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# GUIDED EXAMPLES

## CP 311 – Strategic Management

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### Important Information:

- These guided examples are intended to enhance specific curriculum resources where additional examples, practice calculations, and/or application of material could benefit candidates. These are not part of the required syllabus but are intended to make the required syllabus topics easier to master. These examples may be longer, more in depth, and/or include more calculation than would likely be used in an assessment environment.
- These guided examples are presented in two formats – a version where candidates can attempt to navigate the problem/situation independently, and a narrated version where a solution is presented along with assistance to explain the steps involved.
- These guided examples present one method of arriving at a solution; there could be equally appropriate alternative solutions.
- These guided examples are not intended to approximate a course assessment, and candidates should not use them as proxies for assessment items. For examples of assessment items, we recommend referencing the curated past exam questions for this course.
- Candidates should note that this course has additional guided examples in a companion Excel file.
- These guided examples have been developed by Steve Scoles, XP Actuarial Exam Preparation, with review and modifications by course curriculum committee volunteers and SOA staff. We will continue to refine and expand this example set over time; candidates who would like to recommend source material that could benefit from additional guided examples should reach out to: **education@soa.org**.

## **CP311 Strategic Management – Guided Examples**

In addition to several Excel-based examples provided in a companion workbook, the following critical-thinking guided examples are provided to assist candidates.

In this document, all questions are provided first; the solutions are then provided.

Importantly, the guided solutions are not the only reasonable answer. Rather, the guided solutions illustrate the application of the concepts with critical thinking.

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## 1. Question

### Source:

*Understanding Michael Porter, The Essential Guide to Competition and Strategy*, Harvard Business Review Press, Magretta, Joan, 2012 – Chapters 4 to 7

### Learning Objectives

1. The candidate will understand and apply strategic management concepts and frameworks to develop an organization's business strategies and solutions.

Unlimited Fashion is considering building a large number of Coffee Shops and calling them Unlimited Coffee.

### History of Unlimited Fashion:

Unlimited Fashion started 6 years ago as a peer-to-peer used fashion start-up. People could list their well-kept, but not regularly worn, clothes on the peer-to-peer web-based service and others could make short-term rentals of the clothing. The clothing could be stored and/or picked up at central warehouses or could be picked up at and/or delivered directly to homes for an additional fee.

Unlimited Fashion successfully advertised and promoted the idea as having the opportunity to have an “unlimited wardrobe”. Unlimited Fashion charges a small percentage fee for each item listed and borrowed. Clients could list their clothing at any price. Prices and demand could rise and fall depending on the time of year, special occasions, and the economy. Often prices actually rose slightly during economic contractions as people preferred borrowed clothing rather than buying it outright.

### Idea of Unlimited Coffee:

The CEO of Unlimited Fashion recognized that the brand was very popular, but the market had matured and growth was starting to taper off. The idea of Unlimited Coffee was to offer customers bottomless coffee for the day – that is for an entire day, customers could have as much coffee as they could drink at their designated Unlimited Coffee shop. The advertising would be: “Now that you have an unlimited wardrobe, you need unlimited caffeine to enjoy it!”

Unlimited Coffee has entered a special contract with a country recently emerging from years of civil war to obtain a large supply of coffee beans at a low price.

Unlimited Coffee is building their coffee shops close to fast food outlets that also offer inexpensive, but not bottomless coffee.

Unlimited Coffee would only be available in store and not delivered.

**Question:** Using Porter’s “Five tests every good strategy must pass”, assess Unlimited Fashion’s “Unlimited Coffee” strategy against each test.

## **2. Question**

### Source:

CP311-101-25: The Hard Side of Change Management

### Learning Objectives

1. The candidate will understand and apply strategic management concepts and frameworks to develop an organization's business strategies and solutions.

Company ABC has a project to implement a new customer service information system. The project is expected to take 2 years to complete.

The president of the company has spoken highly of the project at company-employee townhalls and said it's critical to the company's missions to have the best customer service in the industry.

Many customer service agents have said they are reluctant to change as many of them have used the existing system for over 15 years.

The project team is led by a long-time IT systems leader who has successfully completed major projects in the past. The team includes a combination of long-term company IT staff, some outside consultants that have worked with this new system, and two long-term customer service agents as business resources. The two customer service agents have been given temporary leave of their regular customer service duties.

### **Questions:**

- a) Evaluate this project using each component of the DICE framework.
- b) Make one recommendation for improvement to this project. Justify your answer.

### 3. Question

Source:

CP311-104-25: Leaders as Decision Architects

Learning Objectives

4. The candidate will understand the role organizational behavior plays in organizational decision-making and efficacy.

A Pizza restaurant chain decided to test out two different methods of pricing its pizzas.

In one set of stores, the pizza chain offered a “Basic” cheese pizza for \$10 and customers could add up to 8 different toppings at \$1 per topping.

In another set of stores, the pizza chain offered a “Deluxe” pizza for \$18 that included all 8 toppings, but customers could ask for toppings to be removed and the price would be reduced by \$1 per topping.

After one month, the results came in: For the store that offered the “Basic” pizza, customers added on average 2.3 toppings to their pizzas. For the stores that offered the “Deluxe” option, customers on average had 5.2 toppings on their pizza.

**Question:** Explain the bias shown by customers and behavioral economic tool used in the experiment that explains the different outcomes for the “basic” and “deluxe” pizza options.

## 1. Guided Solution

### Source:

*Understanding Michael Porter, The Essential Guide to Competition and Strategy*, Harvard Business Review Press, Magretta, Joan, 2012 – Chapters 4 to 7

**Answer note:** Because the question asked to “assess each”, the student should draw conclusions for EACH test.

### A distinctive value proposition

- Which customers: No clear customer segment identified
- Which needs: customer needs would be those that drink a lot of coffee, but don't have a lot of money. This appears to be unique.
- Relative price: Appears that price will be low on a per cup basis for those that drink a lot of coffee, so this is unique in the market.
- For distinct value proposition, this strategy moderately passes the test as it appears no other company offers unlimited coffee, so therefore quite unique.

**Answer note:** student should address all 3 components of a distinctive value proposition.

### A tailored value chain

- The text indicates that companies need to choose to “perform activities differently or to perform different activities from those of rivals”
- Unlimited Coffee seems to have obtained a special source of low-cost coffee beans.
- However, there is no indication that the quality will be at a good enough level required by its customers.
- There would also be uncertainty about the long-term nature of the agreement (given the country's history) and whether it would be a large enough supply of coffee.
- It is also unclear if the provision of large amounts of coffee will be at a low enough cost to earn a profit
- The distribution activities of the parent company, Unlimited Fashion, are very different from Unlimited Coffee. Unlimited Fashion is warehouse & delivery based, whereas Unlimited Coffee has individual stores and no delivery. There is no evidence that there are special capabilities or activities that Unlimited Coffee can do around distribution.
- Therefore, there is little to indicate that Unlimited Coffee has a tailored value chain to provide its value proposition yet.

### Trade-offs different from rivals

- Offering unlimited coffee is a trade-off from what other rivals offer – however, perhaps deep-pocketed rivals could offer unlimited coffee for a period of time to not allow Unlimited Coffee to take root.
- The strategy to be in similar locations as rivals such as fast-food outlets that would typically offer inexpensive coffee, so not a trade-off on location
- In conclusion, unlikely that meaningful trade-offs are being made to keep competitors at bay.

#### Fit across the value chain

- Not enough information here to make a conclusion on fit
- Fit is based on consistency across value chain, reinforcing activities, and ability to eliminate activities – none of these items can be accurately evaluated with the information given.

**Answer note:** Some tests are easier to apply than others given the limited information provided in the question.

#### Continuity over time

- There is a small amount of continuity as unlimited coffee could reinforce the identify and co-advertising with unlimited fashion
- However, not clear if the customer base of Unlimited Fashion would also be customers of Unlimited Coffee given that locations are not near the Unlimited Fash warehouses or that customers can get their fashion delivered to them, but not unlimited coffee
- In conclusion, there is some continuity with the parent company's image, but not with current customer relationships.

**Answer note:** for critical-thinking questions, students should logically and accurately connect the concepts with facts given to show reasonable conclusions. This means that there can be multiple acceptable answers.



## 2. Guided Solution

Source:

CP311-101-25: The Hard Side of Change Management

DICE framework is:

Duration (D), Integrity of Performance (I), Senior Management Commitment (C1), Lower-level commitment (C2), and Effort (E)

**Answer note:** student should provide evidence to support their evaluation. As well, an evaluation needs to be provided for EACH component as asked in the question.

Duration

**Answer note:** Duration means *how long between reviews*, rather than how long the project is.

The duration between project reviews has not been made clear in the question. For this reason, this item is not scored

Integrity of Performance

Team leader appears capable as they have “successfully completed major projects in the past” at this company

Team members appear to have appropriate skills as company IT staff, consultants familiar with the software are being used, and customer service agents (i.e. the users of the system) are on the team.

However, it may be that this entire group of people have not worked together as a team. For this reason, there should be a slightly higher score until the team dynamics are clearer.

Score of 2

### Senior Management Commitment

Senior Management has shown commitment with the CEO explaining the importance of the project regularly at townhalls

Score of 1

### Lower-level commitment

Some customer service agents seem reluctant about a new system.

Offsetting this is having two long-term customer service agents dedicated to the project

Score of 3

### Effort

It appears all members of the project team are 100% dedicated effort-wise to the project.

Score of 1

Recommendation for improvement: to the extent that formal project review timing has not been finalized, I recommend having formal project reviews of every 2 months or less as that would give the best (i.e. lowest) duration score.

### 3. Guided Solution

Source:

CP311-104-25: Leaders as Decision Architects

**Answer note:** the bias explained has to be a systematic “error” made.

The bias shown by customers in this example is **status quo bias**. People tend to prefer the status quo unless there is a lot of pressure to change. In the case of the “basic” pizza, people would likely only make the effort to add toppings they really liked, while for the “deluxe” pizza, people would likely only make the effort to remove the toppings they really did not like.

This shows a systematic error as the customers can get the same topping choice for the same price at both sets of stores, but made different choices based on how things were presented to them.

The behavioral economic tool used was to have a default – which involves bypassing both system 1 and system 2 thinking. Even though the two pizza options were equivalent in total price (for the same set of toppings), people stuck closer to the default option of basic or deluxe as it was less mental effort to not make many changes to the pizza.