FINAL EXAMINATION
(REVISED SYLLABUS - 2008)
GROUP - III
Paper-13 : MANAGEMENT ACCOUNTING – STRATEGIC MANAGEMENT

Q. 1. For each of the questions given below, one out of four answers is correct. Indicate the correct answer.

i. **Strategic analysis is concerned with stating, the position of the organisation in terms of:**
   A. Mission, choice of market segments, product selection, financial targets, external appraisal.
   B. Mission, goals, corporate appraisal, position audit and gap analysis.
   C. Mission goals, identification of key competitors, SWOT and environmental appraisal.
   D. Mission, targeted ROI, manpower planning, position audit.

ii. **Which would best describe the SBU format?**
   A. General Insurance Corporation of India
   B. Hindustan Lever limited
   C. ITC
   D. Steel Authority of India Limited

iii. **Pepsi's 'Nothing Official About it' would be an example of**
   A. Mission
   B. Vision
   C. Strategic intent
   D. Policy

iv. **Mckinsey's T-s framework consists of:**
   A. Structure, strategy, software, skills, styles, staff and supervision.
   B. Structure, strategy, systems, skills, styles, syndication and shared values,
   C. Structure, strategy, systems, skills, steering power, styles and shared values.

v. **TISCO's famous advertising campaign of "we also make steel" was meant to:**
   A. Gain buyer loyalty to its products
   B. Inform new buyers about its product portfolio
   C. Enhance product quality perception
   D. Achieve corporate's social responsibility.

vi. **Identifying and evaluating key social, economic, technological and competitive trends/ events comprise of:**
   A. Developing a mission statement
   B. An implementing strategy
   C. Performing an external audit
   D. Identifying market trends

vii. **Successful differentiation strategy allows the company to:**
   A. Gain buyer loyalty to its brands
   B. Charge too high a price premium .
   C. Depend only on intrinsic product attributes
   D. Have product quality that exceeds buyers' needs

viii. **McCarthy's marketing mix refers to**
   A. Price, push, pull and product

B. Price, promotion, place and product
C. Price, profit, promotion and product
D. Price, promotion, profit and product portfolio

ix. Which of the following market structures would be commonly identified with FMCG products?
A. Monopoly
B. Monopolistic competition
C. Oligopoly
D. Perfect competition

x. The BCG growth matrix is based on the two dimensions:
A. Market Size and Market Share
B. Market Size and Profit Margins
C. Market Size and Competitive Intensity
D. None of the above

Answer 1.

i. B - Mission, goals, corporate appraisal, position audit and gap analysis
ii. A - General Insurance Corporation of India
iii. C - Strategic intent
iv. D - None of the above.
v. D - Achieve corporate's social responsibility.
vi. C - Performing an external audit
vii. A - Gain buyer loyalty to its brands
viii. B - Price, promotion, place and product
ix. B - Monopolistic competition
x. D - None of the above

Q.2 . Write short notes on the following :

i. McGregor's Theory Y
ii. Strategic Positioning
iii. Types of Buying Behaviour
iv. Profit Impact on Marketing Strategies (PIMS)
v. Target Market

Answer 2.

i. McGregor's Theory Y:

According to McGregor, traditional organisations with its centralised decision-making, superior-subordinate pyramid, and external control of work is based upon certain assumption about human nature and human motivation.

McGregor's Theory Y assumes that people are not, by nature, lazy and unreliable. It postulates that man can be basically self-directed and creative at work if properly motivated. Therefore, it should be an essential task of management to help realise this potential in man. The properly motivated employee can achieve his own goals best by directing his own efforts towards accomplishing organisational goals. Managers who accept assumptions of human nature do not usually structure and control the work environment or closely supervise the employees. Instead, they attempt to help their employees nature by exposing them to progressively less external control, allowing them to assume more and more self control. Employees are able to achieve the satisfaction of social, esteem and self-actualisation needs within this kind of environment, often neglected on the job. To the extent that the job does not provide need satisfaction at every level, today's employee will usually look elsewhere for

significant need satisfaction. This helps explain some of the current problems management is facing in such areas as turnover and absenteeism. McGregor argues that this does not have to be the case.

ii. Strategic Positioning:

Porter has carried the understanding of the generic strategies which 'characterise strategic options at the simplest and broadest level' to a 'greater level of specificity' by elaborating the concept of strategic positioning. The logic of strategic positioning is that competitive strategy which is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value. In other words, 'the essence of strategy is in the activities - choosing to perform activities differently or to perform different activities than rivals'.

Types of positioning — According to Porter, strategic options emerge from three distinct sources, which are not mutually exclusive and often overlap.

They are:

- ✓ Variety based positioning,
- ✓ Need based positioning and
- ✓ Access based positioning

Variety based positioning: It is based on producing a subset of an industry's products or services. The focus, essentially, is on product or service varieties and not on customer segments.

Need based positioning: In it, the focus is on all or most of the needs of a particular group of customers. This strategy is appropriate when there are groups of customers with differing needs and when a tailored set of activities can serve these needs best. Obviously, this strategy comes closer to the strategy of targeting a particular segment of customers. Porter also points out that a variant of the need based positioning arises when the same customers have different needs on different occasions or different types of transactions.

Access based positioning: It is applicable when the needs of different sets of customers are similar but the best ways of accessibility are different due to factors like geography or customer scale.

Porter emphasised that choosing a unique position, however, is not enough to guarantee a sustainable advantage. There are two more essential conditions for ensuring sustainable advantage by preventing imitations. These are trade offs and fit. Trades off creates the need for choice and purposefully limit what a company offers. Fit locks out imitators by creating a chain that is as strong as its weakest link.

iii. Types of Buying Behaviour:

Consumer decision making varies with type of buying decision. Complex and expensive purchases are likely to involve more buyer deliberation and more participants. 4 types of consumer buying behaviour based on the degree of buyer involvement and the degree of difference among brands can be distinguished. They are:

- ➢ Complex buying behaviour - Consumer go through complex buying behavior when they are highly involved in a purchase and highly aware of significant differences among brands. Consumers are highly involved when the product is expensive, bought infrequently, risky and highly self-expressive. Typically the consumer does not know much about the product category and has much to learn.
- ➢ Dissonance - Reducing buying behavior: Sometimes the consumer is highly involved in purchase but sees little difference in the brands. The high involvement is again based on the fact that the purchase is expensive, infrequent, and risky. In this case, the buyer will shop around to learn what is available but will buy fairly quickly because brand differences are not pronounced.
- ➢ Habitual buying behavior - Many products are bought under conditions of low consumer involvement and the absence of significance brand differences. They go to the store and reach for the brand. If they keep reaching for the same brand, it is out of habit, not strong brand loyalty. Consumer behavior does not pass through the normal belief/ attitude / behavior sequence.
- ➢ Variety - Seeking buying behavior: Some buying situations are characterised by low consumer involvement but significant brand differences. Here consumers are often observed to do a lot of brand switching.

iv. Profit Impact on Marketing Strategies (PIMS):

PIMS analysis attempts to establish the profitability (i.e. return on capital) of various marketing strategies. PIMS researchers from analysing their database of at least 3000 firms, believe that 70% of the relative profit performance of an organisation, when compared to similar businesses, derives from the areas of competitive strength, market attractiveness and productivity.

A research study in the USA of 1973 found that there was a positive correlation between market share and return on investment, so that companies with higher market share earned high returns. Three possible reasons were put forward for this correlation.

- Economies of scale enables a market leader to produce at lower unit costs than competitors, and so make bigger profits.
- Bargaining power: A strong position in the market gives a firm greater strength in its dealings with both buyers and suppliers.
- Quality of management: Market leaders often seem to be run by managers of a high caliber.

However, low market share does not inevitably mean poor returns. If this were so, small firms would always make low returns, and this is simply not true. A company can prosper with a low market share in the following ways :

- Market segmentation. New market segments might be a small proportion of the total market, but profitable.
- Emphasising product quality, and charging higher prices.
- Wanting to stay small, and consciously avoiding growth.
- Cost Control.

Businesses can also earn good profits with a low market share in a low growth market in the following circumstances.

- The market is stable.
- Product innovations are rare.
- Most products are standardised.
- Companies produce supplies or components for industrial customers, and have built up a close working relationship with these customers.
- Repeat buying is frequent.
- The value added to sales ratio of the product is high.

Finally, some firms are prepared to sacrifice profitability for market share over a period of time. Some Japanese firms were willing to charge low prices to buy market share and totally weaken the competitors, whose products were not as deep.

There are practical difficulties with PIMS research, which might raise questions about its usefulness. These are as follows :

- Identifying each market segments properly. An upmarket producer is in a different market segment to a down-market cheap goods producer, and it would be wrong to classify them as competitors in the same market.
- Measuring the actual size of the market, and so the company's own market share in proportional terms.
- Establishing what returns are available from a particular market share.

It has also been argued that PIMS analysis is more relevant to industrial goods markets than to customer goods markets, where the correlation between high market share and high returns is not so strong.

v. **Target Market:**

Target market is the market segment to which a particular product is marketed; it's often defined by age, gender, geography, and /or socio-economic grouping. .In order to focus of the target market, the company needs to consider its own objectives & resources in relation to that segment Even if the segment fits the company's objectives, the company - must consider whether it possesses the requisite skills & resources to succeed in that segment.

The company also has to appraise the impact on long-run profitability of five groups: industry, competitors, potential entrants, substitutes, buyers & suppliers, before finalising its target market.

- Threat of intense segment rivalry: a segment is unattractive if it already
- contains number of strong or aggressive competitors.
- Threat of new entrants: a segment is unattractive if it is likely to attract new competitors who will bring in new capacity, substantial resources & drive for market share growth.
- Threat of substitute products: a segment is unattractive if there exists actual or potential substitutes for the product. This shall put a limit on the potential margin & profits.
- Threat of growing bargaining power of buyers: a segment is unattractive if the buyers possess strong or increasing bargaining power. Buyers' bargaining power grows when they become more concentrated or organised, when the product represents a significant fraction of the buyers' cost, when the product is undifferentiated, when the buyers are price sensitive.
- Threat of growing bargain power of suppliers: a segment is unattractive if the company's supplier-raw materials, equipments etc. - are able to raise prices or reduce the quality or quantity of ordered goods or services.

Based on the above analysis, the company can decide for undifferentiated Marketing, differentiated marketing or concentrated marketing.

Q. 3. a) Discuss how 'Gap Analysis' might be applied to a product/market situation.

b) The following information is available from the records of a company :

Particulars	Previous year	Current year
Sales (1,00,000 units at ₹ 13 each) (1,06,000 units at ₹ 13 each)	1,300	 1,378.00
Costs	1,000	1,077.40
Profit	300	300.60

You find that between the previous and current periods there was 4% general cost inflation and it is forecasted that costs will rise a further 6% in the next period. As a matter of policy, the firm did not increase the selling price in the current period although competitors raised their prices by 4% to allow for the increased costs. A survey by economic consultants was commissioned and has found that the demand for the product is elastic with an estimated price elasticity of demand for 1.5. This means that volume would fall by 1 ½ times the rate of real price increase.
Various option to be considered by the Board and you are required :

i. **To show the budgeted position if the firm maintains ₹ 13 selling price for the next period (when it is expected that competitors will increase their prices by 6%)**
ii. **To show the budgeted position if the firm also raise its price by 6%.**
iii. **To write a short report to the Board, with appropriate figures, recommending whether the firm should maintain ₹ 13 selling price or raise it by 6%.**
iv. **To write what assumptions you have used in your answers.**

Answer 3.

a. If 'gap analysis' is applied to a product/market situation, the organisation will consider its targets for different types of products it wants to manufacture and different types of markets/ market segments where it wants sell its products.

The product/market targets may be quantified —

(i) The organisation should have targets (quantitative) for its products it wants to sell, classified into —

- Those in the introductory stage of their life, those in the growth stage, those in the maturity stage and those in the decline stage (PLC classification);
- Cash cows, stars, dogs and question marks (BCG classification);
- What sort of products the organisation wants to sell, e.g. does it want a more diversified range of products?

(ii) There should also be targets for markets/market segments that the organisation would like to be in and targets for —

- Market share or market segment share (both in the existing markets and the markets it would likely to enter into);
- Market positioning - positioning is concerned with such matters as product quality, image and reliability, price, outlets, types of customers.

A projection of the organisation's products and the market shares and market positioning for each of its products would be made on the assumption that:—

- No new products are developed.
- The market mix for the existing products remains the same.

The gap could be analysed in terms of -

- What products the organisation will be missing from the product range?
- What markets/market segments it is failing to enter into?
- How far out of position in the market will the product be?

Strategies to close the gap would include -

- new product development strategies or new market development strategies;
- a strategy of product and market diversification through a takeover policy;
- a marketing mix strategy to gain the required position in target markets.

b. **i.** Price elasticity of demand (% in quantity demand ÷ % increase in price) = 1.5
When the prices fall by 4%, demand increased by 4% x 1.5 = 6%
When the prices fall by 6%, demand increased by 6% x 1.5 = 9%

Determination of fixed and variable costs :
Adjust current period cost and previous period cost = 1077.40 ÷ (1 + 4% of 1 or 1.04) = 1036
Using high and low method of determine fixed/variable cost split :

Period	Units ('000)	Cost (₹ in thousands)
Current	106	1,036
Previous	100	1,000
	6	36

Variable cost per unit = ₹ 36 ÷ 6 = ₹ 6.00
Fixed cost per unit = ₹ 1,000 – (100 x 6) = RS. 400
Variable cost per unit next period : = ₹ 6 x (1 + 4% of 1) x (1 + 6% of 1) = ₹ 6.6144
Fixed cost for next period = ₹ 4,00,000 x (1 + 4% of 1) x (1 + 6% of 1) = ₹ 4,40,960

Budgeted position, Selling price ₹ 13:

Sales : 1,06,000 units x (1 + 9% of 1) x ₹ 13 =	15,02,020
Variable cost : 1,06,000 x (1 + 9% of 1) x ₹ 6.6144 =	7,64,228
Contribution	7,37,792
Fixed cost	4,40,960
Profit	2,96,832

ii. Budgeted position, Selling price ₹ 13 + 6%:

Sales : 1,06,000 units x (1 + 6%) x ₹ 13 =	14,60,680	
Variable cost : 1,06,000 x ₹ 6.6144 =		7,01,126
Contribution		7,59,554
Fixed cost		4,40,960
Profit		3,18,594

iii. From : The Management Accountants
To : The Board of Directors
Subject : Price strategy

Following the recent survey by economic consultants, I have calculated profit for the next period based upon (a) maintaining a price of ₹ 13 and (B) increasing the selling price in line with inflation, i.e. ₹ 13 + 6% of ₹ 13 = ₹ 13.78

The first option, while increasing revenue also occurs an increase in variable costs due to the increase in volume. The overall profit is less than the profit, if option B is taken. According to option B, profit is ₹ 3,18,594.

I, therefore, recommend that the price be increased by 6%, along with those of outside competitors.

iv. Assumptions :

a. That the volumes are solely function of price changes, i.e., are not influenced by advertisement, consumer preferences and general economic conditions etc.
b. The decision makes are rational and are making decisions purely on economic factors.
c. The fixed/ variable cost shift is constant over the time.
d. The fixed and variable costs are both affected by inflation to the same degree.
e. That estimates of elasticity of demand are correct.

Q. 4. What are the different policies taken by the Government of India to improve the productivity and competitiveness of the Indian economy ?

Answer 4.

Proactive policy measures taken by the Government of India to improve the productivity and competitiveness of the Indian economy enunciated in the various sectors of the economy – real, fiscal, external, monetary and financial.

(i) Real sector policies

a. Agriculture and allied activities

Agricultural sector has remained a problem area and there has been a declaration in its growth. To arrest this trend and reverse the deceleration, number of policy inputs has been made. A National Rain Fed Area Authority (NRAA) has been created in November 2006 to support up-gradation and management of dry land and rain fed agriculture. The authority would coordinate all schemes relating to watershed development and other aspects of land use. The accelerated irrigation benefit programme is also being revamped to repair, renovate and restore water bodies in various states.

The National Agriculture Insurance Scheme (NAIS) and the National Rural Employment Guarantee Scheme (NREGS) are two important schemes which have been implemented. These have been extended to more number of villages, so that the under employment in agriculture sector is mitigated and business risk in agricultural farming due to natural calamities are also taken care of.

b. Manufacturing and infrastructure policies

If the increased activity in the manufacturing sector since 2003-2004 has to be sustained focus on upgrading the infrastructure facilities in the country is the need of the hour. Up gradation of human skills, work on golden quadrilateral, introduction of public private partnership model, increase in the power production capacity, etc, have already been identified as the areas which need robust growth in the immediate future. Spiraling of crude oil prices has had a deleterious impact on production and logistics costs through higher fuel costs. Alternatives to fossil fuel are being looked into. Wind energy is being harnessed increasingly apart from utilizing the large coal reserves available in our country. The credible alternative of producing nuclear power is one of the salient government policy. In regard to the industrial policy, the micro, small and medium enterprises development act 2006 has modified the previous act to increase the threshold investment. A new national pharmaceutical policy has also been announced during the year 2006 to strengthen drug regulatory system and patent office. The public-private partnership model has enabled greater private sector participation in the creation and maintenance of

infrastructure. Concepts of special economic zone are under introduction and there have been a lot of hiccups in this area. New modifications are on the anvil to take care of the displaced landowners as also protection of the fertile lands. The information technology amendment bill 2006 will put in place technology applications, security practices and procedures relating to such applications.

(ii) Fiscal policy

While preparing a policy to take care of the robust growth of the economy it has also been necessary to introduce fiscal corrections to reduce the fiscal deficit. Government of India subjected itself to a fiscal discipline for reducing deficits in the key areas viz, revenue, fiscal and primary. The tax base is being broadened to include more and more new services in the tax net. Personal taxation is being reduced so that the disposable incomes are bigger and savings grow. Introduction of value added tax (VAT) in various states has been a significant success and is expected to usher price stability as well as improved earnings to the various states through higher volumes.

(iii) External sector policies

Foreign trade policy of 2004-2009 was modified through an annual supplement in 2007 for deepening the incentives provided for focused products and markets. For simplifying and liberalizing the external payments regime and deepen the foreign exchange market the recommendations of the committee of Fuller Capital Account Convertibility have been considered by the Government of India and certain policy initiatives have been undertaken. They relate to increase in overseas investment limits for joint ventures/wholly owned subsidiaries abroad by Indian companies, higher portfolio investment limits for Indian companies/domestic mutual funds, higher ceilings for investments by foreign institutional investors in Government securities and enhanced repayment limits for external commercial borrowings.

(iv) Monetary policies

The necessity to balance the growth of economy with containing inflationary pressures has guided the monetary policy. The Reserve Bank of India (RBI) have taken its stance on the monetary policy to continue to reinforce the emphasis on price stability and well anchored inflation expectations and there by sustain the growth momentum contextually, financial stability may assume greater importance in the near future. RBI has been managing this area with the cash reserve ratio (CRR) on one-hand and Repo rates on the other. The interest rates are being modified whenever necessary on the basis of the monitoring exercise on rates of inflation.

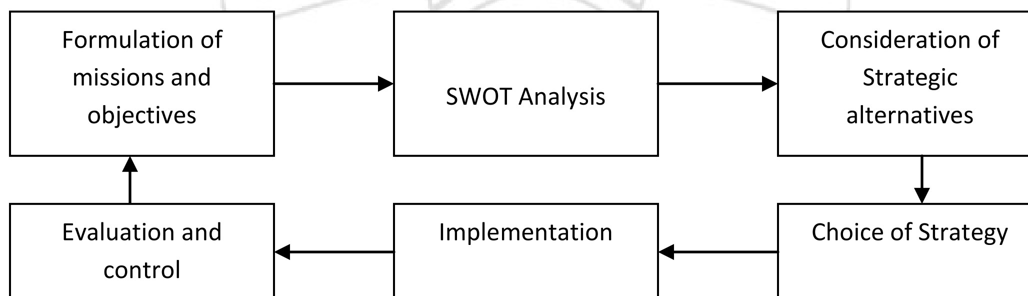
(v) Financial sector policies

In view of the critical role played by the financial sector in supporting the robust growth of economy, RBI have tightened provisioning norms and risk weights to ensure asset quality, strengthened the accounting and disclosure norms for greater transparency and discipline. Final guidelines for the implementation of the new capital adequacy framework have been issued. Alongside its initiatives to strengthen the financial sector the RBI continue to take measures for protecting customers' rights and enhancing the quality of customer service.

Q. 5. The strategic management process encompasses three phases-strategy formulation, implementation, and evaluation and control. —Discuss.

Answer 5.

1. The strategic management process encompasses three phases which together involve a number of systematic steps. These three phases are strategy formulation, implementation and evaluation and control.



Strategy formulation:
This phase involves four important steps, viz,
(i) determination of missions and objectives;
(ii) analysis of strengths and weaknesses of the firm and-the environmental opportunities and threats (SWOT Analysis);
(iii) generation of alternative strategies, and
(iv) choosing the most important strategy.
Strategic management can be defined as the art and science of formulating implementing and evaluating cross-functional decisions that enable an organisation to achieve its objectives. And, strategy is a means to achieve these objectives. It is, thus quite obvious that determining the mission' (which influences objectives) and objectives is the first step in strategy formulation.
The mission defines the broad social purpose and scope of the organisation whereas objectives more specifically define the direction to achieve the mission. Objectives help translate the organisational mission into results. While objectives may be generic in their expression, goals set specific targets to be achieved within a time frame.
In Strategic Management, the term strategic is used to mean 'pertaining to the relation between the firm and its environment'. This indicates the role of SWOT Analysis in Strategic Management. The strengths and weaknesses of the firm and opportunities and threats in the environment will indicate the portfolio strategy and other strategies it should pursue.
An organisation should address questions such as what are the changes (including possible future changes) in the environment which can be exploited utilising its strengths? What are the threats and does it have the strength to combat the threats? How can it mobilise its strength? What are its weaknesses? Can it overcome or minimise its weaknesses?
Given the mission and objectives and having analysed the strength and weaknesses of the firm and the environmental opportunities and threats, the strategists should proceed to generate possible alternative strategies. There may be different strategic options for accomplishing a particular objective. It is necessary to consider all possible alternatives to make the base for choice wide.
The purpose of considering different strategic options is to adopt the most appropriate strategy. This necessitates the evaluation of the strategic, alternatives with reference to certain criteria like suitability, feasibility and acceptability.
Implementation: Operationalising the strategy requires transcending the various components of the strategy to different levels; mobilising and allocation of resources; structuring authority, responsibilities, tasks and information flows; and establishing policies. Strategy implementation, often described as the action phase of the strategic management process, covers strategy activation and evaluation and control. Strategy is a blue print indicating the course of action to achieve the desired objectives. The objectives are achieved by proper activation of the strategy. The activation or implementation step in the strategic management encompasses the operational details to translate the strategy into effective practice - communicating and motivating; setting goals; formulating policies and functional strategies; organisational structuring; leadership implementation and resource allocation.
A good strategy by itself does not ensure success. The success depends, to a very large extent, on how it is implemented. Many strategies fail to generate the expected results because of the failure to properly implement the strategy. Strategy implementation is more operational in character, requires special skills in motivating and managing others, permeates all hierarchical levels and requires co-ordination among many.
The implementation process varies considerably between different types and sizes of organisations. The transition from strategy formulation to strategy implementation requires a shift in responsibility from strategists to divisional and functional managers. Implementation problems can arise because of this shift in responsibility specially if strategy- formulation decisions came as a surprise to the middle-level and lower-level managers.
Some writers break the strategy implementation phase into three components, viz.
(i) operationalising the strategy (communicating strategy, setting annual objectives, developing divisional strategies and policies, and resource allocation);
(ii) institutionalising the strategy (organisational structuring and leadership implementation)
(iii) evaluation and control of the strategy.

Evaluation and Control:

It is the last phase of the strategic management process. The objective is to examine whether the strategy as implemented is meeting its objectives and, if not, to take corrective actions. Continuous monitoring of the environment and implementation of the strategy is essential. In the diagram, the loop connecting the evaluation and control to the starting point of the strategic management process indicates the strategic management is a continuous process, the evaluation providing the feedback for modifications.

The traditional approach to control is to compare the actual performance with the standards established and to take corrective measures if there are deviations. This reactive measure is not sufficient to control a strategy that takes a long period for implementation and to produce results. The uncertain future environment makes continuous evaluation of the planning premise and strategy implementation necessary.

Competition for the future is different from competition for the present. It is necessary to exercise strategic control which is concerned with tracking the strategy as it is being implemented, detecting problems or changes in underlying premises, and making necessary adjustments. In contrast to past-action control, strategic control is concerned with controlling and guiding efforts on behalf of the strategy as action is taking place and while the end result is still several years into the future.

There are two broad types of control -strategic control and operational control. Strategic control augmented by operational control makes strategic implementation more effective. While strategic controls attempt to steer the company over extended time period (usually five years or more), operational controls provide post-action evaluation and control over short time periods (usually from one month to one year).

The basic types of strategic control-are - premise control, implementation control, strategic surveillance and special alert control. The basic types of operational control are - budgeting, scheduling, and focusing on key factors.

Q. 6. Corporate growth requires strategic direction and conscientious management. Throughout the growth process, management is faced with complex problems and has to take various strategic decisions relative to products, markets, operations and resources – In this context,

a) Explain the term 'growth strategy', and

b) Identify and discuss some of the strategies adopted in the pursuit of corporate growth.

Answer 6.

a) According to Ansoff and Stewart, 'a growth strategy is one that an enterprise pursues when it increases its level of objectives upward in a significant increment. Much higher than an extrapolation of its past achievement level. The most frequent increase indicating a growth strategy is to raise the market share and/or sales objective upward significantly'. They are of the view that at least three reasons are dominant in the pursuit of a growth strategy :

i. In volatile industries, growth is a necessity for survival;
ii. To many executives, growth is equated with effective performance; and
iii. As an objective, growth is the important one.

A company pursuing a growth strategy will always strive for better results every year than the previous year in the areas of production, sales and profits.

b) Strategies in pursuit of corporate growth :

The growth strategies listed below are relevant in the early stage of potential development :

1. Hold relative position in high-growth product/ markets.

The growth associated with the strategy is directly attributable to the growth in demand for the product/ service being produced by the firm. Ability to remain competitive in terms of product development, promotion and advertising and distribution as well as in terms of productive capacity is the key to this strategic choice. A principal risk inherent in this strategy is that a competitor may embark on a preemptive strategy designed to capture market share. This risk is relatively high when the product is in about the mid-range of the growth stage of product life

cycle. Those firms which have the greatest capacity to assume the financial risks associated with preemptive capacity expansion are most likely to adopt this strategy.

2. Increase market share in high-growth market.
This strategy is highly suitable for commodity –type products. Essential to the success of this strategy is 'getting there first'. This strategy demands management's ability to significantly differentiate the products from those of competitors, associated with aggressive investment in advertising and distribution etc.

3. Increase market share in mature markets.
Two major approaches are seen to be employed to capture market share in slow-growth markets. These are as follows –

a. Rationalizing production in a way that will achieve cost leadership, and thereby yielding higher margins than those enjoyed by competitors. Reducing the number of models in the product line and taking market-related competitive moves such as 'price-cut' are envisaged in this approach.
b. Segmenting the market in search for high growth potential segments and reallocating resources to those segments that will result in a product-mix - which in the aggregate is superior to that of competitors in terms of growth potential.

4. Hold strong relative position in mature market, use 'excess' cash flow, funds capacity and other resources to support penetration of multinational markets with existing product line.
Any management deciding on this strategy typically expose its firm to a wide variety of patterns of opportunity and risk. For most Indian managements, moving their firm's resources into the multinational market arena opens a bewildering array of new uncertainties including complexities of international money markets and global politics.

5. Hold strong relative position in maturing market; use 'excess' cash flow, external funds capability, and other resources to support penetration of new product/ market areas domestically.
The management of a firm deciding to follow this strategy can do so either by developing new products internally or by acquiring firms with already developed products and perhaps, market positions. The latter approach is typically the faster and less risky. It, however, requires larger initial investment.

6. Hold strong relative position in multinational markets with present product line; use 'excess' cash flow, funds capability, and other resources to diversify products.
This strategy leads to the formulation of the multi-market/multi – product strategies. The approach of it is that : having already achieved geographic market diversification, managers striving for further growth for their firms must begin to think about product diversification.

7. Hold strong relative position in diversified product – line domestically; use 'excess' cash flow, funds capability, and other resources to diversify markets.
With this strategy, corporate managers view each of the product lines as in growth strategy 4 above. Several product lines instead of one product line pose additional complexity here. Thus, plans for geographic expansion in relation to one product line must be carefully integrated from all functional and geographic perspective with such plans for the other product lines.

Q. 7. Define 'marketing mix' and explain its main features.

Answer 7.
Marketing mix is a term used by Prof. Macarthy in mid 1960's. Some definitions on this term are given below :

a. "Marketing mix refers to the amounts and kinds of marketing variables the firm is using at a particular time." (Philip Kotler)

b. “The marketing mix refers to the apportionment of the effort, the combination, the designing and integration of the elements of marketing into a programme or mix which on the basis of an appraisal of the market force will best achieve the objectives of an enterprise at a given time.” (Prof. N.H. Bordon)

c. “Marketing mix is the combination of the four inputs which constitutes the core of a company’s marketing system – the product, the price structure, the promotional activities, and the distribution system (place).” (Stanton)

Thus, the term marketing mix refers to a combination of marketing decisions which are aimed at stimulating sales and constitutes a firm’s marketing system in a global sense. It denotes and consists of a well-designed plan that analyses the important forces having direct linkage with the firm’s marketing operations and that outlines and implements policies relating to the firm’s marketing programme through co-ordination of available resources such as sales promotion, advertising, personal sales, service, distribution, etc. The concept includes “Four P’s” i.e. right product, right place, right promotion and right place.

Features of marketing mix - A product must be such as to satisfy the needs and wants of the consumer. The price of the product must be reasonable so as to enable the consumer to pay for the product. If it is exorbitant, most of the consumers reject it. Also the promotion such as advertising and personal selling must be right without exaggerating the advantages of the product. And place means transportation and channels of distribution.

These four P’s are now widely discussed by the marketing executives because any one variable of them is of no use. Every element of the marketing mix must be planned with demographic profile in mind. The product design, price, advertising media, sales promotion tools and distribution channels will often be different depending upon whether the target market is young, and so on. Marketing plan must be based on the characteristics of the best planners, thus, look first at demographic characteristics since these are usually more available, reliable, and actionable than other types of characteristics. Changes in one or more demographic characteristics of the population often prompt a business firm or an entrepreneur to offer some new product or service aimed at the changing segment.

The marketing manager in the interest of his business firm has to arrange and co-ordinate the marketing in such a way that would advance harmonise development of each of the above P’s.

Q. 8. Why Environmental Scanning? Explain in detail.

Answer 8.
Environmental scanning also referred as the basic monitoring system, is the process of monitoring economic, competitive, technological, socio-cultural, demographic and political setting to determine opportunities for and threats to the firm. Such an analysis involves information compiling, processing and forecasting the above conditions.
Scanning of environmental forces is a stupendous task in view of their rapidly changing character. This is much more different in the case of international environment which is highly complex, turbulent and tumultuous. Even then this exercise is undertaken by every firm and more so by a multinational firm if it has to survive successfully and grow amidst highly volatile and dynamic environment. Failure to monitor and evaluate the external environment in today’s world can have serious and a very negative consequence.
A multinational firm can set its future directions and targets of performance and formulate the most suitable strategy only when it has been able to visualise and perceive the opportunities and constrain in store for it. Visualisation and perception of business opportunities and threats arising out of developments inside and outside the country are, therefore essential for comprehensive environmental scanning because both the favourable and unfavorable components are inherent in the overall environment.

The environment may offer major profit opportunities due to anticipated economic, socio-political and industrial trends and new opportunities in the market/product/customer segments which the company can readily exploit particularly in the case of technological advances. In the same vein, an economic downturn, an adverse social or political condition, structural changes in an industry, market decline or product obsolescence, competitive threats and, above all, tight financial market can pose considerable treats that greatly limit a company's range of choices.

The entire environmental frame work and its component parts, are dynamic and the pace of change is tremendous and such as change affects the market for the firm's present products, the prospects for future and market choices. The environmental changes may threat on the established strategies and call upon the management to be alert to the possibility that the opportunity they have seized will soon expire. They may also provide new opportunities in terms of new market needs which the management can satisfy. No international firm can remain oblivious to these environmental developments which are relevant to its own sphere of operation. It has not to adjust itself in consonance with environmental changes. In order to respond the environment, the management should attempt to predict changes in different environmental forces and discern the opportunities and threats emanating from changes in the environment. It is inevitable because it takes sometime for the enterprise to bring about necessary changes in the organisation. The more energy in international firm devotes to environmental appraisal, the greater is the capacity to survive.

Environmental appraisal enables the firm to get clear idea about the existing competitors, their current operations and future plans. This is inevitable if the firm has to formulate strategy to counteract the competitors' moves. If the competitor is on something, it needs to be investigated, otherwise the competitor's move could lead to his pulling ahead, growing faster and becoming more profitable. Assessment of the foreign competitive situation also is important while considering any foreign environment. It will always be in the interest of the international firm to ascertain how many local rivals are there and how good they are, if the rivals are very efficient and their products excellent and their marketing superb, then the situation is much different than if there are no competitors, or if the firms in the country are inefficient. A multinational firm scanning alternative possibilities might well avoid a country, at least temporarily that offers strong domestic or other foreign competition. This is especially true if the market is relatively small or saturated.

Environment appraisal enables the management to predict future development to make the invisible more visible and, thus, lessen the uncertainty about the future in the face of spectacular, powerful and rapid environmental changes. Those who foresee the critical changes that affect the firm will have a far better chance of being successful than those who will hot be able to do so.

Thus, the management has to search the environment to determine which factors pose threat to the firm's present product-market strategy and accomplishment of objectives and which environment forces present opportunities for greater accomplishment of objectives by adjusting the firm's current strategy. No organisation can afford to ignore changes in technology, competitive environment, government policy or changes in social values. If it does not react to the demands of the environment by changing its strategy, it is counting decline or extinction.

Input-output relationship between a firm and environment also necessitates environmental scanning. A firm, in order to function, must produce various inputs as human, capital, managerial, and technical from the environment. These inputs are then converted into goods and services and made available to those living in the environment. Thus, firm's operations regarding acquisition of quantum and kinds of input and distribution of output are subject to environmental influences.

The management must also scan the environment of home as well as host countries so as to fund out what are the diverse claims and expectations of different sections of the society which the firm has to fulfill in order to be socially acceptable. .These claims need to be accorded due weight age while formulating overall as well as subsidiary level objectives, policies and strategies.

While scanning environment the management must remember that such an appraisal facilitates spotting of opportunities at the level of an industry rather than at firms or products level. As a result of this aggregation, management decision loses the sharpness needed for choosing a particular product-market. Furthermore, environmental analysis fails to answer whether the desired economic and technological potential existing within a particular industry will be available to the firm. The prospects in an industry as a whole are not necessarily the same for an individual firm particularly when the total industry capacity substantially exceeds the demand. Along with this, the determination of opportunities or threats is often as much a function of the perception and the

attitude of the management as it is of the factor itself. For example, there are two factors, viz., increased government interference and competition increasingly centered on technical specification of the control system as well as the machine. To the management wedded to a philosophy of no government intervention of any type, both factors appear to be a threat. However, to the management with less rigid attitudes a great opportunity is opened up in terms of a chance to break into an existing competitor's historical preserve by product innovation for which the government subsidises part of the best and also instigates the risk through adverse orders for prototypes or trail in factories. Thus, both factors seem equally valid and yet the same basic factors are merely viewed with different attitudes. To the enterprising arrangement, all changes offer new opportunities and the change to generate new alternatives for an existing business.

Q. 9. If the first commandment in marketing is 'know the customer', second is 'know the product'. Explain.

Answer 9.

Product definition : A 'product' is a thing which is bought and sold in the market. Prof. Stanton defines the term 'product' as "a complex of tangible attributes, including packing, colour, price, manufacturer's and retailers' prestige, and manufacturers' and retailers' services which the buyer may expect as offering satisfaction of wants or needs." So, a company's product can be described in two ways : (i) by its physical characteristics and (ii) by its functions or uses.

From the aspect of physical characteristics, a product offered to the market includes physical objects, services, amenities and satisfaction. From the user's point of view, a product is the right to own or use a bundle of need satisfactions.

Of the four elements of marketing mix (i.e. product, price, promotion and place), the product is the main element without which other elements have no role to play. The method of describing a product has an important implication for the whole marketing philosophy of the manufacturing company.

Product – why important in marketing : The knowledge of product is important in marketing in the sense that there can be no marketing functions without the existence of a product.

A product assumes its importance in consideration of following facts :

(i) The key element in a successful marketing policy and strategy is finding and meeting the needs of the consumers. A product through its tangible attributes like quality, services and amenities can meet the consumers' needs and wants.

(ii) For the performance of marketing functions like selling, purchasing, distribution, etc., the existence of a product is a must.

(iii) The success of a company of its marketing efforts, in most cases, depends on the product policy.

(iv) The policies relating to pricing, distribution, sales promotion, and customer satisfaction are all dependent on the product policy.

(v) The study of market size, sales volume, profits and profitability, and their growth or decline which serve as effective guide to the marketing management – are all done always in consideration of the product.

(vi) It is the knowledge of the product, whether consumer category or industrial category, that has led to the concept of product and marketing guided organization structure.

The product is probably the bread and butter of a company's profit. It should receive close attention throughout its life cycle. The product or brand manager should pay day-to-day attention to the product's market behaviour during its introduction to maturity to growth life and bring forth new uses or applications to lengthen its life.

The producers must know the market and customers' needs, no doubt; but at the same time, they must know and understand the qualities of a product that can satisfy the customers.

Q. 10. According to Porter, what are the three generic strategists in multiple SBU firms? Also discuss the areas of concern.

Answer 10.

Porter's Generic Strategies :

There are many sources of a sustainable competitive advantage, and many ways to achieve one. Porter shows that low cost, differentiation, and focus are three generic strategies available to fIrms to achieve a sustainable competitive advantage.

The overall cost leadership position can be achieved through a large market share or through other advantages such as favorable access to raw materials or state-of-the-art manufacturing equipment. The differentiation strategy can be implemented by creating a higher quality image through technology, innovation, features, a customer service dealer network, and so on.

The third strategy involves focusing the business upon either a relatively small buyer group or a restricted portion of the product line. Even with the focus strategy, however, the fIrm still must apply either a differentiation or a low-cost strategy. Thus focusing is not so much a different strategy, but restricting or focusing the business can sometimes be central to success. and it is worth explicitly identifying it as a distinct strategy.

Cost-leadership strategy. This strategy is also known as low-cost strategy. It is designed to outperform competitors by producing goods and rendering services at a lower price than the competitors can. It is an advisable strategy when you are an industry leader or the product differences in the market are not clear to consumers. This strategy will produce larger profits than the competition makes and will put the business in a position to fight off price wars. As development costs go down, the sales volume goes up. For example, Southwest Airlines, which traditionally served a limited market, adopted this strategy. The company uses one type of airplane (Boeing 737) and provides no meals, no assigned seating, and reusable boarding passes. Other company examples are McDonald's, Burger King, Kmart, Lowe's, and Wal-Mart. Some of the high-tech companies adopted low cost strategies because of the continuous changes and breakthroughs in that industry. The prices of semiconductors, computers, and other communication devices (such as satellites) have been dramatically decreasing over the years.

Cost leaders offer to customers only products that are proven to be wanted and therefore the company seeks to gain market share. These businesses do not spend large amounts for development but do develop unique ways to produce the products or services that will result in reduced costs. Examples of such cost reductions are: large sales orders, which would allow for longer production runs and allow for volume buying of materials at discounts; a stable customer base, allowing for planning of production runs; and the use of tight budget controls in the production process. Businesses using this strategy make all efforts to contain their costs in production, marketing, and distinctiveness through a mind-set of cost minimization. The idea behind an overall cost leadership strategy is to be able to produce and deliver the product or service at a lower cost than the competitors. Cost leadership is usually attained through a combination of experience and efficiency. More specifically, cost leadership requires close attention to production methods, marginal overhead costs, and overall cost minimization in areas such as sales and research and development. A cost leadership strattegy is attractive for a number of reasons, including the following :

1. Giving the firm above-average returns even in the face of strong competitive force
2. Defending the firm against rivalry from competitors because it is difficult for competitors to force the firm out on the basis of price
3. Guarding the firm against powerful suppliers by providing flexibility to deal with input cost increases
4. Defending the firm against powerful buyers because buyers can exert pressure only to drive prices down to the level of the next most efficient competitor
5. Providing substantial barriers to entry (such as expensive production equipment)
6. Putting the firm in a favorable position to defend against substitutes from the firm's competitors.

Achieving an overall low-cost position usually requires that the company develop some unique advantage or advantages over its competitors. Examples include a high market share, favorable access to raw materials, use of state-of-the-art equipment, or special design features that make the product easy to manufacture.

Differentiation strategy :

This strategy attempts to make products or services seem unique in the customer's eyes. This perceived uniqueness will enable the business to charge premium prices when customers are deemed to be satisfied. Premium prices mean that the business should have above-average returns and outperform its competition. The less the product resembles others, the more it is protected from competition and the wider its market appeal is. An example of this strategy is to have the customer perceive that the luxury automobile Lexus is far superior to Honda automobiles. Other examples include the following :

- Superiority brand image (Izod or Polo in sportswear)
- Design image (Tiffany in glassware)
- Technology (Hewlett-Packard in small computers)
- Quality image (Mercedes, BMW, or Rolls-Royce in cars; May tag quality and dependability; KitchenAid appliances; Coca-Cola and the positive image that firm is associated with; Xerox and its high-quality image)
- Customer service (IBM in office equipment and computers, Sears in home appliances)
- Dealer network (Caterpillar and John Deere)
- Any combination of these

In the differentiation strategy, the company will still attempt to control costs of production, although marketing costs may be significantly higher in order to develop brand loyalty. The main problem for this type of business is to maintain its perceived uniqueness in customers' eyes in an age when uniqueness is imitated and copied by competitors.

Following a differentiation strategy does not imply that the business should have little concern for costs, but rather that the major competitive advantage is sought through differentiation. Differentiation has several potential advantages:

1. It can provide protection against competition because of brand loyalty by customers and their resulting willingness to support higher prices for brand items.
2. It can increase margins because of the ability to charge a higher price.
3. Through higher margins, it can provide flexibility for dealing with supplier power (such as raising the cost of raw materials).
4. It can mitigate buyer power because there are no comparable alternatives.
5. It can provide entry barriers for competitors as a result of customer loyalty and the need for a competitor to overcome product or service uniqueness.
6. Because of customer loyalty, it can put the company in a favorable position to defend against substitutes from competitors.

Depending on what is required to achieve differentiation, a company may or may not find it necessary to incur relatively high costs. For example, if high-quality materials or extensive research is necessary, the resulting product or service will create a willingness on the part of the customers to pay the premium price. While such a strategy can be very profitable, it may or may not preclude gaining a large share of the market. For example, Rolex demands a very high price for its watches and makes a profit, but it has a very small share of the market. In contrast, IBM generally demands some higher prices than its competitors and still maintains a large market share.

Focus strategy : A third generic competitive strategy is to focus on a particular market segment. A particular buyer group, a geographic market segment, or a certain part of the product line may define the segment sought. As opposed to low cost and differentiation strategies, which have an industry-wide appeal, a focus strategy is based on the premise that the firm is able to serve a well-defined but narrow market better than competitors who serve a broader market. The basic idea of a focus strategy is to achieve a least-cost position or differentiation, or both, within a narrow market. The company in this strategy focuses on small-volume custom products or services and leaves the large-volume standardized market to the cost leader. Small speciality companies exploit a gap in the market and develop a product the customers want. These companies may eventually become large companies using the cost leadership strategy.

Gucci has followed a focus strategy by targeting that segment of the ladies' handbag industry that is attracted by exclusivity. In the automobile industry, Lamborghini has focused on the sports car market. After a company has decided on its market segment, it can use either a differentiation or a low-cost marketing approach. The differentiation approach means that the organization competes on the key differentiation in its industry, but in just one or a few aspects. The focused organization can only compete on a limited number of aspects because competing on numerous aspects would bring it into direct competition with stronger key differentiators. In the low-cost approach, the focused company competes with the cost leader of the industry in one of two ways. First, the focuser may be able to sell locally produced products to its small segment at a lower cost than the industry's cost leader. The focused company could also compete by offering custom-made products that the cost leader is unable to supply.

The three generic strategies each provide defenses against forces in the economic environment. The firms that develop one of these strategies will earn higher than average returns in their industries. The implication is that firms that do not develop one of the basic strategies will earn lower than average returns in their industries. Porter calls this being "stuck in the middle." Such a firm lacks the market share, capital investment, and resolve to use the low-cost strategy or the industry-wide differentiation necessary for low-cost position in a more limited sphere.

If some of the firms in an industry follow one of the three basic strategies and earn higher than average returns, then some firms in the industry must be earning lower than average returns (not all firms can perform above average). The in-between firms lose all the high-margin business. They cannot compete well for high-volume business from customers who demand low prices, for the high-margin business of the differentiated fmns, nor for the low-cost or focus-differentiated businesses.

The high returns are earned by the industry-wide firms with large market shares (the low cost and differentiated firms) and the firms that are focused with small market shares. Those firms in between, in terms of market share, earn lower than average returns. The result is a U-shaped curve. John Deere is the industry leader and earns high returns. However, small specialty manufacturers such as Hesston and New Holland also earn high returns. Massey Ferguson and J.1 Case are trapped in the valley, and International Harvester has a substantial market share, but earns low returns.

Areas of Concern :

At the conceptual level, Porter's theory of generic strategy can be condensed into two propositions :

(1) there are only three generic and comprehensive strategies, and (2) success depends upon using only one of the three generic strategies. Although generic strategy is valuable to many organizations and has provided a real contribution to business literature, several questions arise. First, the generics are viewed as separate and completely distinct from one another (each strategy is mutually exclusive). Second, the framework fails to show techniques that could be employed to shift from one strategy to another. Third, although Porter's generic strategies are based on earlier work, they lack theoretical or empirical substantiation. Fourth, Porter, along with others, believes that competing simultaneously with low cost and differentiation is inconsistent. This means that when a business emphasizes differentiation, it cannot maintain low cost at the same time. Also, a business that keeps costs low cannot produce significantly differentiated outputs.

The fact is that many empirical and theoretical studies demonstrate that a dual emphasis on low costs and differentiation can result in high performance. A low-cost differentiation strategy can be effective if the company provides an environment in which the strategy begins with an organizational commitment to quality process, products, and services. When a company provides high-quality output, it immediately differentiates itself from its competitors. Inevitably, customers are drawn to high-quality products and services. This will result in a higher demand for the company's output. It follows an increase in market share leading to economies of scale, thereby permitting lower per-unit cost in the company's overall cost structure. The successes of Anheuser-Busch, General Electric, Coca-Cola, and Pepsi-Cola support this scenario. All of these companies have differentiated their outputs through offering high-quality products while simultaneously maintaining low per-unit cost operations

Q. 11. Discuss how competitive forces shape strategy?

Answer 11.

The essence of strategy formulation is coping with competition. Yet it is easy to view competition too narrowly and too pessimistically. While one sometimes hears executives complaining to the contrary, intense competition in an industry is neither coincidence nor bad luck.

Moreover, in the fight for market share, competition is not manifested only in the other players. Rather, competition in an industry is rooted in its underlying economics, and competitive forces exist that go well beyond the established combinations in a particular industry. Customers, suppliers, potential entrants, and substitute products are all competitors that may be more or less prominent or active depending on the industry.

The state of competition in an industry depends on five basic forces, which are diagrammed in figure. The collective strength of these forces determines the ultimate profit potential of an industry. It ranges from intense in industries like tires, metal cans, and steel, where no company earns spectacular returns on investment, to mild in industries like oil-field services and equipment, soft drinks, and toiletries, where there is room for quite high returns.

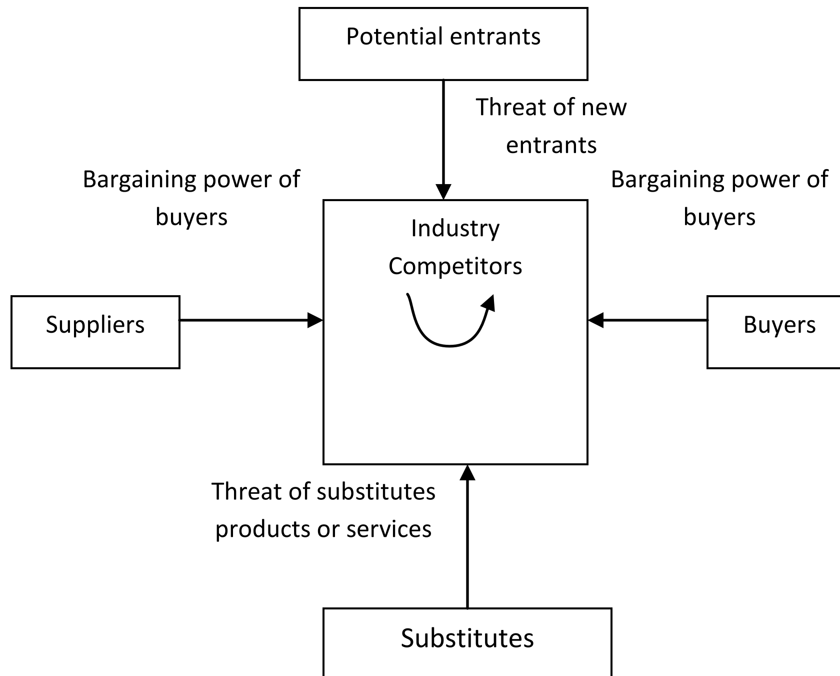
In the economists “perfectly competitive” industry, jockeying for position is unbridled and entry to the industry very easy. This kind of industry structure, of course, offers the worst prospect for long-run profitability. The weaker the forces collectively, however, the greater the opportunity for superior performance.

Whatever their collective strength, the corporate strategist’s goal is to find a position in the industry where his or her company can best defend itself against these forces or can influence them in its favour. The collective strength of the forces may be painfully apparent to all the antagonists, but to cope with them, the strategist must delve below the surface and analyse the sources of competition. For example, what makes the industry vulnerable to entry? What determines the bargaining power of suppliers?

Knowledge of these underlying sources of competitive pressure provides the groundwork for a strategic agenda of action. They highlight the critical strengths and weaknesses of the company, animate the positioning of the company in its industry, clarify the areas where strategic changes may yield the greatest payoff, and highlight the places where industry trends promise to hold the greatest significance as either opportunities or threats.

Understanding these sources also proves to be of help in considering areas for diversification.

Forces driving Industry competition:



Contending Forces: The strongest competitive force or forces determine the profitability of an industry and so are of greatest importance in strategy formulation. For example, even a company with a strong position in an industry unthreatened by potential entrants will earn low returns if it faces a superior or a lower cost substitute product as the leading manufacturers of vacuum tubes and coffee percolators have learned to their sorrow. In such a situation, coping with the substitute product becomes the number one strategic priority.

Different forces take on prominence, of course, in shaping competition in each industry. In the ocean going tanker industry the key force is probably the buyers (the major oil companies), while in tires it is powerful OEM buyers coupled with tough competitors. In the steel industry the key forces are foreign competitors and substitute materials.

Every industry has an underlying structure, or a set of fundamental economic and technical characteristics, that gives rise to these competitive forces. The strategist, wanting to position his company to cope best with its industry environment or to influence that environment in the company's favour, must learn what makes the environment tick.

This view of competition pertains equally to industries dealing in services and to those selling products. To avoid monotony in this article, I refer to both products and services as "products". The same general principles apply to all types of business.

A few characteristics are critical to the strength of each competitive force.

Threat of Entry: New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. Companies diversifying through acquisition into the industry from other markets often leverage their resources to cause a shape-up, as Philip Morris did with Miller beer.

The seriousness of the threat of entry depends on the barriers present and on the reaction from existing competitors that the entrant can expect. If barriers to entry are high and a newcomer can expect sharp retaliation from the entrenched competitors, obviously he will not pose a serious threat of entering.

There are six major sources of barriers to entry:

1. **Economies of Scale:** These economies determine entry by forcing the aspirant either to come in on a large scale or to accept a cost disadvantage. Scale economies in production, research, marketing, and service are probably the key barriers to entry in the mainframe computer industry, as Xerox and GE sadly discovered. Economies of scale can also act as hurdles in distribution, utilisation of the sales force, financing and nearly any other part of a business.
2. **Product Differentiation:** Brand identification creates a barrier by forcing entrants to spend heavily to overcome customer loyalty. Advertising, customer service, being first in the industry, and product differences are among the factors brand identification. It is perhaps the most important thing is soft drinks, over-the-counter drugs, cosmetics, investment banking, and public accounting. To create high fences around their business, brewer's couple brand identification with economies of scale in production, distribution, and marketing.
3. **Capital Requirements:** The need to invest large financial resources in order to compete creates a barrier to entry, particularly if the capital is required for unrecoverable expenditures in up-front advertising or R & D. Capital is necessary not only for fixed facilities but also for customer credit, inventories, and-absorbing start-up losses. While major corporations have the financial resources to invade almost any industry, the huge capital requirements in certain fields, such as computer manufacturing and mineral extraction, limit the pool of likely entrants.
4. **Cost Disadvantages Independent of Size:** Entrenched companies may have cost advantages not available to potential rivals, no matter what their size and attainable economies of scale. These advantages can stem from the effect of the learning curve (and of its first cousin, the experience curve), proprietary technology, access to the best raw materials sources, assets purchased at preinflation prices, government subsidies, or favourable locations. Sometimes cost advantages are legally enforceable, as they are through patents.
5. **Access to Distribution Channels:** The new boy on the block must, of course, secure distribution of his product or service. A new food product, for example, must displace others from the supermarket shelf via price breaks, promotions, intense selling efforts, or some other means. The more limited the wholesale or retail channels are and the more that existing competitors have these tied up, obviously the tougher that entry into the

industry will be. Sometimes this barrier is so high that, to surmount it, a new contestant must create its own distribution channels, as Timex did in the watch industry in the 1950s.

6. **Government Policy:** The government can limit or even foreclose entry to industries with such controls as license requirements and limits on access to raw materials. Regulated industries like trucking, liquor retailing, and freight forwarding are noticeable examples, more subtle government restrictions operate in fields like ski-area development and coal mining. The government also can play a major indirect role by affecting entry barriers through controls such as air and water pollution standards and safety regulations.

The potential rival's expectations about the reaction of existing competitors also will influence its decision on whether to enter. The company is likely to have second thoughts if incumbents have previously lashed out at new entrants or if.

The incumbents possess substantial resources to fight back, including excess cash and unused borrowing power, productive capacity, or clout with distribution channels and customers.

The incumbents seem likely to cut prices because of a desire to keep market shares or because of industry wide excess capacity.

Industry growth is slow, affecting its ability to absorb the new arrival and probably causing the financial performance of all the parties involved to decline.

Q. 12. Discuss Strategic alliances. What are its advantages and disadvantages?

Answer 12.

Strategic alliances are distinguished from joint ventures because the companies involved do not take an equity position in one another. In many instances, strategic alliances are partnerships that exist for a defined period during which partners contribute their skills and expertise to a cooperative project. For example, one partner provides manufacturing capabilities while a second partner provides marketing expertise. Many times, such alliances are undertaken because the partners want to develop in-house capabilities to supplant the partner when the contractual arrange-ment between them reaches its termination date. Such relationships are tricky because, in a sense, the part-ners are attempting to "steal" each other's know-how.

In other instances, strategic alliances are synonymous with licensing agreements. Licensing involves the transfer of some industrial property right from the U.S. licensor to a motivated licensee in a foreign country. Most tend to be patents, trademarks, or technical know-how that are granted to the licensee for a specified time in return for a royalty and for avoiding tariffs or import quotas. Bell South and U.S. West, with various marketing and service competitive advantages valuable to Europe, have extended a number of licenses to create personal computer network in the United Kingdom (U.K.).

Objective	Major Questions
1. Assess and value partner knowledge	• What were the strategic objectives in forming the alliance? • What are the core competencies of our alliance partner? • What specific knowledge does the partner have that could enhance our competitive strategy?
2. Determine knowledge accessibility	• How have key alliance responsibilities been allocated to the partners? • Which partner controls key managerial responsibilities? • Does the alliance agreement specify restrictions on our access to the alliance operations?
3. Evaluate knowledge tacitness and ease of transfer	• Is our learning objective focused on explicit operational knowledge? • Where in the alliance does the knowledge reside?

	• What we are trying to learn and how we can use the knowledge?
4. Establish knowledge connections between the alliance and the partner	• Are parent managers in regular contact with senior alliance managers? • Has the alliance been incorporated into parent strategic plans? • What is the level of trust between parent and alliance managers?
5. Draw on existing knowledge to facilitate learning	• In the learning process, have efforts been made to involve managers with prior experience in either/both alliance management and partner ties • Are experiences with other alliances being used as the basis for managing the current alliance?
6. Ensure that partner and alliance managerial cultures are in alignment	• Is the alliance viewed as a threat or an asset by parent managers? • In the parent, is there agreement on the strategic rationale for the alliance? • In the alliance, do managers understand the importance of the parent's learning objective?

[**Adapted :** From Academy of Management Executive: "The Thinking Manager's Source" by Andrew C. Inkpen.]

Advantages :

1. **Leverages several firms' core competencies.**
   This allows alliance members to be more competitive in seeking certain project work or input.
2. **Limits capital investment.**
   One partner firm does not have to have all the resources necessary to do the work of the alliance.
3. **Is flexible.**
   Alliances allows a firm to be involved yet continue to pursue its other, "regular" business opportunities.
4. **Leads to networking and relationship building.**
   Alliances get companies together, sometimes even competitors. They allow key players to build relationships that are valuable, even if the present alliance doesn't "plan out." Alliance partners learn more about each others' capabilities and gain advantage or benefit from referrals and other similar behaviors, creating win—win situations.

Disadvantages :

1. **Can result in loss of control.**
   A firm in an alliance by definition cedes ultimate control to the broader alliance for the undertaking for which the alliance is formed. This can prove problematic if the alliance doesn't work out as planned—or is not well planned.
2. **Can be hard to establish good management control of the project-loss of operational control.**
   Where multiple firms have interrelated responsibilities for a sizable joint project, it should not be difficult to imagine problems arising as the players go about implementing a major project as in the example of EDS and its Dutch and British partners in the Atlas Consortium. It requires good up-front planning and use of intercompany project team groups early on in the bidding process.

3. **Can distract a participating company's- management and key players.**
   One strategic alliance can consume the majority attention of key players essential to the overall success of the "home" company. Whether because of their technical skills, managerial skills, key roles all three, the potential for lost focus or time to devote to key responsibilities exists.

4. **Raises issues of control of proprietary information and intellectual property.**
   Where technology development is the focus of the alliance, or maybe part of it, firms partnered together may also compete in other circumstances. Or they may have the potential to do so. So partnering together gives each the opportunity to learn much more about the other, their contacts, capabilities and unique skills or trade secrets.
   Strategic alliances have proven a very popular mechanism for many companies seeking to become more agile competitors in today's dynamic global economy. They have proven a major way for small companies to become involved with large players to the benefit of both-allowing the smaller player to grow in a way that builds its future survival possibilities and the larger player to tap expertise and knowledge it can no longer afford to retain or develop in-house.

Q. 13. What is strategic control? Explain the basic types of strategic control.

Answer 13.

A strategy is selected and implemented over time so as to effectively position and guide a firm within an often rapidly changing environment. Strategies are forward looking, designed to be accomplished several years into the future, and based on management assumptions about numerous events that have not yet occurred.

How should managers undertake controlling a strategy? Traditional approaches to control seek to compare actual results against a standard. The work is done; the manager evaluates the work, and uses the evaluation as input to control future efforts. While this approach has its place, it is inappropriate as a means to control a strategy. Waiting until a strategy has been fully executed often involves five or more years, during which many changes occur that have major ramifications for the ultimate success of the strategy. Consequently, customary control concepts and approaches must be adjusted or replaced in favour of strategic controls that recognise the unique control needs of long-term strategies.

Strategic control is concerned with tracking the strategy as it is being implemented, detecting problems or changes in underlying premises, and making necessary adjustments. In contrast to post action control, strategic control is concerned with controlling and guiding efforts on behalf of the strategy as action is taking place and while the end result is still several years into the future. Managers responsible for a strategy and its success are typically concerned with two sets of questions:

1. Are we moving in the proper direction? Are key things falling into place? Are our assumptions about major trends and changes correct? Are the critical things we need to do being done? Do we need to adjust or abort this strategy?
2. How are we performing? Are we meeting objectives and schedules? How are costs, revenues, and cash flows matching projections? Do we need to make operational changes?

Strategic controls, augmented by certain operational controls, are designed to answer these questions. Reward systems play a key role in directing strategy implementation and motivating strategic control.

Establishing Strategic Controls: Control of strategy can be characterised as a form of "steering control". Ordinarily, a significant time span occurs between initial implementation of a strategy and achievement of its intended results. During that time, numerous projects are undertaken, investments are made, and actions are undertaken to implement the new strategy. Also during that time, both the environmental situation and the firm's internal situation are developing and evolving. Strategic controls are necessary to steer the firm through these events. They must provide the basis for correcting the actions and directions of the firm in implementing its strategy as developments and changes in its environmental and internal situations take place.

Prudential Insurance Company provides a useful example of the proactive, steering nature of strategic control. Several years ago, Prudential committed to a long-term market development strategy wherein it would seek to attain the top position in the life insurance industry by differentiating its level of service from other competitors in the industry. Prudential decided to establish regional home offices, thus achieving a differential service advantage. Exercising strategic control, Prudential managers used the experience at the first regional offices to reproject overall expenses and income associated with this strategy. In fact, the predicted expenses were so high that the location and original schedule for converting other regions had to be modified. Conversion of corporate headquarters was sharply revised on the basis of other early feedback. Thus the steering control (or strategic control) exercised by Prudential managers significantly altered the strategy long before the total plan was in place. In this case, major objectives remained in place while changes were made in the strategy in other cases, strategic controls may initiate changes in objectives as well.

The four basic types of strategic control are:

1. Premise control.
2. Implementation control.
3. Strategic surveillance.
4. Special alert control.

The nature of these four strategic controls is shown in the figure next page.

Premise Control:

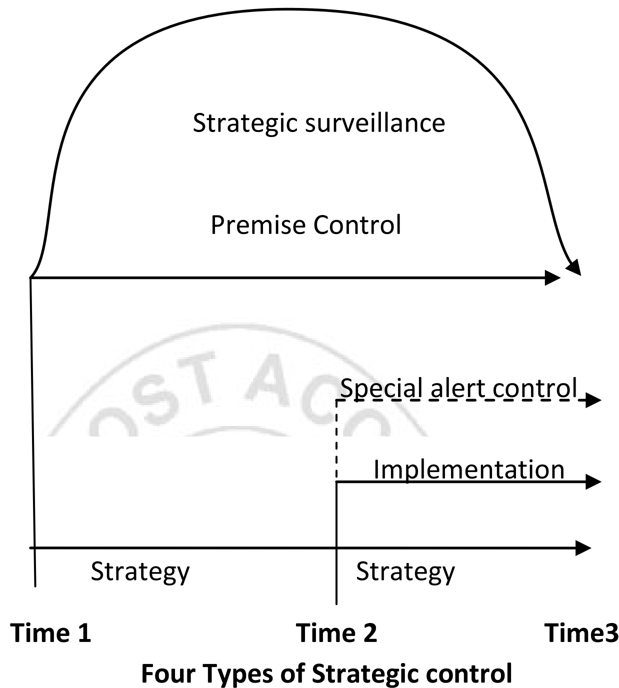
Every strategy is based on assumed or predicted conditions. These assumptions or predictions are planning premises; a firm's strategy is designed around these predicted conditions. Premise control is designed to check systematically and continuously whether or not the premises set during the planning and implementation process are still valid. If a vital premise is not longer valid, then the strategy may have to be changed. The sooner an invalid premise can be recognised and revised, the better the chances that an acceptable shift in the strategy can be devised.

What Premises Should Be Monitored? Premises are primarily concerned with two types of factors environmental and industry. They are described below:

Environmental Factors: A company has little or no control over environmental factors, but these factors exercise considerable influence over the success of the strategy. Inflation, technology, interest rates, regulation, and demographic/ social changes are examples of such factors. Strategies are usually based on key premises about these factors.

Industry Factors: These factors affect the performance of companies in a given industry. They differ among industries, and a company should be aware of the factors that influence success in its particular industry. Competitors, suppliers, substitutes, and barriers to entry are a few such factors about which strategic assumptions are made.

Premises, some major and some minor, are often made about numerous environmental and industry variables. To attempt to track every premise may be unnecessarily expensive and time-consuming. Therefore, managers must select those premises and variables that (a) are likely to change and (b) would have a major impact on the company and its strategy if they did.



Four Types of Strategic control

How is Premise Controls Enacted?

The key premises should be identified during the planning process. The premises should be recorded, and responsibility for monitoring them should be assigned to the persons or departments who are qualified sources of information. For example, the sales force may be a valuable source for monitoring the expected price policy of major competitors, while the finance department might monitor interest rate trends. All premises should not require the same amount of effort, and, again, emphasis should be placed on key success premises so as to avoid information overload. Premises should be updated (new predictions) based on updated information. Finally, key areas within the company or key aspects of the strategy that the predicted changes may significantly impact should be preidentified so that adjustments necessitated by a revised premise can be determined and initiated. For example, senior marketing executives should be alerted about changes in competitors' pricing policies in order to determine if revised pricing, product repositioning, or other strategy adjustments are necessary.

Q. 14. a) "An organisation can choose from a wide variety of grand strategies such as Stability Strategies, Growth Strategies, Retrenchment Strategies and Combination Strategies". Explain these strategies and highlight the conditions under which each one is the most appropriate.

b) ABC Ltd. is an established supplier of precision parts to a major aircraft manufacturer. It has been offered choice of making either Part A or Part B for the next period, but not both.

Both parts use the same metal, a titanium alloy, of which 13,000 kilos only are available, at ₹ 12.50 per kilo. The parts are made by passing each one through two fully automatic computer controlled machine lines – s and T – whose capacities are limited. Target prices have been sent and the following data are available for the period :

Particulars	Part details	
	Part A	Part B
Maximum units	7,000	9,000
Target price	₹ 145 per unit	₹ 115 per unit
Alloy usage	1.6 kgs.	1.6 kgs.

Machine times		
Line S	0.6 hrs.	0.25 hrs.
Line T	0.5 hrs.	0.55 hrs.
	Machine details	
	Line S	Line T
Hrs. available	4,000	4,500
Variable overhead per machine hr.	₹ 80	₹ 100

You are required :

i. **To calculate which part should be made during the next period to maximize contribution.**

ii. **To calculate the contribution which ABC Ltd. will earn and whether the company will be able to meet the maximum units.**

As an alternative to the target prices shown above, the aircraft manufacturer has offered the following alternative arrangement.

Target prices less 10% plus ₹ 60 per hr. for each unused machine hr.

iii. **You are required to decide whether your recommendation in (i) above will be altered and, if so, to calculate the new contribution.**

Answer 14.

a. Four grand strategies: stability, growth, retrenchment and combination are opinions for the pace or level of efforts in the current business definition or for changing the business definition.

Stability: A stability strategy is a strategy that a firm pursues when -

- It continues to serve the public in the same product or services, market and function sector as defined in its business definition or in very similar sectors
- Its main strategic decisions focus on incremental improvement of functional performance.

Stability strategies are implemented by 'steady as it goes' approaches to decisions. Few major functional changes are made in the product or service line, markets or functions. In an effective stability strategy, a company will concentrate its resources where it presently has or can rapidly develop a meaningful competitive advantage in the narrowest possible product - market- function scope consistent with its resources and market requirement.

Growth: A growth strategy is a strategy that a firm pursues when -

- It serves the public in additional product or service sector or adds markets or functions to its definition.
- It focuses its strategic decisions on major increases on major increases in the pace of activity within its present business definition.

A firm implements this strategy by redefining the business- either adding to the scope of activity or substantially increasing the efforts of the current business. Growth is usually thought of as 'the way' to improve performance. An increase in assets or sizes is thought by many to yield growth in profit or ROI. Several studies support this proposition. But the opinions and research of others suggest that short-run inefficiencies often result.

Retrenchment: A retrenchment strategy is pursued by a firm when -

- It sees the desirability of or necessity for reducing its product or service lines, markets of functions.
- It focuses its strategic decisions on functional improvement through the reduction of activities in units with negative cash flows.

A firm can redefine its business by divesting itself of a major product line or an SBU. It could abandon some market territories. A firm could also reduce its functions. Of course, the ultimate redefinition is total liquidation.

Combination: A combination strategy is a strategy that a firm pursues when -

- Its main strategic decision focus on the conscious use of several grand strategies at the same time (simultaneously) in several SBUs of the company.
- It plans to use several grand strategies at different future times (sequentially).

With combination strategy, the decision makers consciously apply several grand strategies to different parts of the firm or to different future periods. The logical possibilities for a simultaneous approach are stability in some areas, growth in others; stability in some areas, retrenchment in others; retrenchment in some areas, expansion in others; and all three grand strategies in different areas of the company.

b. i. Part A – Maximum number of units
Line S – 4,000 hrs. ÷ 0.6 = 6,666 units
Line T – 4,500 hrs. ÷ 0.5 = 9,000 units

Part B – Maximum number of units
Line S – 4,000 hrs. ÷ 0.25 = 16,000 units
Line T – 4,500 hrs. ÷ 0.55 = 8,181 units
Therefore, ABC Ltd. can produce 8,181 units of Part B.

Material restriction :
13,000 kgs. ÷ 1.6 kgs. = 8,125 units
Therefore, ABC Ltd. can produce 6,666 units of Part A or 8,125 units of part B.

Contribution calculation :
Part A :

Particulars	Computation	₹	₹
Sales	6,666 x ₹ 145		9,66,570
Material	6,666 x 1.6 x ₹ 12.5	1,33,320	
Line S	6,666 x 0.6 x ₹ 80	3,19,968	
Line T	6,666 x 0.5 x ₹ 100	3,33,300	7,86,588
			1,79,982

Part B :

Particulars	Computation	₹	₹
Sales	8,125 x ₹ 115		9,34,375
Material	8,125 x 1.6 x ₹ 12.5	1,62,500	
Line S	8,125 x 0.25 x ₹ 80	1,62,500	
Line T	8,125 x 0.55 x ₹ 100	4,46,875	7,71,875
			1,62,500

Therefore, ABC Ltd. should produce Part A as it yields relatively higher contribution.

ii. The company will earn a maximum of ₹ 1,79,982. It cannot meet the maximum units due to the limitation on the capacity of Line S.

			₹
iii.	Part A (New contribution)		8,69,913
	Sales ₹ 9,66,570 x 0.90		7,86,588
	Reduced contribution		83,325
Add :	Payment for reduced machine hours		
	Line S (No space capacity)		
	Line T [4,500 – (6,666 x 0.5)] x ₹ 60	70,020	
	New contribution		1,53,345
Part B : New contribution			
	Sales ₹ 9,34,375 x 0.90		8,40,937
	Costs		7,71,875
			69,062
Add : Payment for reduced machine hours			
	Line S (4,000 – 8,125 x 0.25) x ₹ 60	1,18,125	
	Line T (4,500 – 8,125 x 0.55) x ₹ 60	1,875	
			1,89,062

Therefore, decision in changed situation should be to produce Part B which will give a contribution of ₹ 1,89,062.

Q. 15. Is service marketing different from product marketing? How do marketers try to overcome the limitations of delivering uniform service quality? Discuss the problems of maintaining quality for any service business.

Answer 15.

A service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. Services are intangible. Unlike physical products, they cannot be seen, tasted, felt, heard or smelled before they are bought. The person getting a 'face lift' cannot see the results before the purchase, and the patient in the psychiatrist's office cannot predict the outcome. To reduce uncertainty, buyers will look for signs or evidence of the service quality. They will draw inferences about service quality from the place, people, equipment, communication material, symbols, and price that they see. The service provider's task is to 'manage the evidence'. Whereas product marketers are challenged to add abstract ideas, service marketers are challenged to put physical evidence and imagery on their abstract offers. Services are typically produced and consumed simultaneously. This is not true of physical goods that are manufactured, put into inventory, distributed through multiple resellers, and consumed still later. If a person renders the service, then the provider is part of the service. Since the client is also present as the service is produced, provider – client interaction is a special feature of services marketing. Both the provider and the client affect the service outcome. Services are highly variable, since they depend on who provides them and when and where they are provided. Moreover, services cannot be stored. The perish ability of services is not a problem when demand is steady because it is easy to staff the services in advance. When demand fluctuates, service firms have difficult problems. Each characteristic poses problems and requires strategies. Thus, marketers have to find ways to 'tangibles' the intangible; to increase the productivity of providers who are inseparable from the product; to standardize the quality in the face of variability; and to influence demand movements and supply capabilities in the face of service perish ability.

One of the major ways of becoming successful, service firm is to deliver consistently higher quality service than competitors. The key is to meet or exceed the target customer's service quality expectations. Their expectations are formed by their past experiences, word of mouth, and service-firm advertising. The customers choose providers on this basis and, after receiving the service, they compare the perceived service with the expected service. If the perceived service falls below the expected service, customers lose interest in the provider. If the perceived service meets or exceeds their expectations, they are apt to use the provider again. To overcome the limitations of delivering uniform service quality, the marketers may try to share the following common practices of excellently managed service companies :

- A strategic concept : top service companies are 'customer obsessed'. They have developed a distinctive strategy for satisfying the needs that wins enduring customer loyalty.
- A history of top-management commitment to quality : the management should look not only at financial performance on monthly basis but also at service performance.
- The setting of high standards : the standards must be set appropriately high.
- Systems for monitoring service performance : the top service firms audit service performance, both their own and competitors, on a regular basis.
- Systems for satisfying complaining customers : well-run service businesses respond quickly and generously to customer complaints.
- Satisfying the employees as well as the customers : excellently managed service companies believe that employee relations will reflect on customer relations. Management carries out internal marketing and creates an environment of employee support and rewards for good service performance. Management regularly audits employees' satisfaction with their jobs.

There are, however, five gaps that cause unsuccessful service delivery as follows :

- Gap between consumer expectation and management perception;
- Gap between management perception and service –quality delivery;
- Gap between service quality specifications and service delivery;
- Gap between service delivery and external communications;
- Gap between perceived service and expected service.

There are five determinants of service quality that may create problems of maintaining quality as follows :

- **Reliability :** The ability to perform promised service dependably and accurately.
- **Responsiveness :** The willingness to help customers and to provide prompt service.
- **Assurance :** The knowledge and courtesy of employees and their ability to convey trust and confidence.
- **Empathy :** The provision of caring individualized attention to customers.
- **Tangibles :** The appearance of physical facilities, equipment, personnel and communication materials.

Q. 16. a) Porter, in his value chain model proposed some activities of an organization. What are those activities and their relationships between them?

b) A company is considering a cost saving project. This involves purchasing a machine costing ₹ 7,000, which will result in annual savings on wages costs of ₹ 1,000 and on material costs of ₹ 400.
The following forecasts are made of the rates of inflation each year for the next 5 years :

Wages costs	10%
Material costs	5%
General prices	6%

The cost of capital of the company, in monetary terms, is 15%.
Evaluate the project, assuming that the machine has a life of 5 years and no scrap value

Answer 16.

a. The value of an organization depends upon the activities of the organization. The activities of an organization can broadly classified under two heads, namely – Primary Activities and Secondary Activities.

Primary Activities : Primary activities comprises of the primary or the basic activities of a firm. These activities adds value to the firm i.e. It represents all those activities which are involved in converting an input into a finished product and subsequent sales and after sales service. All such primary activities affect the value of an organization. Some of these Primary activities are as listed below :

a. In bound logistics : This activity involves the reaching of the raw materials to the place of production from the stores. It includes activities like receiving, handling and storing inputs to the production system.
b. Operations : Involves all those activities connected with converting the resource inputs into final outputs like Product Planning and Development. Product process development, Product line and Product mix decisions, Lay out planning etc.
c. Outbound logistics : This activity represents the distribution of finished products, storage, warehousing, transportation, channel of distribution, branding, packaging, containerization, inventory management etc. There are varied scopes in this activity to reduce cost, attaining delivery schedule, meeting demand at the right time and at the right place.
d. Marketing and sales : Informing customers about the product, persuading them to buy it, and enabling them to do so. Marketing activities encompasses different kinds of routes like advertising, sales promotion, personal selling etc. The best method should be adopted to create value to the potential customers.
e. Various after sales services activities like, installing, repairing products, providing spares etc.

Support activities : The above mentioned primary activities are supported by the following activities called the support activities, which are as enumerated below :

a. Procurement : The 'Supply chain management' is becoming more and more popular these days. Sourcing or procurement should be from the best available sources, keeping in mind that the value is passed to the consumers right from there.

b. Technology : Keeping in pace with the up to date technology is another main activity. This will result in offering better products at low cost to the customers. Further adoption of latest technology will go a long way in product design and improving process and / or resources utilization.

c. Human resources development and management : Includes activities like-recruiting, training and rewarding people. Machine, Money and Material cannot function without the active support and involvement of 'Men'. Human resources is an integral support function. Identifying the strengths and weaknesses of the individuals and motivating them will result in a very efficient functioning of the firm.

d. Firm infrastructure : Concerns the systems of planning, finance etc. which are crucially important in all primary activities. Further the infrastructure of the firm should ensure that the production activities are carried out smoothly and the workers area t their best performance while working.

Both the primary and support activities are interlinked to each other.
Linkages between the activities connect the interdependent elements of the value chain together. One element affects the cost or effectiveness of another. The element of 'Margin' (the excess of amount that a customer pays over costs of resource inputs and value activities) provides the final linkage. Technology, procurement, HR, infrastructure effects the quality of the product. On the other hand, the product quality, price etc., affect the infrastructure / image of the firm.
These are so interlinked that one's doing will have a great impact on the other. All these in combination comprise the value chain model.

b. Calculation of net present value :

Year	Labour cost saving ₹	Material cost saving ₹	Total savings ₹	DCF @ 15%	Present values ₹
1	1,000 x (1.1) = 1,100	400 x (1.05) = 420	1,520	0.870	1,322
2	1,000 x $(1.1)^2$ = 1,210	400 x $(1.05)^2$ = 441	1,651	0.756	1,255
3	1,000 x $(1.1)^3$ = 1,331	400 x $(1.05)^3$ = 463	1,794	0.658	1,184
4	1,000 x $(1.1)^4$ = 1,464	400 x $(1.05)^4$ = 486	1,950	0.572	1,112
5	1,000 x $(1.1)^5$ = 1,610	400 x $(1.05)^5$ = 510	2,120	0.497	1,060
Present value of total savings					5,933
Less : Initial cash outflow					7,000
Net present value (negative)					(-) 1,067

Analysis : Since the present value of cost of project exceeds the cost of savings from it and hence it is not suggested to purchase the machine.

Q. 17. Many Organisations prefer to grow through new green field projects. Some of them are keen on takeovers while many feel expansion is the best way. Some others are of the view that strategic alliances would serve the purpose of growth. Give examples of each approach and indicate the conditions under which they may be productive and profitable.

Answer17.
It will be appropriate to say that the Indian industry is undergoing a process of restructuring, in order to gain competitive strength both in domestic as well as in export markets. The said restructuring is taking place through various means, i.e. takeovers, expansions, strategic alliances etc. for the purpose of growth. When growth occurs, it may be due to one or more of the following reasons i.e. expanding market, entry into new areas to escape a mature or decline market, expansion because of superior market performance or expansion to capitalise on a new marketing opportunity.
Takeover means acquisition of a certain block of equity capital of a company which enables the acquirer to exercise control over the affairs of the company. In theory, the acquirer must buy more than 50% of the paid up

equity of the acquired company to enjoy complete control. In practice however, effective control may be exercised with a smaller shareholding, because the remaining shareholders scattered and ill-organised, are not likely to challenge the control of acquirer. Sometimes the acquirer may have tacit support of the financial institutions, banks, mutual funds, having sizeable holding in the company's capital. The main objective of a takeover bid is to obtain legal control of the company. The company taken over remains in existence as a separate entity unless a merger takes place. It may broadly be classified into three categories:

(i) Horizontal: It takes place between two companies which are essentially operating in the same market. Their products may or may not be identical. For example, the merger of Tata Oil Mills Company Ltd. (TOMCO) with Hindusthan Lever Limited (HLL) is a horizontal one. Both the companies have similar products. A TV manufacturer taking over washing manufacturing company, will also be a horizontal one, because both the companies are in the market for consumer durables,

(ii) Vertical: It is one in which the company expands backwards by takeover of a company supplying raw materials or expands forward in the direction of the ultimate consumer. For example, the merger of Reliance Petrochemicals Ltd. (RPCL) with Reliance Ltd. (RIL) is a vertical merger; with backward linkage as far as RIL concerned.

(iii) Conglomerate: In this type, the concerned companies are in totally unrelated lines of business, come together with the expectation to bring about stability of income and profits. For example, Mohta Steel Industries Ltd. merged with Vardhaman Spinning Mills Ltd.

Following advantages accrue to the companies which come together through acquisition or through different strategic alliances:

(a) Economies of scale: When two or more companies come together the larger volume of operations of the combined entity results in various economies of scale. These economics arise because of more intensive utilisation of combined production capacities, distribution channels, research and development facilities, data processing system, reduction of overhead etc.

(b) Synergy: A term used to identify the conditions where the combined effect of the two or more courses of action is greater than the sum of the individual parties.

(c) Tax savings: If a healthy company acquires a sick unit through merger, it can avail of Income-tax benefit u/s. 72A of the Income-tax Act.

(d) As a growth and diversification strategy: Growth and diversification are very important corporate objectives. If a firm has decided to enter or expand in a particular industry, acquisition or strategic alliance with another firm in that industry, rather than dependence on internal expansion, may offer several strategic advantages. They are:
    - As a preventive move, it can prevent a competitor from establishing a similar position in that industry,
    - It offers s special timing advantage by enabling a firm to leap-frog several stages in the process of expansion,
    - It may entail less risk and even less cost.
    - In saturated market, simultaneous expansion and replacement makes sense than creation of additional capacities.

(e) Deployment of surplus funds: A company having surplus funds to invest may deploy profitably in another company, starved of the same.

(f) Avoiding unhealthy competition: It may enable companies to avoid unhealthy competition in a situation where there are too many players aiming at a limited market. This type of take-over/merger/alliance are possible only if they do not violate the provisions of MRTP. For example, VIP Industries took-over Universal Luggage.

(g) Acquisition of Patent, brand Name etc.: It might be relatively easy way to acquire valuable patent rights, technical know-how, established brand name, etc.

(h) Higher debt capacity: A company could enhance its borrowing capacity. A higher debt capacity means greater tax advantages and that higher value of the firm.

(i) Reduction in floatation cost: When two firms merge, they save on floatation cost of future equity, preference and debenture issues.

(j) Lower rate of borrowing: The consequence of larger size and grater earning stability, as many financial experts argue, is to reduce the cost of borrowing. For example, the creditors are protected by both the firms. This additional protection reduces the cost of capital.

However, with the recent liberalisation, business groups may like to rationalise their port-folio of industrial units. Under the pressure of increasing competition, the Indian conglomerates are realising the need to focus on core competencies. They are also realising the importance of strategic withdrawal from certain areas. For example, Tatas are expanding their steel manufacturing capacity at TISCO or vehicle manufacturing capacity, at TELCO. At the same time, they have disposed of TOMCO. On the contrary, HLL, free from the shackles of FERA, has taken over the same to make use of the additional soap manufacturing capacity, available with TOMCO

Q. 18. a) What are the characteristics of insurance exposures? Discuss the relationship relative importance of identified risk and probability of occurrence of loss.

b) A manufacturing concern has a multi-purpose plant capable of operating at full capacity at 5,000 machine hrs. per month. It may produce three products inter-changeably, for which the output and cost details are as follows :

Product	Output per machine hr.	Material costs
A	500 units	₹ 42.50 per 1,000 units
B	250 units	₹ 17.50 per 1,000 units
C	1,000 units	₹ 30.00 per 1,000 units

Labour cost is ₹ 15 per machine hr. while variable overheads will be ₹ 5 per machine hr.

The fixed costs of this department is ₹ 1,00,000 per monthly production period.

The company estimates from past experience that the full capacity can be used at all times if machine time can be freely moved from one product to another as dictated by demand and is anxious to establish suitable product selling prices (per 1,000 units). The three price fixing methods under consideration are :

i. **To fix prices at product cost plus 20%.**
ii. **To fix prices so as to give a contribution of ₹ 35 per machine hr.**
iii. **To fix prices arbitrarily (per 1,000 units) as Product A – ₹ 150, Product B – ₹ 230 and Product C – ₹ 90.**

Prepare a comparative statement of prices that would be charged under the three methods. Suggest which method should be adopted.

Answer 18.

a. The characteristics for an exposure to be covered by Insurance are as follows:

1. Pure Risk: These are classified into *personal risk*, *property risk*, *liability risk and loss of income risk.*

a. Personal Risk – Can happen due to premature death, old age, sickness or disability and unemployment.

b. Property Risk – Can be classified as loss of property, loss of use of property, additional expenses arising out of loss of property.

c. Liability Risk – Can arise as injury to people or damage to property or negligence or carelessness.

d. Loss of Income Risk – Consequential loss of income arising out of personal or property losses.

2. Similar Exposures: Prediction of losses through application of statistical computations with the help of theory of probability require a sizeable population of similar exposures. This is particularly important in that estimation of probabilities for the happening of an event needs an adequate large sample, as accuracy increases with bigger sample.

3. Accidental Losses: Insurance contracts allow payments only for a accidental losses which beyond the insured's control. Losses taking place unintentionally alone are covered by Insurance. Suppression of information of a known risk will not entitle for compensation.

4. Definite Loss: A definite loss has three facets. It should be recognizable and should be susceptible to verification. The loss should be measurable. This is particularly important in that premium are computed mainly on the estimated quantification of losses.

5. Large Loss: As there is always a consideration in the form of a premium for receiving a compensation for a loss, care should be taken that the premium to loss ratio is sufficiently favorable. Insurance tariffs normally form a very small percentage sometime even less than a per cent.

6. Catastrophic Losses: Catastrophic losses from natural disasters have two main characteristics :
a. They are limited to geographic area where the impact has taken place.
b. Prediction of the event is very difficult. For example storms and floods or earthquakes etc. can create catastrophic losses as such an Insurer will have to take special precautions of calculating the premiums. Even then the loss may be so huge that the consumers normally resort to sharing the risks through reinsurance as also ensures dispersion of risks over a larger geographical area. To estimate the frequency and severity of the catastrophic losses probability analysis is resorted to.

b. Statement of Selling prices under alternative strategies (per 1,000 units)

Particulars	Product A	Product B	Product C
a. Material cost	42.50	17.50	30.00
b. Labour cost for 2, 4 and 1 hr. at ₹ 15 per hr.	30.00	60.00	15.00
c. Variable OH for 2, 4 and 1 hr. at ₹ 5 per hr.	10.00	20.00	5.00
d. Total variable cost = a + b + c	82.50	97.50	50.00
e. Fixed OH at (₹ 1,00,000/ 5,000) = ₹ 20 per hr.	40.00	80.00	20.00
f. Total cost = d + e	122.50	177.50	70.00
g. Profit margin at 20% of total cost	24.50	35.50	14.00
h. Selling price based on cost plus basis = f + g	147.00	213.00	84.00
i. Contribution for 2, 4 and 1 hr. at ₹ 35 per hr.	70.00	140.00	35.00
j. Selling price to guarantee contribution = d + i	152.50	237.50	85.00
k. Selling price fixed arbitrarily (given)	150.00	230.00	90.00
l. Best selling price (highest of h, j and k)	152.50	237.50	90.00
m. Best method of fixing the price (individualy)	Guaranteed contribution	Guaranteed contribution	Arbitrary method

Decision : On an overall basis, the method which guarantees contribution of RS. 35 per machine hr. may be considered as ideal as it will ensure a profit of (RS. 35 x 5,000 hrs.) less Fixed cost ₹ 1,00,000 = ₹ 75,000 per month. This profit will be earned irrespective of the product mix decision.
The effect of other methods of pricing depends upon the sale quantity, sales mix and the impact of key factor.

Q. 19. What is Insurance ? What are the requirements & characteristics of an insurance contract?

Answer 19.
Insurance can be defined as transferring or lifting of risk from one individual to a group and sharing of losses on an equitable basis by all members of the group. In legal terms insurance is a contract (policy) in which one party (insurer) agrees to compensate another party (insured) of its losses for a consideration (premium). Exposure to loss is the insured's possibility of loss.

Insurance is a means whereby a large number of people agree to share the loss which a few of them are likely to incur in the future. Insurance is also a means for handling risk. There is an uncertainty related to the risk. The business of Insurance is related to the protection of the economic value of any asset. So, every asset that has a value needs to be insured. Both tangible goods and intangibles can be insured.

Requirements of an insurance contract
Four requirements are laid down for a valid insurance contract as below:
Agreement must be for a legal purpose, i.e., the contract of Insurance should not violate the principle of Insurable Interest and it is a contract of Uberrimae Faide (Utmost Good Faith)
Parties must have legal capacity to contract; Minors, Lunatics, Insolvents, Intoxicated persons, etc. do not have the legal capacity and cannot enter into an insurance contract

There should be a **valid offer** and **acceptance** and There must be **exchange of consideration** in response to an agreement which defines the quantum of possible loss to the insured. The premium amount is paid by the Insured by way of consideration on the basis of the policy risk insured. The Insurer's consideration will be a promise to indemnify the loss of the insured on the occurrence of the insured's risk.

Characteristics of insurance contract
Following are the unique characteristics which are distinct from other forms of contract.· **Aleatory contract (Dependent on chance):** The values exchanged by the contracting parties in an insurance contract are unequal as they are dependent on chance or in other words in an insurance contract result depends entirely as risk. If the loss arises, compensation is paid by the Insurer on the occurrence of peril. If it doesn't occur insurer does not pay any compensation while the premium gets paid to the insurer. The question of paying compensation does not arise.
Conditional Contract: Insurance contracts lay down conditions like providing proof of insurable interest, immediate communication of loss, proof of loss, and payment of premium by the insured.
Contract of Adhesion: Legally obligatory on the part of the insurer to explain the terms of contract fully to all the parties. This is particularly important as under contract of adhesion, any ambiguity in the wording of the agreement will be interpreted against the insurer as he had laid down the terms.
Unilateral Contract: Insurer is the only party to the contract who makes promises that can be legally enforced.

Generally, Non life insurance contracts are usually annual contracts and have to be renewed each year. Each time the policy is renewed a new contract is issued by the Insurer.

Q. 20. How can the business-level strategies of "Cost Leadership" and "Differentiation" be used to position the firm relative to the five forces of competition in a way that permits the earning of above average returns.

Answer 20.
Cost leadership strategy emphasises efficiency. By producing high volumes of standardised products, the firm hopes to take advantage of economies of scale and experience curve effects. The product is often a basic no-frills product that is produced at a relatively low cost and made available to a large customer base. Maintaining this strategy requires a continuous search for cost reduction in all aspects of the business. The associated distribution strategy is to obtain the most extensive distribution possible. Promotional, strategy often involves trying to make a virtue out of low cost product features.
To be successful, this strategy usually requires a considerable market share advantage or preferential access to raw materials, components, labour, or some other important input. Without one or more of these advantages, the strategy can easily be imitated by competitors. Successful implementation also benefits from:

- process engineering skills o products designed for ease of manufacture o sustained access to inexpensive capital
- close supervision of labour
- tight cost control
- Incentives based on quantitative targets.

Differentiation involves creating a product that is perceived as unique. The unique features or benefits should provide superior value for the customer if this strategy is to be successful. Because in the eyes of the customers the product has no rival, the price elasticity of demand is low and customers are likely to be more brand loyal. This sort of market condition can provide considerable insulation from competition: However, there are usually additional costs associated with the differentiating product features and this could require a premium pricing strategy.

To maintain this strategy the firm should have:

- strong research and development skill
- strong product engineering skill
- strong creativity skill
- good cooperation with distribution channel
- strong marketing skill
- incentives based on subjective measures
- be able to communicate the importance of the differentiating product
- characteristics
- continuous improvement and innovation o attract highly skilled, creative people

Q. 21. What are the tools for managing enterprise risk. Discuss in brief.

Answer 21.

Instrument	**Purpose**	**Remarks**
Guarantee	Guarantees can be financial guarantees or performance guarantees. Financial guarantees protects against the financial loss on failure to meet financial obligations Performance guarantees are protection against non-performance of contractual obligations	Financial institutions provide guarantees as a risk cover against a collateral by the buyer for a consideration
Letter of credit or documentary credit	Guarantee against non payment of purchase consideration by the buyer	Financial institutions issue this instrument for a consideration. It can be revocable or irrevocable. Can also be revolving
Underwriting	Underwriting is a protection mechanism available in the capital market to cover the risk of non subscription to a public issue	Financial institutions offer this risk cover for a consideration after due evaluation of risk
Collateralized debt obligations	Taken against short term and long term loans for working capital as well as fixed assets	Financial institutions offer this risk cover for a consideration after due evaluation of risk and cover themselves completely either through hypothecation or pledge or equitable markets
Asset Securitization	Companies offering financial services of hire purchasing, leasing, etc try to raise finance through this method	This is a special purpose vehicle (SPV) to manage default risk. Financial institutions as well as public subscribe to this method for a consideration in the form of interest and securitization is available from the assets that are being traded
Factoring	Companies resort to this instrument both as a risk cover and insure cash flow	Specific financial institutions called factoring companies offer this service for a commission with recourse or without the Recourse

Q. 22. What is competitor analysis?

Answer 22.

Competitor analysis is necessary for formulating right strategies and determining the right positioning for the firm in the industry.

Competitor analysis seeks to find answers to certain basic questions such as:

i. Who are the competitors of the firm?
ii. What are the current strategies of the competitors?
iii. What are their future goals and likely strategies?
iv. What drives the competitors?
v. Where is the competitor vulnerable?

How are the competitors likely to respond to the strategies of others?

Porter has suggested a framework for competitor analysis, consisting of four diagnostic components, viz., future goals, current strategy, assumptions and capabilities.

As Porter observes, "its goals, assumptions, and current strategy will influence the likelihood, timing, nature, and intensity of competitor's reactions. Its strengths and weaknesses will determine its ability to initiate or react to strategic moves and to deal with environmental or industry events that occur".

Competitor Response Profile:

An analysis of these components will help to formulate what Porter calls competitor's profile, i.e., answers to critical questions such as: What moves or developments will provoke the competitor and how is the competitor likely to respond or retaliate?

The competitor response profile seeks to predict the competitor's offensive moves and defensive capabilities.

Future Goals:

An Analysis of these components will help to formulate what Porter calls competitor's response profile, i.e., answers to critical questions such as: What moves or developments will provoke the competitor and how is the competitor likely to respond or retaliate?

The competitor response profile seeks to predict the competitor's offensive moves and defensive, capabilities.

Future Goals:

Analysis of future goals would be helpful to identify the attitude and behaviour of the competitor and likely strategies. As Porter observes, "a knowledge of goals will allow predictions about whether or not each competitor is satisfied with its present position and financial results, and thereby, how likely that competitor is to change strategy and the vigour with which it will react to outside events or to moves by other firms"?

Knowledge of competitor's goals may help to predict its reactions to strategic changes. Goals of both the business unit and corporate parent need to be examined.

In 1996, the CEO of ICI had revealed that it wanted to increase the contribution of its Asian operations from 15 percent to 25 percent of the total and earmarked 800 million pounds for investment in Asia, including 200 million for India. It was believed that a part of it would go for acquisitions. Similarly, the CEO of Hindustan Lever revealed the intention to raise the company's contribution to the Unilever's global turnover from about 5 percent to 10 percent within a decade. Falling in line with the parent's portfolio strategy, HLL identified the processed food business is a major thrust area. It was, clear that the HLL would go for massive capacity expansion, including M & A.

Assumptions:

It is critical to understand:

- The competitor's assumptions about itself.
- The competitor's assumptions about the industry and the other companies in it.

A firm may perceive itself as a socially conscious organisation, the industry leader, quality conscious firm, highly ethical etc. Such assumptions will, obviously, guide the way the firm behaves, including reactions to competitors' moves.

A firm would also have assumptions about the industry and competitors like the industry prospects; competitors' goals, capabilities and weaknesses; competitors' possible behaviours and reactions etc.

The strategies and moves of a firm will be influenced by the above two assumptions. The assumptions may or may not be correct.

Current Strategy: Identification of the current strategies of the competitors is a very important component of competitor's analysis. "A competitor's strategy is most usefully through of as its key operating policies in each functional area of the business and how it seeks to inter relate the functions".
Capabilities: The ability of a firm to accomplish its goals and to respond to competitor's moves depends on its strengths and weaknesses. Analysis of the strengths and weaknesses of the competitors is, therefore, very important.

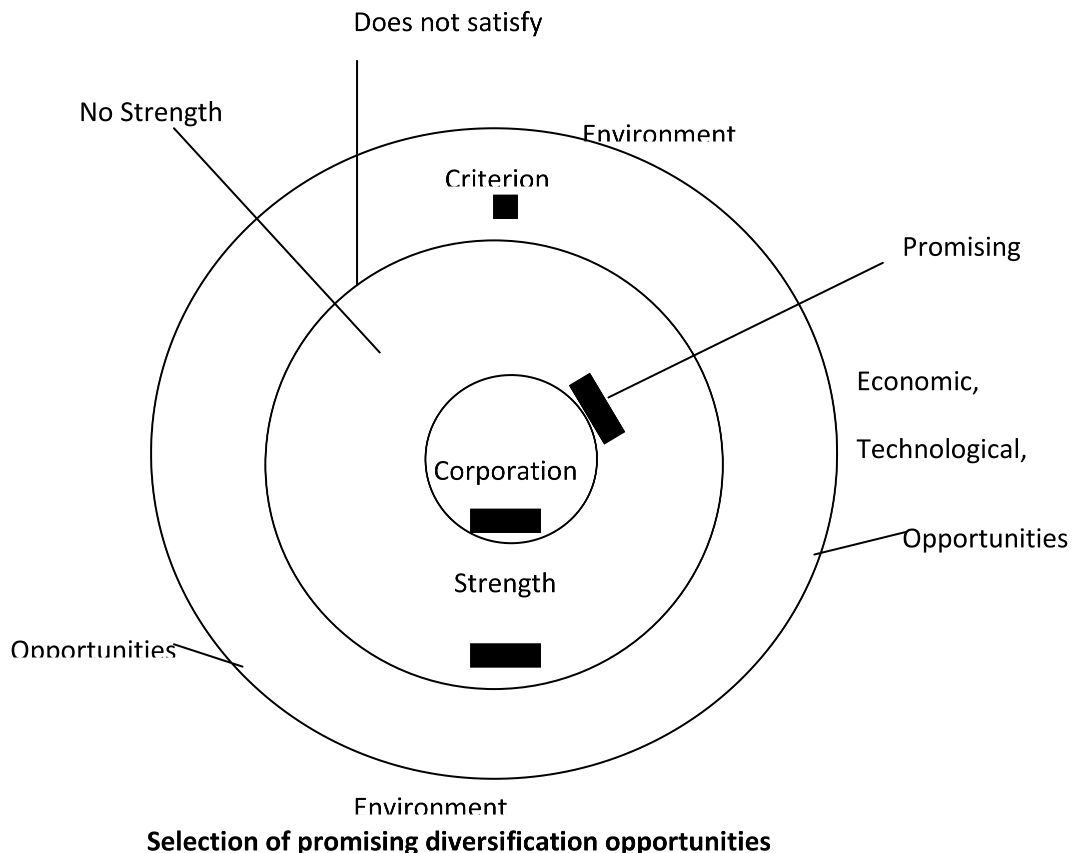
Q. 23. What are the steps involved in formulating diversification strategy?

Answer 23.
The following steps are entailed in the development of diversification strategy:
Awareness of Diversification Opportunity: This is the first step of diversification strategy. Top managers generally become aware of or sense a need for diversification planning when they find inconsistencies between the enterprise's current position and its objectives based on some perception of its future environment. A firm is assumed to have a level of performance - in Ansoff s case based on rate of return on capital invested - and if it now appears that this cannot be achieved on the basis of existing activities, then the firm has two options. The first is to accept a lowered target; the second is to assess the gap and then to proceed to cover this by changed tactics in existing activities and markets, and also by diversification. Thus, the trigger for diversification operates when there is a threat of under-achievement. Diversification strategy may, at times, be pursued in order to avoid current instability in sales and profits. Sometimes, the need to achieve higher utilisation of resources motivates the management to diversify the current product-market combinations of the firm.
Once the rationale of the diversification move has been established, the next issue before the management is to delineate the major areas for diversification. This requires penetrating search of new business opportunities which are usually derived from market needs. These needs change due to technological, economic, political and social developments and variations in attitudes and preferences of customers. Thus, diversification must start in the business environment, with special attention to any observable novel trends and exceptional growth areas.
A detailed environmental appraisal may result in a number of diversification opportunities which may be closely related to the firm's present technology, ethos and market contact or which may be sharply divergent. Thus, a firm may have before it a large number of options clustering around vertical diversification, horizontal diversification, concentric and conglomerate diversification.
Selecting the Most Promising Opportunities: For selecting the most promising diversification opportunities, top managers must examine first of all the product life cycle. Diversification into an already mature market will hold very limited promise of success because of the already depressed profit margins and the vigorous defence of the market shares held by the already established firms. Furthermore, certain criteria will have to be established so as to screen identified alternatives and select a handful of the most promising portfolios. One such criterion could be entry into a new market, whether at home or abroad. An enterprise considering diversification into a new product line must prognosticate the potential value of that market, opportunity for the company's product taking into account design, performance, price, availability, etc. and the cost of the minimum scale of entry that appears necessary if any impact is to be made. Critical mass is another important criterion which aids in limiting a large number of options to a handful of the most promising ones. Thus, alternatives promising larger than critical mass are picked up for further feasibility testing. The management must also determine the maximum investment for purposeful entry and maximum time needed from the decision stage to the first order.
Profitability is another important condition which a diversification opportunity must fulfill. Besides, there are some other criteria such as acceptable geographical markets, allowable kinds and volume of needed R and D, acceptable license arrangements, maximum allowable influence on physical environment, and maximum numbers of skilled workers to be needed and minimum estimated time for product line to reach maturity. Once the opportunities have been selected, it may also be desirable to place weights on the more significant factors.
Feasibility Testing of Chosen Opportunities: Once a handful of diversification opportunities are chosen, their feasibility study must be made in detail. Feasibility test of alternatives is done by matching their resource requirements with the resources available with the enterprise. Such a study will decide in what direction the contemplated product-market posture will diversify - internal development or acquisition. Strategic requirements of each move should be compared with the existing financial, technological, marketing and managerial resources

of the firm. In general, preconditions for any type of diversification are solid financial situation, flexible ownership structure, rich marketing experience and good customer relations in given areas, production flexibility in some plants, well developed management systems of certain kinds, experienced R and D personnel in special sciences, availability of raw materials at cheaper rate, transportation facilities, etc.

Thus, the choice of any diversification move must be made taking into consideration its strategic requirements and strengths. Consideration of synergistic factor further helps in making a useful choice. An alternative promising greater scope of synergistic advantage has an edge over others. Thus, vertical and horizontal types of diversification will have synergistic advantages since the enterprise continues to sell through established marketing channels and hence should be preferred to conglomerate diversification. However, it must be noted that both vertical and horizontal diversification contribute little toward improvement of stability of the enterprise. A firm planning to diversify its current operations for the sake of minimisation of instability in its operations will be committing a folly in choosing either of the two. Vertical diversification is very sensitive to instabilities and will offer less assurance of flexibility. In fact, by putting more eggs into the same end-product basket, vertical diversification increases the firm's dependence on a particular segment of economic demand. Thus, both vertical and horizontal diversification vectors offer only a limited potential for objectives. Their contribution to flexibility and stability objectives is limited. They will be making useful contribution to the profitability objective if the present economic environment of the firm is healthy and growing.

As regards the concentric and conglomerate diversification, both have the potential for meeting all of the objectives of the firms if the firm has the requisite resources. However, a concentric path, which is comparable to a conglomerate diversification in economic prospects and flexibility, will usually be more profitable and less risky because of synergy. While this is true that conglomerate diversification does not offer any synergistic advantage, a well-planned and developed conglomerate strategy does have a sense of direction expressed through competitive advantage, product-market scope and objectives.



Selection of promising diversification opportunities

The above process of selection of promising opportunities has been exhibited in above figure. In this figure an attempt has been made to portray the interplay between new business opportunities, corporate strengths and diversification criteria.
Since the above strategic decision is being made under the conditions of partial ignorance, a risk analysis must be made, particularly for the one involving large investment. For each of the strategic variables (total market potential within chosen geographic area, the market share, net price per unit, raw marketing cost per unit, production cost per unit, marketing cost per unit, total overhead and total investments) uncertainty ranges are estimated on the basis of the best judgment available, and probabilities are assigned to each range on a subjective basis. Different opportunities, of course, result in differing profitability ranges. The most probable centre value is then calculated for each of them. The one promising the highest profitability value is chosen.

Q. 24. The true nature of marketing today is not serving the customer; it is outwitting & outfitting your competitors. It is a war, where the enemy is the competition and the customer is the ground to be won. To fight this war, there are four ways viz., Defensive Warfare, Offensive Warfare, Flanking Warfare & Guerrilla Warfare. Do you agree with the above statement? Briefly explain the four ways as stated above.

Answer 24.
Marketing Warfare: It is true that the marketing War can be fought today by following the principles of Defensive Warfare, offensive Warfare, Flanking Warfare and Guerrilla Warfare. A brief Notes on each of the aforesaid ways is given below:
The Defensive Warfare: This is essential recommended for market leaders it aims at protecting against regulatory provisions, industrial licensing restrictions etc. A leader has to spend more time in safeguarding its interests against Government, Social and Public Environment rather than the immediate next competitor. Thus for Companies like TELCO, Hindustan Lever, Bajaj Auto etc. the major worry may be the interference with the Government. At the same time, a leader cannot afford to overlook the moves of the competitors. A leader should also be able to attack itself. The three principles of defensive warfare are:
- Only the market leader should consider playing defence,
- The best defensive strategy is the courage to attack yourself, and
- Strong competitive moves should always be blocked.

The Offensive Warfare: Offensive warfare is almost like a mirror image of the defensive warfare. Organisations occupying number two position in the industry are suggested to follow the Offensive Strategy by identifying a weakness in leader's strength and attacking at the point. Thus, very high prices of steel tubes of Tata Steel gave an opportunity to other pipe manufacturers like Zenith Tubes, Gujarat Steel Tubes and the like to capture sizable market at lower prices.
The principles of offensive warfare are:
- The main consideration is the strength of the leader's position,
- Find the weakness in the leader's strength and attack at the point,
- Launch the attack on as narrow as front as possible.

The Flanking Warfare: Flanking is the most innovative form of marketing warfare. Over the years, most of the biggest marketing successes have been flanking moves. It is recommended to firms with limited resources. These firms can not afford to flight the large firms holding number one or two position on the same battle ground. The entry of 'promise toothpaste with clove oil clout' is an example of flanking warfare. Flanking can be achieved in any manner such as flanking with low price, flanking with small size, flanking with large size, flanking with distribution, flanking with product form etc.
One can see a parallel between a market-cutting a niche and flanking. Basically they mean the same thing, i.e. creating a distinctive position for itself and avoiding any head collision with the leaders.
The principles of flanking warfare are:
- A good flanking move must be made in an uncontested area,
- Tactical surprise ought to be an important element of the plan,
- The pursuit is just as critical as the attack itself.

The Guerrilla Warfare: The last form is the guerrilla warfare. Most of the players in a marketing war would be fighting in the market place like the guerrillas. Smaller companies can be highly successful as long they do not try to emulate the giants in their field. Like flanking form, there can be many guerrillas; like Geographic guerrillas, Demographic guerrillas, Industry guerrillas, product guerrillas and High End guerrillas. In each state, one will find both local make suitcase and other luggage items along with the well known national brands.
Local brands of rubber and plastic chappals are the example of low price end guerrillas.
"Chirag Din" shirts, "Metro Shoes" (Both Mumbai based) are some examples of high price end form of guerrilla warfare.
The principles of guerrilla warfare are:
(i) find segment of the market small enough to defend
(ii) no matter how successful you become, never act like the leader
(iii) be prepared to buy out at a moment's notice

Q. 25. a) Why is branding used as a strategic weapon of product planning? In what ways may a firm pursue a branding and positioning strategy? Describe with examples.

b) i) What is Throughput Accounting ?

ii) ABC Inc. make and sell two products A and B, each of which passes through the same automated production operations. The following estimated information is available for period 1.

Product unit data :	**A**	**B**
Direct material cost (₹)	**2**	**40**
Variable production overhead cost (₹)	**28**	**4**
Overall hours per product unit (Hrs.)	**0.25**	**0.15**

Production/sales of products A and B are 1,20,000 units and 45,000 units respectively. The selling prices per unit for A and B are ₹ 60 and ₹ 70 respectively.
Maximum demand for each product is 20% above the estimated sales levels.
Total fixed production overhead cost is ₹ 14,70,000. This is absorbed by products A and B at an average rate per hour based on the estimated production levels.
Required :
Using net profit as the decision measure, show why the management of ABC Inc. argues that it is indifferent on financial grounds as to the mix of products A and B which should be produced and sold and calculate the total net profit for period 1.

iii) One of the production operations has a maximum capacity of 3,075 hours which has been identified as a bottleneck which limits the overall production/ sales of products A and B. The bottleneck hours required per product unit for Product A and B and 0.015 respectively.

Answer 25.

a) Branding removes anonymity and gives identification to a company and its goods and services. According to Kotler, brand is a name, term, sign, symbol or design or combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors. The reasons for branding are:

- It is a form of product differentiation which makes customers readily identify the goods or services and thereby helps to create a customer loyalty to the brand.
- The more a product is similar to competing goods, the more branding is necessary to create a separate product identity.
- Branding leads to a more ready acceptance of a manufacturer's goods by wholesalers or retailers.
- It facilitates self-selection of goods in self-service stores and also makes it easier for a manufacturer to obtain display space in stores and shops.

- It reduces the importance of price differentials between goods.
- Brand loyalty in customers gives a manufacturer more control over marketing strategy and his choice of channels of distribution.
- Other products can be introduced into brand range on the articles already known to the customer, i.e. brand ex-tension.
- It ceases the task of personal selling.
- It is supposed to convey psychic benefits to the customer.

Positioning through branding strategies might be summarised as:-

Branding Strategy	Description	Implies	Example
Individual name	Stand alone product	Unique	Bold, Tide
Family Branding	The power of the family name to introduce and market new products	Image of the family brand across a range of products. These might be : (i) Blanket family brand; (ii) Separate family names; or iii) Trade name with an individual product-	(i) Tata (ii) Levis for clothing's, e. g. shirts, pants, (iii) Tata-Sumo, Kellogg's Corn Flakes.
Brand Extension	New flavours, size, etc.	High consumer loyalty to existing brand.	Flury's confectionery to ice cream.
Multi-branding	Different names for similar goods serving similar consumer tastes.	Consumer make random purchases across brands.	HLL's different brands of soap products.

b) **i) Throughput Accounting** is developed from three basic concepts – throughput, inventory and operating expenses. Throughput is defined as the difference between revenue and the total variable cost that the system generates from its business activities.

Throughput…is the rate at which the system generates money through sales…….. Inventory is all the money that the system invests in purchasing things which it intends to sell……. Operational expense is all the money the system spends in order to turn inventory into throughput.

The formula used to describe throughput is :

Throughput = Revenue – Purchased material cost.

ii) Total hours = 36,750 (1,20,000 x 0.25) + (45,000 x0.15)

Fixed overhead rate per hour = ₹ 40 (₹ 14,70,000 / 36,750 hours)

Particulars	**Product A (₹)**	**Product B (₹)**
Direct materials	2	40
Variable production overhead	28	4
Fixed production overhead	10 (0.25 x ₹ 40)	6 (0.15 x ₹ 40)
Total cost	40	50
Selling price	60	70
Profit	20	20

Assuming that the company focuses on profits per unit it will be indifferent between the 2 products.

Total net profit = ₹ 33,00,000 (1,20,000 x ₹ 20) + (45,000 x ₹ 20)

iii)

Particulars	Product A (₹)	Product B (₹)
Contribution per unit	₹ 30 (60 – 30)	₹ 26 (70 – 44)
Bottleneck hours	0.02	0.015
Contribution per bottleneck hours	₹ 1,500	₹ 1,733

Based on the contribution per bottleneck hour the maximum demand of product B should be produced. The maximum demand of product B requires 810 hours (54,000 x 0.015) leaving 2,265 hours (3,075 – 810) to be allocated to product A. This will result in the production of 1,13,250 units (2,265 hours/ 0.02) of A. The maximum profit is calculated as follows :

Particulars	₹
Contribution from product A (1,13,250 x ₹ 30)	11,97,500
Contribution from product B (54,000 x ₹ 26)	14,04,000
	48,01,500
Less : Fixed overhead cost	14,70,000
Net profit	33,31,500

Q. 26. The sequence of strategies suggested by Ansoff is industry specific. Develop this sequence for two diverse industries like Insurance and Colour TVs keeping in mind the Indian market.

Answer 26.

The Ansoff's Matrix identifies 4 different kinds of Product market strategy that an Industry should adopt. These are Market Penetration, Market development, Product development and Diversification.

Market penetration involves trying to milk more from the existing products and existing markets. If the market as a whole is growing, this might appear a fairly low risk strategy to adopt. Where the market is stagnant, market penetration might involve market share at the expense of other players in the field.

Market Development uses existing products in new markets. This strategy might be attractive if the unit has to achieve high sales volumes-to utilise capacity efficiently. Product Development involves offering new products to the existing markets.

Diversification involves moving into new market with new product.

Ansoff model is a framework for discussing alternative directions. It is a model for identifying for product-market opportunities. There is no criterion for any choice amongst the strategies suggested by Ansoff. There is nothing to stop a company carrying out all the four strategies simultaneously, provided it has the resources. For example, a firm can pursue simultaneously a penetrating strategy in its existing markets as well as diversifying into new ones.

Insurance Sector: Insurance Sector is a on-going growing industry. Hitherto 'Life insurance Corporation of India' (LIC) had been monopolising this sector. But under the changed scenario, following liberalisation & Globalisation, a number of new players have come in and are posing a real threat to the Industry's Leader viz., LIC.

Further the market size of this Industry is very huge. There is lot of scope to develop many new products. The market is at a developing stage, with the Industry spreading out mostly across the urban and middle class income group.

The sequence of strategies as suggested by Ansoff for the Insurance Sector should be-

- Product Development
- Market Development
- Penetration and finally
- Diversification.

Product Development: Product Development involves offering new products to the existing markets. The scope for Product Development in this sector is tremendous and this should be accorded the top most priority. A lot of new ideas are fast filtering into our country from different countries abroad.

LIC should offer attractive new policies to its existing millions of clientele and thereby retain its number uno status.
Market Development: Market Development is taking place because of the huge market size and the unawareness of people across the country, especially in rural areas about the product.
Market penetration: We are already noticing the huge market penetration that is taking place in the Insurance Sector. Market players are slashing the premium and are making attractive offers-specially to the rural folk by undertaking big publicity campaigns.
Diversification: Insurance biggies like Pru ICICI, Bajaj Aliianz , who are the two top private sector players have already diversified into new areas like Mutual Fund etc. ,
To sum up, Ansoffs model has a lot of relevance for the Insurance Sector. All the strategies., as suggested by Ansoff, are being put into play, as per the sequence suggested above.
Colour TV industry:
Colour TV came into the market for the first time during The Asian Games, 1984. Before that only Black and White TVs were only available. In the language of Strategic Management, we can say that the product 'Black& white TVs' were in the Maturity Phase of Product Life Cycle, whereas the Colour TVs had just been only in the 'Introduction ' Phase.
The sequence of strategies as suggested by Ansoff for the Colour TV Industry should be-The sequence of strategies as suggested by Ansoff for the Insurance Sector should be-

- Market Development
- Penetration
- Product Development and
- Diversification.

Market Development: The Market Development for the Colour TVs industry has been growing exponentially in view of a no. of new TV channels that are entering the Indian market specialising in different areas like Sports channel, Entertainment channel etc. , With the introduction of some populist measures taken by some state Government in the«south, by distributing TV s for the poor and the under-privileged communities the market has suddenly got 'heated up'. Due to the stiff competition, the prices have also tumbled down for a Colour TV. The market for Black& White TV has almost come to a 'Zero' level. Every one are now going crazy for a Colour TV.

Market penetration: Market Penetration is going on at a feverish pitch, due to the emerging new technology like LCD, Plasma etc.

Product Development: Product Development has assumed a special significance for the Colour TV industry. There is a huge stress on quality. The final result as a consequence is a squeeze on profit margin, due to market penetration.

Diversification: Diversification to other areas related to shopping goods are taking place. Many players are moving into new products like Home Theatres, Refrigerators etc.
Summing up, Ansoffs-model has a lot of relevance for the Colour TV industry. All the strategies, as suggested by Ansoff, are being put into play, as per the sequence suggested above.

Q. 27. Examine the recent trends in Portfolio Strategy.

Answer 27.
For some time now, there has been a trend all over the developed world to reduce the breadth of the portfolio and towards greater focus. The concept of core competence has greatly influenced this trend. For example, Glaxo Holding (UK) divested its milk based products and decided to concentrate on prescription drugs. The Anglo-Dutch multinational Unilever gave up its peripheral businesses, packing and transportation. The Pearsons Group (UK) which has a host of businesses decided to focus on the media and entertainment found its performance decline, divested most of the diverse businesses to concentrate on its core business, telecommunications. There are but a few examples of unbundling of the portfolios.

The case focussing: Mr. T. Thomas, Chairman, Glaxo India Ltd., in his speech in one of the Annual General Meetings of the company has very lucidly and succinctly described the rational of focus and vision in business. The nine factors elaborated by him are the following:

- **Specialised Knowledge and Management Skills:** In the increasingly globalising markets characterised by growing competition, a firm needs high quality management that has an adequate depth of specialised knowledge and skills in that specific industry. If attention, skills and other resources are dissipated over a very diverse portfolio it will be very difficult to gain competitive advantage.
- **Adequate Concentration of Investment:** To compete successfully globally, and even domestically, massive investments are required in fixed assets, market place and R & D so that the scale of investments in individual global products groups has reached such proportions that firms have to concentrate their investment in a select number of areas.
- **Market Dominance:** By concentrating resources in one business or in a few select areas of business, a company can gain dominance nationally and globally in those areas. In a properly managed company the profit margins will be higher with higher volumes and market share.
- **Stronger Intra-Business Links:** A strong intra-business link (marketing - R & D link, for example), necessary for success in a highly competitive industry, is possible only if a company focuses itself on select areas of business.
- **Greater Commitment of Managers:** In a high diversified business, managerial efficiency and commitment suffer because of movement of managers across business and differing fortunes and prestiges of businesses. In a more focused firm, the management will be more uniformly committed to each part of a more cohesive business, thereby ensuring its success and growth.
- **Minimising Errors of Judgment:** In a diversified business the top management will find it increasingly difficult to understand each of the individual business and, and therefore, may make errors of commission and omission with regard to judgment of competition and the market place.
- **Avoiding Central Bureaucracy:** A highly diversified company tends to have a central bureaucracy which acts as a link between the management, its central supporting groups (operational and functional) and the corresponding people in each individual business group and location. This central bureaucracy often tends to distort efficient decision making process, besides adding unproductive costs. By focusing on select business segments, the linkage between top management and operations will be more direct and the organisation will be leaner and more agile and far more efficiently responsive to change without the hindrance of a central bureaucracy.
- **Realising the Full Potential of Each Business:** When several businesses are clubbed together in a large diversified group, the real potential of some of the business may not be full realised. Focus would help realise such potential as has been proven by companies like Glaxo, ICI and ITC.
- **Parent/Subsidiary Harmonisation:** When the parent company becomes a focused one, it would be appropriate for the subsidiary to fall in line and harmonise objectives and strategy for better results as has been done by Glaxo India.

Q. 28. What advantages does the GE matrix model have over the BCG matrix?

Answer 28.

The GE Business Screen:

The GE Business Screen is an advanced portfolio matrix developed by General Electric for its use in determining which SBUs or major products to keep in GE's portfolio and which to delete. The GE matrix can also be used to evaluate possible acquisitions, mergers, and/or new product development.

The GE matrix eliminates the majority of the inherent weaknesses of the BCG matrix by employing composite measures of business strengths and industry attractiveness. With the GE matrix, a strategist may plot a business in any of nine positions, as opposed to the BCG's four positions. GE's matrix also includes a corresponding increase in the number of advisable strategies identified. The GE matrix consists of nine cells of different colours that indicate appropriate strategies for different businesses or products. The vertical axis represents industry attractiveness

while the horizontal axis represents the strength of the business or product. Both axes have high, medium, and low locations.
Within the GE matrix, there are three grids labelled G, R, and Y. If a firm or product under analysis falls in an intersection within Grid G, or a "green" cell, then an invest-and-grow strategy should be used. An organisation or product falling in an intersection within Grid R, or a "red" cell, should either (1) be harvested and ultimately divested or (2) employ a retrenchment and turnaround strategy, curtail or reduce investment in the business, and extract as much as possible before the business is divested. Grid Y portrays a firm that intersects in a "yellow" cell, where the firm or product has low business strengths but high industry attractiveness. Here, the organisation should employ a selectivity/earnings strategy. If this demonstrates good earning potential for the business, it should received an invest-and-grow strategy and be monitored continually. If it does not prove worthwhile, it should be divested.
Business strength (controllable dimensions):
The ability of the company to compete effectively in its industry or market includes knowledge about industry, customers, market share, financial performance, quality of its marketing personnel, and production capacity.
Market or industry attractiveness (uncontrollable dimension):
These include market growth rate, competitive industry factors, legal constraints, plus opportunities and threats from the SBU's external environment.

G = High Priority for Investment
Y = Moderate Priority for Investment
R = Low Priority for Investment

G	G	Y	High
G	Y	R	Moderate
Y	R	R	Low
High	Medium	Low	

The GE model has several advantages over the BCG matrix.
First, it allows for intermediate rankings between high and low. Second, it incorporates a variety of strategically relevant variables. Third, it emphasises channeling corporate resources to those businesses that combine market attractiveness with business strength.

The GE model shares some weaknesses with the BCG model.
It yields only general prescriptions as opposed to specific strategies. Although a strategy such as "hold and maintain" may be useful as a starting point, specific approaches to implement the strategy remain wide open. Further, the model fails to show when businesses are about to emerge as winners because the product is entering the takeoff stage. It is therefore recommended to utilise more than one model to overcome some of these problems.
Using one model might help managers to solve a particular problem but overlook other possibilities.

Q. 29. How are decisions taken with regard to brand selection and its use in the Indian context?

Answer 29.
Branding removes anonymity and gives identification to a company and its goods and services. Branding is actually a very general term covering brand names, designs, trademarks, symbols, a distinctive letterhead; an identifiable shop front or van etc., which may be used to distinguish one organisation's goods and services from another's. According to Kotler, a brand is a name, term, sign, symbol or design or combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors. Branding and a firm's reputation are heavily linked.
As appropriate branding is one of the most important activities in the area of marketing of products, especially consumer products, several decisions need to be taken with regard to brand selection and its use. These are:

(1) Should the product be branded at all?
The decision to brand or not to brand a product can be taken only after considering the nature of the product, the type of outlets envisaged for the product, the perceived -advantage of branding and the estimated costs of

developing the brand. Historically, it is found that brand development is closely correlated with the increase in the disposable income, the sophistication of the distribution system and the increasing size of the national market. The same trend is visible in India now. Several firms have started marketing branded products in such product categories as wheat,' flour and refined salt. The reason for such a trend is that a class of consumers are willing to pay more for uniform and better quality product represented by the brand.

(2) Who should sponsor the brand?

The question of sponsorship of a brand refers to the decision as to whether it should be a manufacturer's brand, also known as a national brand or a private -brand, also known as a middlemen's brand. This is a major decision in most developed countries, where large chain/departmental stores dominate the retail distribution system. This is however, largely a hypothetical question in India where retail distribution system is highly fragmented. Only super markets have started marketing a few products that are specially packed and sold under their names. However, some retailers' brand names in product categories such as car accessories have already been established.

(3) What quality should be built into the brand?

A very crucial decision is with regard to the quality and other attributes to be built into the product. The matrix of such attributes will decide the product positioning. A marketer has the option to position his product at any segment of the market: top, bottom or the intermediate. Taking an example, "Ariel" is positioned as a premium quality and high priced product. At the other end of the scale, "Wheel" is positioned as low priced.

(4) Should each product be individually branded or a family brand should be adopted for all the products?

The marketer also has to decide at the outset whether he would like to adopt a family brand under which all the products of the company would be sold or he would like to brand each product separately. Kissan follows the former policy. The same brand name is used for jam, squashes, juices and sauces. 'Hindustan Lever' follows the latter policy. Some firms follow a slightly modified strategy. This involves using brands individually but also giving prominence to the company name or logo in all promotional campaigns as well as in product packaging. For example, Tata group Companies follow this strategy. In many cases a brand extension strategy is adopted for securing additionally mileage from a particularly successful product. For example, 'Lifebuoy Gold' and 'Lifebuoy Plus' are extensions of 'Lifebuoy'.

(5) Should two or more brands be developed in the same product category?

A firm may decide to have several brands of the same product, which to some extent are competing inter se. The basic reason is that, at least in the consumer products, various benefits, appeals and even marginal differences between brands can win a large following. Example: 'Hindustan Lever' markets several soaps under different brands for different segments.

(6) Should the established brand be given a new meaning (repositioning)?

Over the life cycle of a product, several market parameters might undergo a change. All and each of such changes call for a relook as to whether the original positioning of the product is still optimal or not. Stagnating or declining sales also point to a need for reassessment of the original product positioning. For example, 'Lifebuoy Soap' has been repositioned several times in the recent past.

Q. 30. Describe asset liability model and its utility for managing liquidity risk and exchange rate risk.

Answer 30.

Asset liability management is a technique to compute matching of assets and liabilities by which a prudent management of an investment portfolio can be properly taken care of. Asset liability management is defined as "maximising the risk adjusted returns to shareholders over the long run". It is also defined as management of total balance sheet in terms of size and quality (composition of assets and liabilities).

Liquidity risk management through asset liability management

It is difficult to measure liquidity risk as it entails expecting likely inflow of deposits, loan dispersals, changes in competitive environment, etc. The most commonly used techniques for measurement of liquidity risks is the gap analysis. The assets and liabilities are arranged according to their maturity pattern in time brackets. The gap is the difference between the maturing assets to the maturing liabilities. A positive gap indicates that maturities of assets are higher than those of liabilities. A negative gap indicates that some rearrangement of funds will have to be done during that time bracket. It can be from sale of assets or issue of new liabilities or rolling over existing liabilities.

Exchange rate risk management through asset liability management

At a particular exchange rate assets and liabilities of a financial institution match exactly. As the exchange rate fluctuates this balance gets disturbed. A simple solution to correct this risk is to match assets and liabilities of the same currency. Many financial institutions do not have foreign exchange exposure as all their assets and liabilities are in rupee currency. The risk of foreign exchange borrowings of these institutions are passed on to the lenders through dollar denominator loans. The uncovered loans are hedged at the time of contracting them through forward covers for the entire amount.