GL BAJAJ Institute of Management & Research

Approved by A.I.C.T.E., Ministry of HRD, Govt. of India

Roll No…………

Plot No. 2, Knowledge Park-III, Greater Noida (U.P.) –201306

POST GRADUATE DIPLOMA IN MANAGEMENT (2018-20)
END TERM EXAMINATION (TERM - III)

Subject Name: **Strategic Management**	Time: **02.00 hrs**
Sub. Code: **PG-25**	Max Marks: **50**

Note:

1. Writing anything except Roll Number on question paper will be deemed as an act of indulging in unfair means and action shall be taken as per rules.

2. All questions are compulsory in Section A, B & C. Section A carries 2 Case Studies of 10 marks each, Section B carries 2 questions of 10 marks each and Section C carries 5 questions of 2 marks each.

SECTION - A 10×02 = 20 Marks

Q. 1: Case Study:

THE RISE OF A UNICORN – AIRBNB

A unicorn is a mythical animal that has been described since antiquity as a horse with a large pointed spiral horn. Legend has it unicorns are very rare and difficult to tame. It is a name that has been adopted by the US venture capital industry to denote a start-up company whose valuation exceeds $1bn (£0.6bn, €0.75bn). Airbnb, founded in 2007, was one of these rare and valuable unicorns, already valued at $25bn in 2015. How could this start-up become so successful, so fast?

Origins

The original founders of Airbnb, Joe Gebbia and Brian Chesky, first met at Rhode Island School of Design. Five years later, both aged 27, they were struggling to pay their rent when a design conference came to San Francisco. All the hotels were fully booked, so they set up a simple website with pictures of their loft-turned-lodging space – complete with three air mattresses on the floor and the promise of a home-cooked breakfast in the morning. This site got them their first three paying guests at $80 each. It dawned on them this could be the start of something big. They both wanted to be entrepreneurs and Brian already had some experience having designed a cushion for back sufferers and built a website. Next day they created a website, www. airbedandbreakfast.com. They decided to target conferences and festivals across America, getting local people to list their rooms on a website created by former flatmate and computer programmer, Nathan Blecharczyk.

Growth

Attracting funding for their start-up was not easy. Investors saw Gebbia and Cesky purely as designers, which did not fit the traditional start-up profile. Funders thought there would not be much demand for listings that mostly advertised sleeping on airbeds. Nonetheless, in 2009 Airbnb received its first funding of $20,000 from angel investor, Paul Graham, co-founder of Y Combinator (a start-up mentoring programme), who was impressed with their inventiveness and tenacity. The company was renamed Airbnb and it provided an app and website that connects people seeking lodging with renters who have listed their personal houses, apartments, guest rooms on either platform. Further funding followed: in November 2010 Airbnb raised an additional $7.2m. This allowed the company to expand to 8000 cities worldwide, to increase the number of employees to 500 and to move out of the founders’ flat – where staff had been making sales calls from the bathroom and holding conferences in the kitchen – to offices in the design district of San Francisco.

However, in 2010 Airbnb was experiencing sluggish listings in New York. Joe and Brian booked spaces with 24 hosts and flew out to try to understand the problem. They soon realized hosts were doing a very poor job of presenting their properties. They immediately rented a $5000 camera and took as many photos of New York apartments as possible. Listings in the city suddenly doubled. From there on hosts could automatically schedule a professional photographer. This was an immediate hit and by 2012 there were 20,000 freelance photographers being employed by Airbnb around the world. The photos also built trust for guests as they verified addresses. The company also introduced Airbnb Social Connections, which leverages users' social graphs via Facebook Connect. This shows whether friends have stayed with the host or are friends with the host and it allows guests to search for hosts based on other characteristics, like alma mater. Again this reassured potential guests. Further venture funding of $112m was received in July 2011. Airbnb expanded through acquisitions with a deal in Germany and the purchase of their largest UK-based competitor Crash padder just in time for the 2012 Summer Olympics in London. Offices were opened in Paris, Barcelona and Milan. Airbnb's growth was explosive with a higher valuation than Hyatt and Wyndham hotel groups by 2014 and more guest nights booked than Hilton Hotels. By 2016 Airbnb was valued at $25bn – more than any other hotel group. The company justified its valuation by claiming that, when its price ($25bn) to sales ratio of 27.8 (based on estimated sales of $900m for 2015) is divided by its high growth rate of 113 per cent per year, the resulting value for the group is broadly in line with the sector. Airbnb forecasts $10bn of revenues by 2020, with $3bn of profits before tax.

Airbnb proved attractive to guests and hosts as its listings were far superior to others available at the time, such as Craigslist – they were more personal, with better descriptions and nicer photos that made them more appealing for people searching for vacation rentals. The rooms provided by Airbnb were also cheaper than equivalent ones at hotels and had more of a personal flavor. For instance, in a recent stay in Paris a user noted the host had left a selection of food in the refrigerator, a bottle of wine on the counter for her guests and a welcoming note suggesting good places nearby to eat out and convenience shops. Staying in another person's apartment makes the visitor feel far more at home than an anonymous hotel room.

Managing Growth

Founder and CEO Brian Chesky penned a memo in 2013 to his top management team, as follows:

Hey team, Our next team meeting is dedicated to Core Values, which are essential to building our culture. It occurred to me that before this meeting, I should write you a short letter on why culture is so important to [co-founders] Joe, Nate, and me.

In 2012, we invited Peter Thiel [a major investor] to our office. This was late last year, and we were in the Berlin room showing him various metrics. Midway through the conversation, I asked him what was the single most important piece of advice he had for us. He replied, 'Don't spoil the culture.'

This wasn't what we were expecting from someone who just gave us $150m. I asked him to elaborate on this. He said one of the reasons he invested in us was our culture. But he had a somewhat cynical view that it was practically inevitable once a company gets to a certain size to spoil it up.'

Accordingly, the company began to manage its culture more deliberately. For example, Joe Gebbia had become concerned that as the company grew, it had become less open to dialogue. To encourage more discussion, he invented the notion of 'elephants, dead fish and vomit'. As Gebbia explains: 'Elephants are the big things in the room that nobody is talking about, dead fish are the things that happened a few years ago that people can't get over, and vomit is that sometimes people just need to get something off their mind and you need someone to just sit there and listen'.

All three need to be aired. Airbnb also established a series of annual meetings called One Airbnb, bringing together employees (called 'Airfam') from all around the world to the San Francisco base for four-day conferences at which everyone can meet the founders, discuss strategy and also talk about both their work roles and their hobbies. The company has ‘ground control’ staff in every office in the world dedicated to making the company culture ‘come alive’, organizing pop-up birthday celebrations, anniversary parties or baby showers. The company is rigorous in its recruitment policy, committed to hiring ‘missionaries, not mercenaries’. At the same time, founders Joe Gebbia, Brian Chesky and Nathan Blecharczyk had begun to ask themselves again: ‘What is our mission? What is the big idea that truly defines Airbnb?’. As they recalled in their own words: ‘It turns out the answer was right in front of us. For so long, people thought Airbnb was about renting houses. But really, we’re about home. You see, a house is just a space, but a home is where you belong. And what makes this global community so special is that for the very first time, you can belong anywhere. That is the idea at the core of our company.’

Airbnb in 2016

In 2016, Airbnb had over 1.5 million listings in 34,000 cities in 192 countries, with 40 million total guests. Anyone anywhere in the world can list spare space from a room to a tree house, from a castle to an island in Fiji, with prices ranging from $50 to $2000 per night. Airbnb received 30 million page views per month. The headquarters’ walls were covered with world maps dotted with hundreds of colored pins, charting world domination. Airbnb was so popular that one of their rooms was booked every two seconds. The company was now focused on the whole travel trip with an emphasis on delivering local experiences. This focus on hospitality was not just about where you stay, but what you do – and whom you do it with – while you’re there. To this end they introduced Airbnb Neighborhoods and local lounges, partnering with local coffee shops that can offer free Wi-Fi, a comfortable setting and local guidebooks. They also acquired a small start-up that connects guests with locals who can answer their questions. They also offer cleaning services. Airbnb was providing a strong challenge to hotels with prices 30–80 per cent lower than local operators. The company had big plans from the IPO that doubled its market capitalization to fulfill the dreams of the founders.

Q. 1 Analyse the role of vision, mission, core values and culture in the success of AirBnB along with describing the qualities of the founders that created a unicorn out of this untapped market?
Q. 2 Discuss the competitive position of AirBnB with respect to competitors along with explaining the company through VRIO Framework for its key resources.

Q.2: Case Study:

Fabindia pioneered branded ethnic womens wear in the Indian market and popularized products made from traditional techniques and processes. It had achieved this feat by adopting a strategy of no discounts, no promotions and marketing indigenously made products in a competitive market full of national and international brands. While the brand had grown and had a loyal customer base, the rapidly changing Indian consumer now enjoyed many options while shopping. The Indian retail market had grown and this was driven by a large growing population, youth domination, urbanization, higher disposable incomes and changing lifestyles. While regional choices still influenced buying, the Indian consumer was changing fast, competition had increased and apparel as a category was transitioning from a need-based buying category to a lifestyle category. The consumer now made purchases at will, from the locations that they choose from. Social media played an important role for any brand and Fabindia’s brand building thus far had focused on limited print advertising and word-of-mouth publicity. Could this sustain the brand in the future?

Q.1 Discuss the business strategy adopted by FabIndia through Porter’s generic strategy model to highlight the core value proposition of the brand for the customer segment?
Q. 2 Analyse the retail clothing industry through Porter’s five forces model and suggest suitable strategies to be adopted by FabIndia at Functional level for future success?

SECTION – B 10×02 = 20 Marks

Q. 3: Idea-Vodafone merger has created a monopoly in the telecommunication sector in the country. Airtel and Jio are developing their own core competencies to compete fiercely with it along with safeguarding their own territories. In this current dynamic environment, analyse the benefits and problems that Idea-Vodafone can have from the merged entity. Also discuss the possible cultural and functional issues they may face. Recommend a suitable structure that the new company should adopt to maintain their corporate level strategy of merger.

Q. 4: Jet Airways debacle is an important case of both internal and external factors going wrong. Currently the aviation company has stopped all its international flights and the stakeholders are in a dilemma about the future of the company. Study critically the macro factors impacting the aviation sector in the country by highlighting the most critical positive and negative factor. Also discuss the micro factors that went against the company by specifically explaining the role of leader in the downfall of a company.

SECTION – C 02×05 = 10 Marks

Q.5 (A): Evaluate the success and downfall of Apple through Balanced Scorecard method?
Q. 5 (B): Explain with examples a Joint Venture, Merger, Acquisition, Strategic Alliance and Hostile takeover.
Q. 5 (C): Discuss the components of Strategic Intent and develop them for Google Inc.
Q. 5 (D): Evaluate the McKinsey's 7 S model for the restructuring of Unilever from a functional based company to a SBU based company.
Q. 5 (E): Elaborate upon the strategies adopted by Coke and Pepsi globally as market leader and market challenger.