

Chapter 5

Question Bank

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5.1 Porter's Five Forces Model - Competitive Analysis

Q1.	<p>According to Porter, what is usually the most powerful of the five competitive forces?</p> <p>(a) Rivalry among existing firms (b) Potential development of substitute products (c) Bargaining power of buyers and suppliers (d) Potential entry of new competitors</p> <p>(Sample MCQs)</p>
	<p>Correct answer: (a) Rivalry among existing firms</p>
Q2.	<p>Competitive rivalry has the most effect on the firm's ____ strategies than the firm's other strategies.</p> <p>(a) Business level (b) Corporate level (c) Functional level (d) All of these</p> <p>(Sample MCQs)</p>
	<p>Correct answer: (a) Business level</p>
Q3.	<p>Correct/Incorrect. Substitutes can also exert significant competitive pressures.</p> <p>(RTP, May 2018, NA)</p> <p>The statement is correct.</p> <p>According to porter's five forces model, a final force that can influence industry profitability is the availability of substitutes for an industry's product. To predict profit pressure from this source, firms must search for products that perform the same, or nearly the same, function as their existing products.</p>
Q4.	<p>What are the common barriers that are faced by new entrants when an existing firm earns higher profits?</p> <p>(RTP, May 2018, NA)</p> <p>Or</p> <p>Rahul Sharma is Managing Director of a company which is manufacturing trucks. He is worried about the entry of new businesses. What kind of barriers will help Rahul against such a threat?</p> <p>(RTP, May 2019, NA) (Study Material)</p>

	<p>A firm's profitability tends to be higher when other firms are blocked from entering the industry. New entrants can reduce industry profitability because they add new production capacity leading to increase supply of the product even at a lower price and can substantially erode existing firm's market share. Barriers to entry represent economic forces (or 'hurdles') that slow down or impede entry by other firms. Common barriers to entry include:</p> <p>(i) Capital requirements: When a large amount of capital is required to enter an industry, firms lacking funds are effectively barred from the industry, thus enhancing the profitability of existing firms in the industry.</p> <p>(ii) Economies of scale: Many industries are characterized by economic activities driven by economies of scale. Economies of scale refer to the decline in the per-unit cost of production (or other activity) as volume grows. A large firm that enjoys economies of scale can produce high volumes of goods at successively lower costs. This tends to discourage new entrants.</p> <p>(iii) Product differentiation: Production differentiation refers to the physical or perceptual differences, or enhancements, that make a product special or unique in the eyes of customers. Firms in the personal care products and cosmetics industries actively engage in product differentiation to enhance their products' features. Differentiation works to reinforce entry barriers because the cost of creating genuine product differences may be too high for the new entrants.</p> <p>(iv) Switching costs: To succeed in an industry, new entrant must be able to persuade existing customers of other companies to switch to its products. To make a switch, buyers may need to test a new firm's product, negotiate new purchase contracts, and train personnel to use the equipment, or modify facilities for product use. Buyers often incur substantial financial (and psychological) costs in switching between firms. When such switching costs are high, buyers are often reluctant to change.</p> <p>(v) Brand identity: The brand identity of products or services offered by existing firms can serve as another entry barrier. Brand identity is particularly important for infrequently purchased products that carry a high unit cost to the buyer. New entrants often encounter significant difficulties in building up the brand identity, because to do so they must commit substantial resources over a long period.</p> <p>(vi) Access to distribution channels: The unavailability of distribution channels for new entrants poses another significant entry barrier. Despite the growing power of the internet, many firms may continue to rely on their control of physical distribution channels to sustain a barrier to entry to rivals. Often, existing firms have significant influence over the distribution channels and can retard or impede their use by new firms.</p> <p>(vii) Possibility of aggressive retaliation: Sometimes the mere threat of aggressive retaliation by incumbents can deter entry by other firms into an existing industry. For example, introduction of products by a new firm may lead existing firms to reduce their product prices and increase their advertising budgets.</p>
<p>Q5.</p>	<p>Correct/Incorrect. Economies of scale discourages new entrants. (MTP 1, May 2018, 2 Marks) (SA, May 2018, 2 Marks)</p> <hr/> <p>The statement is correct. Economies of scale refer to the decline in the per-unit cost of production (or other activity) as volume grows. A large firm that enjoys economies of scale can produce high volumes of goods at successively lower costs. This tends to discourage new entrants.</p>
<p>Q6.</p>	<p>Explain Porter's five forces model as to how businesses can deal with the competition. (MTP 2, May 2018, 6 Marks) (RTP, Nov 2018, NA) (MTP 1, May 2019, 5 Marks) (Study Material)</p>

	<p>To gain a deep understanding of a company's industry and competitive environment, managers do not need to gather all the information they can find and waste a lot of time digesting it. Rather, the task is much more focused. A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing the strength and importance of each is the Porter's five-forces model of competition. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market:</p> <ul style="list-style-type: none"> • Competitive pressures associated with the market manoeuvring and jockeying for buyer patronage that goes on among rival sellers in the industry. • Competitive pressures associated with the threat of new entrants into the market. • Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products. • Competitive pressures stemming from supplier bargaining power and supplier-seller collaboration. • Competitive pressures stemming from buyer bargaining power and seller-buyer Collaboration.
Q7.	<p>Explain briefly the competitive forces in any industry as identified by Michael Porter. (SA, May 2018, 5 Marks)</p> <p>Or</p> <p>What are the five competitive forces in an industry as identified by Michael Porter? (RTP, May 2022, NA) (Study Material)</p> <p>Five forces model of Michael Porter is a popular tool for systematically diagnosing the significant competitive pressures in the market and assessing their strength and importance. The model holds that the state of competition in an industry is a composite of competitive pressures operating in five forces as follows:</p> <ol style="list-style-type: none"> 1. Threat of new entrants: New entrants place a limit on prices and affect the profitability of existing players. The new capacity and product range the new entrants bring increases competitive pressure. bigger the new entrant, the more severe the competitive effect. 2. Bargaining power of customers: The bargaining power of the buyers influences not only the prices that the producer can charge but also influence costs and investments of the producer. This force will become heavier depending on the possibilities of the buyers forming groups or cartels, particularly in case of industrial products. 3. Bargaining power of suppliers: Often suppliers can exercise considerable bargaining power. If the suppliers are also limited in number they stand a still better chance to exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, can affect industry attractiveness and profitability. 4. Rivalry among current players: The rivalry among existing players is quite obvious. This is what is normally understood as competition. The impact is evident more at functional level in the prices being charged, advertising, and pressures on costs, product and so on. 5. Threats from substitutes: Substitute products are a latent source of competition in an industry. Substitute products offering a price advantage and/or performance improvement to the consumer can have significant impact. <p>The five forces together determine industry attractiveness/profitability. This is so because these forces influence the causes that underlie industry attractiveness/ profitability.</p>
Q8.	Correct/Incorrect.

	<p>Porter's five forces model considers new entrants as a significant source of competition. (RTP, Nov 2018, NA)</p> <p>The statement is correct.</p> <p>Porter's five forces model considers new entrants as major source of competition. The new capacity and product range that the new entrants bring in throw up new competitive pressure. The bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players.</p>
Q9.	<p>According to Porter, which of the following is important to achieve competitive advantage?</p> <p>(a) Differentiation and cost advantage. (b) Outsourcing activities. (c) Having strong relationship with buyer and sellers. (d) Focus on most competitive businesses. (RTP, May 2019, NA)</p> <p>Correct answer: (a) Differentiation and cost advantage</p>
Q10.	<p>What will happen in case many new businesses enter a market?</p> <p>(a) Barriers to entry will rise. (b) Competitive rivalry will intensify. (c) Capacity of industry will fall. (d) Industry will become more lucrative. (RTP, May 2019, NA)</p> <p>Correct answer: (b) Competitive rivalry will intensify</p>
Q11.	<p>Buyers can exert considerable pressure on business. Do you agree? Discuss. (RTP, Nov 2019, NA)</p> <p>Buyers of an industry's products or services can exert considerable pressure on existing firms to secure lower prices or better services. This is evident in situations where buyers enjoy superior position than the seller of product. This leverage is particularly evident when:</p> <p>(i) Buyers have full knowledge of the sources of products and their substitutes. (ii) They spend a lot of money on the industry's products, i.e., they are big buyers. (iii) The industry's product is not perceived as critical to the buyer's needs and buyers are more concentrated than firms supplying the product. They can easily switch to the substitutes available.</p>
Q12.	<p>Discuss in what conditions rivalry among competitors tends to be cut-throat and profitability of the industry goes down. (SA, Nov 2019, 5 Marks)</p> <p>The intensity of rivalry in an industry is a significant determinant of industry attractiveness and profitability. The intensity of rivalry can influence the costs of suppliers, distribution, and of attracting customers and thus directly affect the profitability. The more intensive the rivalry, the less attractive is the industry. Rivalry among competitors tends to be cutthroat and industry profitability low when</p> <p>(i) An industry has no clear leader. (ii) Competitors in the industry are numerous. (iii) Competitors operate with high fixed costs.</p>

	<p>(iv) Competitors face high exit barriers.</p> <p>(v) Competitors have little opportunity to differentiate their offerings.</p> <p>(vi) The industry faces slow or diminished growth.</p>
Q13.	<p>Eco-carry bags Ltd., a recyclable plastic bags manufacturing and trading company has seen a potential in the ever-growing awareness around hazards of plastics and the positive outlook of the society towards recycling and reusing plastics.</p> <p>A major concern for Eco-carry bags Ltd. are paper bags and old cloth bags. Even though they are costlier than recyclable plastic bags, irrespective, they are being welcomed positively by the consumers.</p> <p>Identify and explain that competition from paper bags and old cloth bags fall under which category of Porter's Five Forces Model for Competitive Analysis?</p> <p>(RTP, May 2020, NA) (Study Material)</p>
	<p>Eco-carry bags Ltd. faces competition from paper bags and old cloth bags and falls under Threat of Substitutes force categories in Porter's Five Forces Model for Competitive Analysis. Paper and cloth bags are substitutes of recyclable plastic bags as they perform the same function as plastic bags. Substitute products are a latent source of competition in an industry. In many cases, they become a major constituent of competition. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry.</p>
Q14.	<p>Competitive pressures operate as a composite in five areas of the overall market.</p> <p>Elaborate.</p> <p>(RTP, May 2021, NA)</p>
	<p>Competition makes organizations work harder, however, it is neither a coincidence nor bad luck. All organizations have competition and its benefit are enjoyed by the markets. The customers are able to get better products at lower costs. They get better value for their money because of competition. A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing the strength and importance of each is the Porter's five-forces model of competition. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market as follows:</p> <p>(i) Rivalry among current players: Competitive pressures associated with the market manoeuvring and jockeying for buyer patronage that goes on among rival sellers in the industry.</p> <p>(ii) Threat of new entrants: Competitive pressures associated with the threat of new entrants into the market.</p> <p>(iii) Threats from substitutes: Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products.</p> <p>(iv) Bargaining power of suppliers: Competitive pressures stemming from supplier bargaining power and supplier-seller collaboration.</p>
Q15.	<p>There are many companies in the market offering COVID vaccine. Analyse the product in terms of threat of new entrants.</p> <p>(SA, May 2021, 5 Marks)</p>
	<p>There are three companies offering a vaccine for COVID-19 in India and a fourth company is awaiting approval from authorities.</p> <p>This product involves huge capital requirements and hence not every existing pharma company is likely to get into the competition. However, once approved for use, the entire world is the target</p>

	<p>market. This would lead to economies of scale helping the company to recover the investments made. The product differentiation is in terms of the low after effect of the vaccine and the effectiveness of the vaccine in controlling COVID-19. Brand identity is becoming very important with people preferring international brands compared to a home ± grown company. Factors like switching cost, access to distribution channels and possibility of aggressive retaliation do not apply at present because governments across the world are controlling these factors and the vaccine has not entered the phase of free competition.</p>
Q16.	<p>Easy Access is a marketing services company providing consultancy to a range of business clients. Easy Access and its rivals have managed to persuade the Government to require all marketing services companies to complete a time-consuming and bureaucratic registration process and to comply with an industry code of conduct. Do you think that by doing this Easy Access and its rivals has an advantage in some way to fight off competitors? Explain.</p> <p>(RTP, Nov 2021, NA)</p> <p>Yes, Easy Access and its rivals get advantage by this move. The new bureaucratic process is making it more complicated for organizations to start up and enter in Easy Access market, increasing barriers to entry and thereby reducing the threat of new entrants. New entrants can reduce an industry's profitability, because they add new production capacity, leading to increase in supply of the product, sometimes even at a lower price and can substantially erode existing firm's market share position. However, New entrants are always a powerful source of competition. The new capacity and product range they bring in throws up a new competitive pressure. The bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players, which is known as Price War.</p>
Q17.	<p>What are the factors which determine the nature of rivalry in an industry?</p> <p>(SA, Nov 2021, 5 Marks)</p> <p>The intensity of rivalry in an industry is a significant determinant of an industry's attractiveness and profitability. The intensity of rivalry can influence the costs of suppliers, distribution, and of attracting customers and thus, can directly affect the profitability. "The more intensive the rivalry, the less attractive is the industry". Rivalry among competitors tends to be cutthroat and an industry's profitability is low when;</p> <p>(i) An industry has no clear leader. Therefore, continuous war for leadership.</p> <p>(ii) Competitors in the industry are numerous.</p> <p>(iii) Competitors operate with high fixed costs. Thus, aiming for better Return on Investment with more fierce tactics.</p> <p>(iv) Competitors face high exit barriers, and therefore, continue to fight for market share.</p> <p>(v) Competitors have little opportunity to differentiate their offerings.</p> <p>(vi) The industry faces slow or diminished growth.</p>
Q18.	<p>Baby Turtle is a children's clothing brand that has been created a new age demand for washable diapers. The major benefit for the brand has been that not many companies have shown interest in the product, thinking it is not viable, however customers majorly working mothers are loving their product. The core material needed for production is also used in many other water proofing products in various industries. Baby Turtle sources this material from a renowned supplier at comparatively low</p>

prices. Which of the five forces of competitive pressure would Baby Turtle experience due to above setup and what are major factors that create such pressure for a product? Do you think Baby Turtle has an advantage in some way to fight off this pressure?

(Study Material)

Baby Turtle would experience, Bargaining Power of Suppliers, as a competitive pressure for their washable diaper product. This is because the core material for production is sourced from a single supplier, who is renowned and in a position to create pressure in terms of prices.

Further, other factors that lead to such pressure are:

1. Their products are crucial to the buyer and substitutes to the material required for production are not available.
2. Suppliers can manipulate switching cost as the brand is in inception stage and making margins are important.

An advantage that Baby Turtle has is even though the material required has no substitutes but it used to make many other products and thus there are many other suppliers who can provide that material. It might affect operations in short term but will help to fight off the pressure created by existing supplier.

5.2 Michael Porter's Generic Strategies

- Q1. A narrow market focus is to a differentiation-based strategy as a
- (a) Broadly-defined target market is to a cost leadership strategy
 - (b) Growth market is to a cost-based strategy
 - (c) Technological innovation is to a cost-based strategy
 - (d) Growth market is to a differentiation-based strategy

(Sample MCQs)

Correct answer: (a) Broadly-defined target market is to a cost leadership strategy

- Q2. A firm successfully implementing a differentiation strategy would expect:
- (a) Customers to be sensitive to price increases.
 - (b) To charge premium prices..
 - (c) Customers to perceive the product as standard.
 - (d) To automatically have high level of power over suppliers.

(Sample MCQs) (MTP 1, May 2019, 1 Mark) (MTP 2, May 2021, 1 Mark)

Correct answer: (b) To charge premium prices.

- Q3. The Niche strategy is the best way to enter a:
- a) New market
 - b) Growing market
 - c) Matured market
 - d) None of the above

(Sample MCQs)

	Correct answer: (c) Matured market
Q4.	<p>Advantages of Cost leadership strategy. (RTP, May 2018, NA) (MTP 1, Nov 2018, 5 Marks)</p> <p>A cost leadership strategy may help to remain profitable in the presence of rivalry, new entrants, suppliers' power, substitute products, and buyers' power.</p> <p>(i) Rivalry – Competitors are likely to avoid a price war, since the low cost firm will continue to earn profits after competitors compete away their profits.</p> <p>(ii) Buyers – Powerful buyers/customers would not be able to exploit the cost leader firm and will continue to buy its product.</p> <p>(iii) Suppliers – Cost leaders are able to absorb greater price increases before it must raise price to customers.</p> <p>(iv) Entrants – Low cost leaders create barriers to market entry through its continuous focus on efficiency and reducing costs.</p> <p>(v) Substitutes – Low cost leaders are more likely to lower costs to induce customers to stay with their product, invest to develop substitutes, purchase patents.</p>
Q5.	<p>Airlines industry in India is highly competitive with several players. Businesses face severe competition and aggressively market themselves with each other. Luxury Jet is a private Delhi based company with a fleet size of 9 small aircrafts with seating capacity ranging between 6 seats to 9 seats. These aircrafts are chartered by big business houses and high net worth individuals for their personalised use. With customised tourism packages their aircrafts are also often hired by foreigners. Identify and explain the Michael Porter's Generic Strategy followed by Luxury Jet. (RTP, May 2018, NA) (RTP, Nov 2020, NA) (Study Material)</p> <p>The Airlines industry faces stiff competition. However, Luxury Jet has attempted to create a niche market by adopting focused differentiation strategy. A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market.</p> <p>Luxury Jet compete in the market based on uniqueness and target a narrow market which provides business houses, high net worth individuals to maintain strict schedules. The option of charter flights provided several advantages including, flexibility, privacy, luxury and many a times cost saving. Apart from conveniences, the facility will provide time flexibility. Travelling by private jet is the most comfortable, safe and secure way of flying your company's senior business personnel.</p> <p>Chartered services in airlines can have both business and private use. Personalized tourism packages can be provided to those who can afford it.</p>
Q6.	<p>Distinguish between cost leadership and differentiation strategies. (MTP 1, May 2018, 5 Marks) (RTP, Nov 2018, NA) (MTP 1, May 2020, 5 Marks) (RTP, Nov 2020, NA) (MTP 1, Nov 2020, 5 Marks) (Study Material)</p> <p>Cost leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive. Differentiation is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price - insensitive.</p> <p>A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. But cost leadership generally must be pursued in conjunction with differentiation. Different strategies offer different degrees of differentiation. A differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product. A successful</p>

	differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty.
Q7.	<p>Discuss differentiation strategy? How is it achieved? (MTP 2, May 2018, 3 Marks) (SA, May 2019, 5 Marks)</p> <p>Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, the business can charge a premium for its product.</p> <p>Differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes.</p> <p>To achieve differentiation, following measures can be adopted by an organization:</p> <ol style="list-style-type: none"> 1. Offer utility for the customers and match the products with their tastes and preferences. 2. Elevate the performance of the product. 3. Offer the promise of high quality product/service for buyer satisfaction. 4. Rapid product innovation. 5. Taking steps for enhancing image and its brand value. 6. Fixing product prices based on the unique features of the product and buying capacity of the customer.
Q8.	<p>Explain the meaning of cost leadership strategy. (RTP, Nov 2018, NA)</p> <p>A number of cost elements affect the relative attractiveness of generic strategies. A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overhead cost, and waste reduction. The low cost leadership should be such that no competitors are able to imitate so that it can result in sustainable competitive advantage to the cost leader firm.</p>
Q9.	<p>Gennex is a company that designs, manufactures and sells computer hardware and software. Gennex is well known for its innovative products that has helped the company to have advantage over its competitors. It also spends on research and development and concerned with innovative softwares. Often the unique features of their product, that are not available with their competitors helps them to gain competitive advantage. Gennex using the strategy is consistently gaining its position in the industry over its competitors.</p> <p>Identify and explain the Porter's generic strategy which Gennex has opted to gain the competitive advantage. (RTP, Nov 2018, NA) (MTP 2, May 2019, 5 Marks) (Study Material)</p> <p>According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies. Gennex has opted differentiation strategy. Its products are designed and produced to give the customer value and quality. They are unique and serve specific customer needs that are not met by other companies in the industry. Highly differentiated and unique hardware and software enables Gennex to charge premium prices for its products hence making higher profits and maintain its competitive position in the market.</p>

	Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service.
Q10.	<p>Sohan and Ramesh are two friends who are partners in their business of making biscuits. Sohan believe in making profits through selling more volume of products. Hence, he believes in charging lesser price to the customers. Ramesh, however of the opinion that higher price should be charged to create an image of exclusivity and for this, he proposes that the product to undergo some change. Analyse the nature of generic strategy used by Sohan and Ramesh.</p> <p>(SA, Nov 2018, 5 Marks) (Study Material)</p> <p>Considering the generic strategies of Porter there are three different bases: cost leadership, differentiation and focus. Sohan and Ramesh are contemplating pricing for their product. Sohan is trying to have a low price and high volume are thereby trying for cost leadership. Cost leadership emphasizes producing standardised products at a very low per unit cost for consumers who are price sensitive.</p> <p>Ramesh desires to create perceived value for the product and charge higher prices. He is trying to adopt differentiation. Differentiation is aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price insensitive.</p>
Q11.	<p>What do you understand by cost leadership? How is it achieved?</p> <p>(RTP, May 2019, NA)</p> <p>Or</p> <p>Write a short note on the concept of cost leadership strategy and how to achieve it.</p> <p>(SA, Nov 2019, 5 Marks) (RTP, May 2021, NA)</p> <p>Cost leadership is a low cost competitive strategy that aims at broad mass market. It requires vigorous pursuit of cost reduction in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs. Because of its lower costs, the cost leader is able to charge a lower price for its products than its competitors and still make satisfactory profits. A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits.</p> <p>A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overhead, limited perks, intolerance of waste, intensive screening of budget requests, wide spans of control, rewards linked to cost containment, and broad employee participation in cost control efforts. Some risks of pursuing cost leadership are that competitors may imitate the strategy.</p> <p>To achieve cost leadership, following are the actions that could be taken:</p> <ol style="list-style-type: none"> Forecast the demand of a product or service promptly. Optimum utilization of the resources to get cost advantages. Achieving economies of scale leads to lower per unit cost of product/service. Standardisation of products for mass production to yield lower cost per unit. Invest in cost saving technologies and try using advance technology for smart working. Resistance to differentiation till it becomes essential.
Q12.	Infant care is a successful store chain that caters products for expectant mothers and new moms. They offer everything from nursing classes to strollers, toys, infant clothes, diapers and baby furniture.

	<p>Due to a one-stop shop for infants, they are charging a premium for its products. Identify and explain how the strategy adopted by infant care.</p> <p>(MTP 1, May 2019, 5 Marks) (Study Material)</p>
	<p>Infant care is opting for differentiation strategy. A one-stop shop is a benefit for this type of customers, seeking convenience in a time. Infant care is catering the products only related to infants that is perceived by the customers as unique. Because of differentiation, the Infant care is charging a premium for its product.</p>
Q13.	<p>Michael Porter Generic strategies to gain competitive advantage include all except:</p> <ol style="list-style-type: none"> Cost leadership Differentiation Focus Revenue generation <p>(MTP 2, May 2019, 1 Mark)</p>
	<p>Correct answer: (d) Revenue generation</p>
Q14.	<p>Porter' cost leadership is a _____ strategy</p> <ol style="list-style-type: none"> Functional level Business level Corporate level Implementation <p>(RTP, Nov 2019, NA)</p>
	<p>Correct answer: (b) Business level</p>
Q15.	<p>A century-old footwear company "Mota Shoes" had an image of being the footwear choice for formal occasions. In an attempt to reinvent its brand, it tied up with a foreign footwear giant "Buffrine" to manufacture and sell its Hideseeek brand in the country. Putting its best foot forward, it launched extra soft, casual and relaxed footwear for young. Aiming at a brand and image makeover the "Mota Shoes" decided to price the Hide Seek products at premium. What kind of Michael Porter business level strategy is being used by "Mota Shoe company"? State its advantages.</p> <p>(RTP, Nov 2019, NA) (Study Material)</p>
	<p>Mota shoes is trying to use differentiation. This strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, the business can charge a premium for its product.</p> <p>A differentiation strategy has definite advantages as it may help to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power.</p> <p>i. Rivalry: Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.</p> <p>ii. Buyers: They do not negotiate for price as they get special features and also they have fewer options in the market.</p> <p>iii. Suppliers: Because differentiators charge a premium price, they can afford to absorb higher costs of supplies and customers are willing to pay extra too.</p>

	<p>iv. New entrants: Innovative features are expensive to copy. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.</p> <p>v. Substitutes: Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.</p>
Q16.	<p>In Michael Porter's generic strategy _____ emphasizes producing standardized products at a very low per unit-cost for consumers who are price sensitive.</p> <p>(a) Cheap leadership (b) Inferior product leadership (c) Cost leadership (d) Cost benefit</p> <p>(MTP 1, Nov 2019, 1 Mark)</p>
	<p>Correct answer: (c) Cost leadership</p>
Q17.	<p>'Coffee Beans' is a coffeehouse chain that operates across the globe in different countries. 'Coffee Beans' has adopted a strategy to build business by establishing product uniqueness or qualities and gain competitive advantage based on features of its offerings in coffee business. Which type of strategy 'Coffee Beans' has adopted?</p> <p>(MTP 1, Nov 2019, 5 Marks)</p>
	<p>Coffee Beans is opting for differentiation strategy. This strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, Coffee Beans can charge a premium for its product.</p>
Q18.	<p>Differentiation Strategy can be achieved by following measures:</p> <ol style="list-style-type: none"> 1. Match products with tastes and preferences of customers. 2. Elevate the performance of the product. 3. Rapid product innovation <p>Which of the above is true?</p> <p>(a) (1) and (2) (b) (1) and (3) (c) (2) and (3) (d) (1), (2) and (3)</p> <p>(RTP, May 2020, NA)</p>
	<p>Correct answer: (d) (1), (2) and (3)</p>
Q19.	<p>A differentiation strategy may help to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power. Explain.</p> <p>(RTP, May 2020, NA)</p>
	<p>A differentiation strategy may help to remain profitable even with: rivalry, new entrants, suppliers' power, substitute products, and buyers' power.</p> <p>1. Rivalry - Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.</p>

	<p>2. Buyers – They do not negotiate for price as they get special features and also they have fewer options in the market.</p> <p>3. Suppliers – Because differentiators charge a premium price, they can afford to absorb higher costs of supplies and customers are willing to pay extra too.</p> <p>4. Entrants – Innovative features are an expensive offer. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.</p> <p>5. Substitutes – Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.</p>
Q20.	<p>Low cost, differentiation and focus are:</p> <p>(a) SBU level strategies</p> <p>(b) Corporate level strategies</p> <p>(c) Business level strategies</p> <p>(d) Functional level strategies</p> <p>(MTP 1, Nov 2020, 1 Mark)</p>
	<p>Correct answer: (c) Business level strategies</p>
Q21.	<p>ABC Ltd. is a beverage manufacturing company. It chiefly manufactures soft drinks. The products are priced on the lower side which has made the company a leader in the business. Currently it is holding 35 percent market share. The R & D of company developed a formula for manufacturing sugar free beverages. On successful trial and approval by the competent authorities, company was granted to manufacture sugar free beverages. This company is the pioneer to launch sugar free beverages which are sold at a relatively higher price. This new product has been accepted widely by a class of customers. These products have proved profitable for the company. Identify the strategy employed by the company ABC Ltd. and mention what measures could be adopted by the company to achieve the employed strategy.</p> <p>(SA, Nov 2020, 5 Marks) (Study Material)</p>
	<p>According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies. ABC Ltd. has opted Differentiation Strategy. The company has invested huge amount in R & D and developed a formula for manufacturing sugar free beverages to give the customer value and quality. They are pioneer and serve specific customer needs that are not met by other companies in the industry. The new product has been accepted by a class of customers. Differentiated and unique sugar free beverages enable ABC Ltd. to charge relatively higher for its products hence making higher profits and maintain its competitive position in the market.</p> <p>Sugar free beverage of ABC Ltd. is being accepted widely by a class of customers. Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, and dealer network or customer service.</p> <p>Achieving Differentiation Strategy</p> <p>To achieve differentiation, following strategies are generally adopted by an organization:</p> <ol style="list-style-type: none"> 1. Offer utility to the customers and match products with their tastes and preferences. 2. Elevate/Improve performance of the product. 3. Offer the high-quality product/service for buyer satisfaction. 4. Rapid product innovation to keep up with dynamic environment. 5. Taking steps for enhancing brand image and brand value.

	6. Fixing product prices based on the unique features of product and buying capacity of the customer.
Q22.	<p>Spacetek Pvt. Ltd. is an IT company. Although there is cut throat competition in the IT sector, Spacetek deals with distinctive niche clients and is generating high efficiencies for serving such niche market. Other rival firms are not attempting to specialize in the same target market. Identify the strategy adopted by Spacetek Pvt. Ltd. and also explain the advantages and disadvantages of that strategy.</p> <p>(SA, Jan 2021, 5 Marks) (MTP 1, Nov 2021, 5 Marks) (Study Material)</p> <p>Spacetek Pvt. Ltd. company has adopted Focus strategy which is one of the Michael Porter's Generic strategies. Focus strategies are most effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialize in the same target segment. An organization using a focus strategy may concentrate on a particular group of customers, geographic markets, or on particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market.</p> <p>Advantages of Focus Strategy</p> <ol style="list-style-type: none"> 1. Premium prices can be charged by the organizations for their focused product/services. 2. Due to the tremendous expertise about the goods and services that organizations following focus strategy offer, rivals and new entrants may find it difficult to compete. <p>Disadvantages of Focus Strategy</p> <ol style="list-style-type: none"> 1. The firms lacking in distinctive competencies may not be able to pursue focus strategy. 2. Due to the limited demand of product/services, costs are high which can cause problems. 3. In the long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.
Q23.	<p>X-Olympus is a gaming software company specializing in developing games for ZBox and GameStation-4. The company is facing stiff competition due to saturation of market and price wars, which has excessively favor and highlight their dependence on gaming console manufacturers. Thereby, the company desires to establish a competitive advantage over industry rivals by enhancing the gaming experience by expanding into Edge-Cloud Gaming Service on a monthly subscription basis. This service offering does not require dedicated gaming consoles yet provide customers game streaming in 4K resolution with an ample range of games to select from. This move is expected to insulate X-Olympus from price wars and provide a competitive advantage. Identify and explain the generic strategies adopted by X-Olympus?</p> <p>(MTP 1, May 2021, 5 Marks)</p> <p>According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies. X-Olympus is facing cutthroat competition due to saturation of market and price wars as there is no clear leader out of the numerous competitors. For this, the strategy adopted by X-Olympus is Product Differentiation by introducing a unique product to cater the customer needs at a lesser cost which would insulate it from the fierce competition and never-ending price wars.</p>
Q24.	<p>Domolo is a premium cycles and cycling equipments brand which targets high spending customer with a liking for quality and brand name. Their cycles range from rupees fifteen thousand to rupees one lac. The recent trend of fitness through cycling has created humongous demand for cycles and peripherals like helmets, lights, braking systems, fitness applications, etc. The customer base has grown 150% in the last three months. Mr. Vijay, who is an investor wants to tap in this industry and bring about cheaper options to people who cannot spend so much. Which business level strategy</p>

	<p>would best suit for Mr. Vijay's idea and what are the major substrategies that can be implemented to capture maximum market?</p> <p>(MTP 2, May 2021, 5 Marks) (Study Material)</p> <p>The Best Cost Provider strategy would ensure a better reach to the not so affluent customers and provide them with good quality cycles and equipments, thus tapping in on the increasing trend of cycling.</p> <p>Two sub-strategies that can be implemented are:</p> <ol style="list-style-type: none"> 1. Offering lower prices than rivals for the same quality of products 2. Charging same prices for better quality of products <p>The idea of Mr. Vijay is to provide almost same quality of products in terms of functionality if not so in terms of branding, to customer who do not have huge sums of money to pay. Thus, sub- strategy number one, offering lower prices for almost same quality should be implemented to become the best cost provider of cycles and related equipments in the market.</p>
Q25.	<p>Trekking Poles is a small company based in the Himalayan ranges in India. It is known in the region for its hill walking sticks. Trekking Poles sell specialist walking equipment in their small shop at the foot of the mountains. They do not have a website yet are able to sell their products at premium prices. Which of the following one of Porter's generic strategies best fits Trekking Poles?</p> <p>(a) Cost leadership (b) Differentiation (c) Focused cost leadership (d) Focused differentiation</p> <p>(RTP, Nov 2021, NA)</p> <p>Correct answer: (d) Focused differentiation</p>
Q26.	<p>Explain in brief the various basis of differentiation strategy.</p> <p>(RTP, Nov 2021, NA)</p> <p>There are several basis of differentiation, major being: Product, Pricing and Organization.</p> <p>Product: Innovative products that meet customer needs can be an area where a company has an advantage over competitors. However, the pursuit of a new product offering can be costly ± research and development, as well as production and marketing costs can all add to the cost of production and distribution. The payoff, however, can be great as customer's flock to be among the first to have the new product.</p> <p>Pricing: It fluctuates based on its supply and demand and may also be influenced by the customer's ideal value for a product. Companies that differentiate based on product price can either determine to offer the lowest price or can attempt to establish superiority through higher prices.</p> <p>Organisation: Organisational differentiation is yet another form of differentiation. Maximizing the power of a brand or using the specific advantages that an organization possesses can be instrumental to a company's success. Location advantage, name recognition and customer loyalty can all provide additional ways for a company differentiate itself from the competition.</p>
Q27.	<p>BHAVNAV is a business which makes and sells laptop computers in France. In recent years it has been struggling to compete with its rivals and has seen a significant fall in its market share. BHAVNAV's</p>

	<p>managers identify that majority of its products launched by BHAVNAV's rivals were high specification, with good quality materials and many innovative design features. Products with inferior quality, such as those sold by BHAVNAV have not sold well in France. This information led BHAVNAV's management team to decide to select a new business strategy based on Porter's Generic Strategic Model. Identify and suggest the best business strategy BHAVNAV's management has to opt for?</p> <p>(MTP 2, Nov 2021, 5 Marks)</p>
	<p>According to Porter, the three different business strategies are: cost leadership, differentiation, and focus. Porter called these base generic strategies.</p> <p>The information about competitor activities indicates that the market is uninterested in low-cost items, so a cost leadership approach is unlikely to be successful for BHAVNAV. It is suggested to adopt a differentiation strategy and find some way of enabling its laptops to stand out from its rivals.</p> <p>Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service.</p>
<p>Q28.</p>	<p>Inspite of high commodity inflation, shortage of components and the threat of a third wave of Covid-19 pandemic in India, manufacturers of packaged goods, home appliances and consumer electronics are expecting the business to grow by 12 to 25 percent in the coming months. After one and a half years of disruption, manufacturers are now confident about managing their inventories better, keeping their supply channels well stocked and preparing themselves to minimize the impact of any covid related restrictions even as they gear up for the festive season, which usually accounts for 25 to 30 percent of their yearly sales.</p> <p>The home appliances sector could be an example. After a dismal April-June quarter in the year 2021, producers of air conditioners, refrigerators and washing machines are expecting their business to grow by 15-20 percent in the months to come. All the companies operating in the sector have geared up to grab the opportunities available in the market. A leading company in the home appliances domain, XXP India, is planning to launch various innovative product designs and offer loyalty programmes to lure customers. With reference to Michael Porter's Generic strategies, identify which strategies XXP India has planned for? Explain how this strategy will be advantageous to the company to remain profitable?</p> <p>(SA, Nov 2021, 5 Marks)</p>
	<p>According to Michael Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies.</p> <p>XXP India Ltd. has planned for Differentiation Strategy. The company is planning to launch various innovative product designs and offer loyalty programmes to lure customers.</p> <p>Differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty, because consumers may become strongly attached to the differentiated features.</p> <p>Advantages of Differentiation Strategy</p> <p>A differentiation strategy may help an organisation to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power.</p>

	<p>1. Rivalry - Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.</p> <p>2. Buyers – They do not negotiate for price as they get special features, and they have fewer options in the market.</p> <p>3. Suppliers – Because differentiators charge a premium price, they can afford to absorb higher costs of supplies as the customers are willing to pay extra too.</p> <p>4. Entrants – Innovative features are an expensive offer. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.</p> <p>5. Substitutes – Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.</p>
Q29.	<p>A business consultancy firm specializes in environment management consultancy. It advises client companies on how to set up environmental management accounting systems. For measuring recording and analyzing environmental costs. A large part of its business involves performing environmental audits to check whether companies have achieved an international assurance standard in environmental management; this is something that rival consultancy firms do not do. The firm also carries out other management consultancy projects for client, but these make up only a small proportion of its total annual fee income. Identify the strategy categories by Michael Porter which best describes the strategy of this firm.</p> <p>(RTP, May 2022, NA)</p> <p>By concentrating mainly on the 'market' for consultancy services in environmental management, the firm is pursuing a focus strategy. By offering audit services, which rival firms do not, this indicates a differentiation strategy within this chosen market niche. Hence, the firm is following Focus differentiation strategy.</p> <p>A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. Similar to focused low-cost strategy, narrow markets are defined in different ways in different settings. Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only. Others target particular demographic groups. Firms that compete based on uniqueness and target a narrow market are following a focused differentiations strategy.</p>
Q30.	<p>A private Moneyload Ltd. Bank that targets high worth individuals. They offer a premium service with many additional and personal services not normally available through other banks. They charge a significant annual fee for these services. The company makes full use of information technology throughout its operations in order to minimize costs. Identify and explain the generic strategy adopted by Moneyload Ltd. Bank?</p> <p>(MTP 1, May 2022, 5 Marks)</p> <p>According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies. Moneyland Ltd. Bank targets a narrow segment of the market, offering unique and desirable products. The bank will want to keep its costs under control, but it will not reduce costs at the expenses of reducing the quality levels of the customer service it offers. By maintaining high quality</p>

levels, it will still be able to charge a premium for its services. Thus, the strategy adopted by Moneyland Ltd. Bank is Focused Differentiation.

A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only. Others target particular demographic groups. Firms that compete based on uniqueness and target a narrow market are following a focused differentiations strategy.

5.3 Best Cost Provider Strategy

Q1.	<p>Explain Best-cost provider strategy. (RTP, May 2018, NA)</p>
	<p>Best-cost provider strategy involves providing customers more value for the money by emphasizing low cost and better quality difference. It can be done:</p> <p>(a) through offering products at lower price than what is being offered by rivals for products with comparable quality and features or</p> <p>(b) charging similar price as by the rivals for products with much higher quality and better features.</p>
Q2.	<p>Best-cost provider strategy is related to providing customers more value for money by:</p> <p>A. Highlighting low cost and low quality difference.</p> <p>B. Emphasizing low cost and better quality difference.</p> <p>C. Producing high cost and low quality difference.</p> <p>D. Managing high cost and low quality difference.</p> <p>(RTP, Nov 2019, NA)</p> <p>Or</p> <p>Best-cost provider strategy involves providing customers more value for the money by emphasizing:</p> <p>(a) Low cost and low quality difference</p> <p>(b) Low cost and better quality difference</p> <p>(c) High cost and low quality difference</p> <p>(d) High cost and better quality difference</p> <p>(MTP 1, Nov 2019, 1 Mark)</p>
	<p>Correct answer: (b) Emphasizing low cost and better quality difference</p>
Q3.	<p>Best Cost provider strategies</p> <p>(a) Seek to attract buyers on the basis of charging low price for low quality</p> <p>(b) Aim at giving customers less value for more money</p> <p>(c) Seek to attract buyers on the basis of charging high price for high quality</p> <p>(d) Aim to giving customers low cost and better quality</p>

(MTP 1, May 2022, 1 Mark)

Correct answer: (d) Aim to giving customers low cost and better quality