BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures)	:													

Student ID (in Words) : _____

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Subject Code & Name	:	**BGN2304 Strategy and Innovation in the Service Industry**
Semester & Year	:	September – December 2017
Lecturer/Examiner	:	Joseph Choe Kin Hwa
Duration	:	3 Hours

INSTRUCTIONS TO CANDIDATES

1. **This question paper consists of 2 parts:**
   - **PART A (40 marks) : TWO (2) essay questions. Answer ALL of the questions. Answers are to be written in the Answer Booklet provided.**
   - **PART B (60 marks) : THREE (3) case study questions. Answer ALL of the questions. Answers are to be written in the Answer Booklet provided.**
2. **Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.**
3. **This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.**
4. **Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple choice questions, where 2B pencils are to be used.**

WARNING: The University Examination Board (UEB) of BERJAYA University College of Hospitality regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College of Hospitality.

Total Number of pages = 5 (Including the cover page)

PART A : **ESSAY QUESTIONS (40 MARKS)**

INSTRUCTION(S) : **TWO (2)** essay questions. Answer **ALL** questions in the Answer Booklet(s) provided.

Question 1

A comprehensive assessment of an organisation's strategy needs more than one perspective. Explain the **FOUR (4)** strategy lenses in organisations that look at strategy issues differently in order to generate business insights.

(20 marks)

Question 2

There are two ways to create blue oceans. One is to launch completely new industries, but it is much more common for a blue ocean to be created from within a red ocean when a company expands the boundaries of an existing industry.

Compare and contrast the differences between blue ocean strategy and red ocean strategy.

(20 marks)

END OF PART A

PART B **: CASE STUDY QUESTIONS (60 MARKS)**

INSTRUCTION(S) **: THREE (3)** case study questions. Answer **ALL** questions in the Answer Booklet(s) provided.

TESLA MOTORS AND THE U.S. AUTOMOTIVE INDUSTRY

THE BIG THREE —GM, Ford, and Chrysler—dominated the U.S. car market throughout most of the 20th century. Having enjoyed protection behind high entry barriers, GM once held more than a 50 percent U.S. market share and was highly profitable for many decades, until about 1980. Ford and Chrysler both also did well during this period. However, as competition in the industry became increasingly global, foreign carmakers entered the U.S. market, at first mainly by importing vehicles from overseas plants. Among the first were German carmakers Volkswagen (now also owner of the Porsche and Audi brands), Daimler, and BMW, as well as Japanese carmakers Honda, Toyota, and Nissan. These foreign entrants intensified competition, threatened the Big Three's market share, and led to political pressure to impose import restrictions in the 1980s. Not to be stopped, the new players responded by building U.S. plants in order to avoid import restrictions. More recently, Korean carmakers Hyundai and Kia have also joined in and begun making and selling cars in the United States.

Although globalization and deregulation paved the way for significant new entry into the U.S. auto market, the worldwide car manufacturing industry has been exposed to few new entrants. In fact, no new major car manufacturers have emerged in the last couple of decades simply because few industrial products (save for commercial airplanes and nuclear power plants) are as complex to build as cars powered by internal combustion engines. Car manufacturers also require large-scale production in order to be cost-competitive. Taken together, these factors create significant entry barriers into the car manufacturing industry. Would you say, then, that a Silicon Valley technology start-up attempting to break into this industry might be running a fool's errand?

Serial entrepreneur Elon Musk, who creates and runs new ventures to address not only economic but also social and environmental challenges, begs to differ. During the Internet boom, Musk made his name (and fortune) by developing an early version of Google maps and by co-founding the online payment system PayPal. The sale of both companies amounted to close to $2 billion, which allowed Musk to focus on his lifelong passions in science, engineering, and space. Musk is founder of and currently runs three different companies: SpaceX (which made history in May 2012 as the first private company to deliver a cargo payload to the International Space Station with its Dragon spacecraft), SolarCity (basically the Walmart of solar panel installations for business and residential customers), and Tesla Motors, an all-electric American car company. It is Tesla where Mr. Musk is currently focusing most of his attention.

As we have discussed, the U.S. automotive industry is characterized by high entry barriers. However, rather than attempting to overcome these barriers through large-scale entry using traditional internal combustion technology, Mr. Musk uses new technology to sidestep them altogether. In particular, Tesla Motors develops all-electric powertrains and cars, and currently offers three models. Unlike complex gasoline engines, electric cars are powered by relatively simple motors and gearboxes that have few parts. In fact, the Tesla Roadster, an expensive sports car, has already successfully demonstrated that electric vehicles can be more than mere golf carts by outperforming a Porsche 911 on key metrics such as acceleration. In a move to appeal to a more mass market and to reach a larger production scale to drive down unit costs, Tesla next developed the Model S, a four-door family sedan. The Model S received an outstanding market reception, and was awarded the 2013 MotorTrend Car of the Year. Tesla is also working on a newly designed seven-seat electric vehicle—the Model X—in an attempt to combine the best features of an SUV with the benefits of a minivan.

Although tesla motors has been successful in entering the U.S. automotive market using innovative new technology, its continued success will depend on other firm and industry factors. While industry forces have been favourable for a long time in the U.S. automotive industry, recent dynamics have lowered the profit potential of competing in this industry and thus reduced its attractiveness. Now that Tesla Motors has demonstrated how new technology can be used to circumvent entry barriers, other new ventures may soon follow. Moreover, the incumbent firms are also adopting the new technology by introducing hybrid or all-electric cars, further increasing rivalry in the industry. Another external industry force that Tesla Motors must address is the bargaining power of suppliers. Lithium-ion battery packs are key components for Tesla's electric engines. They are supplied by only a few technology firms such as Panasonic in Japan. Given that these sources are few, the bargaining power of suppliers in the electric car segment is quite high, further limiting the industry's profit potential. As a consequence of the strong bargaining power of suppliers, combined with the weak demand for its $100K sports car, Fisker Automotive, another American automaker of plug-in hybrid sports cars based in Anaheim, California, filed for bankruptcy. In this segment, the bargaining power of buyers is also strong. Individual buyers have many choices, and electric cars tend to be priced at a steep premium due to low production runs. Large-scale buyers such as rental car companies Avis and Hertz or the New York City taxi fleet all have significant purchasing power, further driving down profit potential In addition, when demand is slowing, excess capacity tends to develop in the automotive industry, and the incumbent car companies begin to initiate a cut-throat price competition to move inventory.

Although both GM and Chrysler went into bankruptcy, neither exited the industry but rather restructured, causing excess capacity to remain in the industry. Finally, complementary products and services such as battery charging and service stations, which are not yet ubiquitous, are needed to help consumers overcome anxieties concerning electric vehicle ownership.

Source: Rothaermel, F.T. *(2015)*, Strategic Management, 2nd Edition, McGraw-Hill Education, New York. Pp. 57 & 88

Question 1

Critically analyse the macro environmental factors that are most significant for the electric vehicle segment of the car industry.

(20 marks)

Question 2

Evaluate Tesla's competitive advantage in the U.S. automotive industry.

(20 marks)

Question 3

Propose to Elon Musk on the possible strategies for Tesla to sustain its competitiveness in the market.

(20 marks)

END OF QUESTION PAPER