Faculteit Economische en Toegepaste Economische Wetenschappen
K.U. Leuven

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2007

Exam

Strategic Management

Answers should be handed in on these sheets

Naam:………………………………………………

First Name:…………………………………..………

Program:…………………...………………………

This exam takes maximum TWO hours!

Question 1

Company *XYZ* realized sales of 10 million EUR and a net margin (NOPLAT/sales) of 5%. The invested capital was 10 million EUR, consisting of an equal amount of equity and debt. The cost of equity was 8%, the cost of debt was 4% and the corporate tax rate was 50%.

1.a. When does a strategy create economic value?

1.b. Did company *XYZ* create economic value?

1.c. How much was the economic value *XYZ* created?

Question 2

Steel producers buy raw materials (iron ore and coal) from big international mining companies. After the delivery of these raw materials, they can start their production: firstly, melting the raw materials in blast furnaces; then, to obtain high quality iron and steel, the melted iron is heated and treated with air or pure oxygen in a convertor; next, this will be casted in big blocks; finally, these blocks will be rolled into steel plates. A big customer of these steel plates is the car manufacturing industry.

2.a. Draw the business chain in which producers of steel operate.

2.b. How do we call the phenomenon when a steel company acquires a mining company. What are the advantages of this phenomenon?

In 2006 *Mittal* acquired his competitor *Arcelor* to form the biggest steel company in the world with a combined market share of 10%. However, different types of steel exist, such as ordinary steel (*Mittal*) and high-quality steel with higher margins (*Arcelor*) or like the CEO of *Arcelor* at that time during the snappish take-over process said: *"Mittal produces eau de cologne, Arcelor perfume."*

2.c. Which strategy did *Arcelor* follow before the takeover of *Mittal*?

2.d. How do we call the strategy of *Mittal* to take the lead in the consolidation in de steel industry?

Question 3

The quoted multi-business group *ABCD* has 2 million shares of which 50% (free float) is traded on the stock exchange. Moreover, *ABCD* has no debt on his balance sheet. The current share price is 160 EUR per share. *ABCD* has 4 strategic business units (SBU's), active in different industries and all shares (100%) owned by *ABCD*. The 4 SBU's are debt free as well. The table below shows an overview of the 4 SBU's.

SBU's	Sales (mio EUR)	EBITDA (mio EUR)	Average EBITDA-multiple of competitors
SBU *A*	100	20	6
SBU *B*	100	20	7
SBU *C*	100	20	9
SBU *D*	100	20	10

3.a. Analyse the strategic problem of multi-business group *ABCD*.

A possible solution is to split off SBU *A* from multi-business group *ABCD* via a separate quotation on the stock exchange. SBU *A* generates very stable revenues coming from long-term contracts.

3.b. Explain based on the business model of SBU *A* why a separate quotation of SBU *A* on the stock exchange is possible.

3.c. Mention at least 1 other relevant option that multi-business group *ABCD* has to solve the strategic problem.

Question 4
Define the following concepts clearly and to-the-point.

4.a. The difference between *"business strategy"* and *"corporate strategy"*.

4.b. The *J-curve* (graphically plus indicate axes and zones).

4.c. *Airbus* has made the first test flights with its new *A380*. Why will the production costs of the 100th airplane of this type be lower than the production costs of the 10th airplane of this type? How do we call this phenomenon? Illustrate graphically and indicate the axes.

THE END