing concern with health and fitness was putting pressure on restaurantsto offer healthier menu items. Given its emphasis on fried food and saturatedfat, the quick service restaurant market segment was an obvious target for likely legislation.For example, Burger King's recently introduced Pizza Burger was a 2,530-calorieitem that included four hamburger patties, pepperoni, mozzarella, and Tuscan sauce ona sesame seed bun. Although the Pizza Burger may be the largest hamburger produced
by a fast-food chain, the foot-long cheeseburgers of Hardee's and Carl's Jr. were similarentries. A health reform bill passed by the U.S. Congress in 2010 required restaurantchains with 20 or more outlets to list the calorie content of menu items. A study by theNational Bureau of Economic Research found that a similar posting law in New YorkCity caused the average calorie count per transaction to fall 6%, and revenue increased3% at Starbucks stores where a Dunkin Donuts outlet was nearby. One county in
Californiaattempted to ban McDonald's from including toys in its high-calorie "Happy Meal" because legislators believed that toys attracted children to unhealthy food.

Issues

Even though Burger King was the second-largest hamburger chain in the world, it laggedfar behind McDonald's, which had a total of 32,466 restaurants worldwide. McDonald'saveraged about twice the sales volume per U.S. restaurant and was more profitable thanBurger King. McDonald's was respected as a well-managed company. During fiscalyear 2009 (ending December 31), McDonald's earned US$4.6 billion on revenues ofUS$22.7 billion. Although its total revenues had dropped from US$23.5 billion in 2008,net income had actually increased from US$4.3 billion in 2008. In contrast to most corporations,
McDonald's common stock price had risen during the 2008–2010 recession,reaching an all-time high in August 2010.In contrast, Burger King was perceived by industry analysts as having significant
problems. As a result, Burger King's share price had fallen by half from 2008 to 2010.

During fiscal year 2010 (ending June 30), Burger King earned US$186.8 million onrevenues of US$2.50 billion. Although its total revenues had dropped only slightly fromUS$2.54 billion in fiscal 2009 and increased from US$2.45 billion in 2008, net income fellfrom US$200.1 million in 2009 and US$189.6 million in 2008. Even though same-storesales stayed positive for McDonald's during the recession, they dropped 2.3% for BurgerKing from fiscal 2009 to 2010. In addition, some analysts were concerned that expenseswere high at Burger King's company-owned restaurants. Expenses as a percentage oftotal company-owned restaurant revenues were 87.8% in fiscal 2010 for Burger Kingcompared to only 81.8% for McDonald's in fiscal 2009.

McDonald's had always emphasized marketing to families. The company significantlyoutperformed Burger King in both "warmth" and "competence" in consumers'minds. When McDonald's recently put more emphasis on women and older people byoffering relatively healthy salads and upgraded its already good coffee, Burger

Kingcontinued to market to young men by (according to one analyst) offering high-calorieburgers and ads featuring dancing chickens and a “creepy-looking” king. These youngmen were the very group who had been hit especially hard by the recession. Accordingto Steve Lewis, who operated 36 Burger King franchises in the Philadelphia area,“overall menu development has been horrible. . . . We disregarded kids, we disregardedfamilies, we disregarded moms.” For example, sales of new, premium-priced menu itemslike the Steakhouse XT burger declined once they were no longer being advertised. Oneanalyst stated that the company had “put a lot of energy into gimmicky advertising” atthe expense of products and service. In addition, analysts commented that franchiseeshad also disregarded their aging restaurants.
Some analysts felt that Burger King may have cannibalized its existing sales byputting too much emphasis on value meals. For example, Burger King franchisees suedthe company in 2009 over the firm’s double-cheeseburger promotion, claiming it wasunfair for them to be required to sell these cheeseburgers for only US$1 when they costUS$1.10. Even though the price was subsequently raised to US$1.29, the items on BurgerKing’s “value menu” accounted for 20% of all sales in 2010, up from 12% in 2009.

New Owners: Time for a Strategic Change?
On September 2, 2010, 3G Capital, an investment group dominated by three Brazilianmillionaires, offered US$4 billion to purchase Burger King Holdings Inc. At US$24 ashare, the offer represented a 46% premium over Burger King’s August 31 closing price.According to John Chidsey, Burger King’s Charman and CEO, “It was a call out of theblue.” Both the board of directors and the investment firms owning 31% of the sharessupported acceptance of the offer. New ownership should bring a new board of directorsand a change in top management. What should new management propose to ensure thesurvival and long-term success of Burger King?

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END