Birla Institute of Technology and Science, Pilani

I Semester 2022-23 Mid-Term Examination

Course Code: BITS F428 Course Title: Essentials of Strategic Management

Max. Time:90 Minutes Date: 03-11-2022 Max. Marks: 25

Q. 1 Discuss the accuracy of the statement: Formal strategic planning systems are irrelevant for firms competing in high-technology industries where the pace of change is so rapid that plans are routinely made obsolete by unforeseen events. (5)

Q. 2 What do you mean by business environment? Mention the different categories of business environment? Assess the impact of macro environmental factors on education sector over the next decade. Discuss the implications of these factors on the growth of the sector. (1+2+4=7)

Q.3 Over the last two decades, the wireless telecommunications industry in the United States has been characterized by strong growth as demand for mobile phones—and, since 2007, smartphones— drove industry revenues forward. In 2000, there were 109 million wireless subscribers in the United States. By 2017, the number had risen to almost 420 million, representing a penetration rate of over 100% (some people had multiple phones). Moreover, smartphone penetration had risen from 37% of the population in 2010 to over 80% by 2017. As this market has grown, the competitive structure of the industry has become increasingly consolidated. Today, four companies dominate the industry: Verizon with 35% of the market, AT&T with 33%, Sprint with 13%, and T-Mobile with 17%. Much of the consolidation has been achieved through mergers and acquisitions. In 2004, AT&T bought Cingular for $41 billion; in 2005, Sprint and Nextel closed a $36-billion merger; and in 2009, Verizon bought Alltel for $28.1 billion. Since then regulatory authorities have stymied further merger attempts purchase T-Mobile, but was blocked by regulators. A 2014 merger proposal between T-Mobile and Sprint was also scuttled by objections from regulators. The merger wave was driven by a realization among wireless companies that only the largest firms can reap the scale economies necessary to be profitable in this capital-intensive industry. Building out network infrastructure such as cell towers, and constantly upgrading that infrastructure to deliver fast, reliable voice and data service, has consumed over $400 billion in capital spending since 1985; $200 billion of that has been spent since 2010. By 2017, capital expenditures in the industry were running at $35 billion a year. Wireless companies have also spent over $60 billion so far to acquire from the government the right to use the wireless spectrum. The government periodically auctions off the spectrum, and competition among wireless providers typically drives up the price. Companies in the industry have also had to spend heavily on marketing to establish their brands, and on building out a nationwide network of retail stores to provide point of- sale service to their customers.

Until recently, competition in the industry primarily focused on non-price factors such as service coverage and reliability, handset equipment, service packages, and brand. Verizon, for example, emphasized its superior coverage and the high speed of its network; AT&T gained share when it signed a deal in 2007 to be the exclusive supplier of Apple’s iPhone for one year; and T-Mobile branded itself as the hip network for young people looking for value. To reduce customer churn and limit price competition, service providers required customers to enter into 2-year contracts with early termination fees in exchange for new equipment (the cost of which was heavily subsidized), or to purchase updated service plans.

However, with the market now saturated, and regulators blocking further merger attempts, competition is increasingly based on price. The shift began in early 2013, when T-Mobile broke ranks with the industry and began discarding 2-year contracts and early-termination fees, and eliminating subsidies of several hundred dollars for new phones, instead offering customers the option to pay for new devices in monthly installments. When merger talks broke down between Sprint and T-Mobile in mid-2014, Sprint quickly shifted its strategy and went after market share by offering customers who switch from rivals lower prices and more data. T-Mobile responded with a similar offering of its own, and the price war started to accelerate in the industry. In December 2014, T-Mobile upped the stakes with further price cuts that would save a family of four 50% in their monthly payments compared to a similar plan from Verizon (Verizon continues to subsidize the cost of handsets; T-Mobile does not). Both AT&T and Sprint rolled out their own offers to keep pace with T-Mobile. In a sign that the price war is starting to hurt the industry, in December both AT&T and Verizon warned investors that their profits might take a hit going forward due to declining average revenues per customer and high capital expenditures.

What are the barriers to entry into the market for wireless telecommunications? What are the implications of these entry barriers for new entry? (5)

Q. 4 Why is market segmentation such an important step in the process of formulating a business level strategy? (4)

Q. 5 What do you understand by fragmented industry? Discuss the any two suitable strategic options for fragmented industry. (2*2=4)