Chapter 4

Question Bank

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3.1 Stability

Q1.	Correct/Incorrect. Stability strategy is not a 'do-nothing' strategy. **(RTP, Nov 2018, NA)**
	The statement is correct. Stability strategies are implemented by approaches wherein few functional changes are made in the products or markets. It is not a 'do nothing' strategy. It involves keeping track of new developments to ensure that the strategy continues to make sense. This strategy is typical for mature business organizations. Some small organizations will also frequently use stability as a strategic focus to maintain comfortable market or profit position.
Q2.	Stability strategy is a __________ strategy. (a) Functional level. (b) Business level (c) Corporate level. (d) implementation. **(RTP, May 2019, NA)**
	Correct answer: (c) Corporate level
Q3.	What is stability strategy? What are the reasons to pursue stability strategy? **(RTP, Nov 2019, NA)**
	One of the important goals of a business enterprise is stability - to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business. A stability strategy is pursued by a firm when: ● It continues to serve in the same or similar markets and deals in same or similar products and services. ● The strategic decisions focus on incremental improvement of functional performance. Major reasons for stability strategy are as follows: ● A product has reached the maturity stage of the product life cycle. ● It is less risky as it involves less changes and the staff feels comfortable with things as they are.

	• The environment faced is relatively stable. • Expansion may be perceived as being threatening. • Consolidation is sought through stabilizing after a period of rapid expansion.
Q4.	Justify the statement "Stability strategy is opposite of Expansion strategy". **(RTP, May 2021, NA) (MTP 1, May 2021, 5 Marks)**
	Stability Strategies, as name suggests, are intended to safeguard the existing interests and strengths of business. It involves organisations to pursue established and tested objectives, continue on the chosen path, maintain operational efficiency and so on. A stability strategy is pursued when a firm continues to serve in the same or similar markets and deals in same products and services. In stability strategy, few functional changes are made in the products or markets, however, it is not a 'do nothing' s trategy. This strategy is typical for mature business organizations. Some small organizations also frequently use stability as a strategic focus to maintain comfortable market or profit position. On the other hand, expansion strategy is aggressive strategy as it involves redefining the business by adding the scope of business substantially, increasing efforts of the current business. In this sense, it becomes opposite to stability strategy. Expansion is a promising and popular strategy that tends to be equated with dynamism, vigor, promise and success. Expansion also includes diversifying, acquiring and merging businesses. This strategy may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.

3.2 Expansion

Q1.	Vertical integration may be beneficial when (a) Lower transaction costs and improved coordination are vital and achievable through vertical integration. (b) Flexibility is reduced, providing a more stationary position in the competitive environment. (c) Various segregated specializations will be combined. (d) The minimum efficient scales of two corporations are different. **(Sample MCQs) (MTP 1, May 2019, 1 Mark) (RTP, May 2020, NA)**
	Correct answer: (a) Lower transaction costs and improved coordination are vital and achievable through vertical integration
Q2.	One of the primary advantages of diversification is sharing core competencies. In order for diversification to be most successful, it is important that (a) The target market is the same, even if the products are very different. (b) The products use similar distribution channels. (c) The methods of production are the same. (d) The similarity required for sharing core competencies must be in the value chain, not in the product. **(Sample MCQs)**

	Correct answer: (d) The similarity required for sharing core competencies must be in the value chain, not in the product
Q3.	Horizontal integration is concerned with (a) Production (b) Quality (c) Product planning (d) All of the above **(Sample MCQs)**
	Correct answer: (a) Production
Q4.	The reasons for acquisition are (a) Increased market power (b) Increased diversification (c) Increased speed to market (d) All of the these **(Sample MCQs)**
	Correct answer: (d) All of these
Q5.	Conglomerate diversification is another name for which of the following? (a) Related diversification (b) Unrelated diversification (c) Portfolio diversification (d) Acquisition diversification **(Sample MCQs) (MTP 1, May 2019, 1 Mark)**
	Correct answer: (b) Unrelated diversification
Q6.	When two organisations combine to increase their strength and financial gains along with breaking the trade barriers is called----------- (a) Hostile takeover (b) Liquidation (c) Merger (d) Acquisition **(Sample MCQs) (MTP 1, Nov 2020, 1 Mark)**
	Correct answer: (c) Merger
Q7.	Entering into a ‘contract’ by MNCs is an example of: a) Partial Ownership Alliance b) Joint Venture Alliance

	c) Non-Equity Alliance d) Joint Ownership Alliance **(Sample MCQs)**
	Correct answer: (c) Non-Equity Alliance
Q8.	Distinguish between the following: Mergers and acquisitions **(RTP, May 2018, NA)**
	Merger and acquisition in simple words are defined as a process of combining two or more organizations together. Some organizations prefer to grow through mergers. Merger is considered to be a process when two or more companies come together to expand their business operations. In such a case the deal gets finalized on friendly terms and both the organizations share profits in the newly created entity. In a merger two organizations combine to increase their strength and financial gains along with breaking the trade barriers. When one organization takes over the other organization and controls all its business operations, it is known as acquisitions. In this process of acquisition, one financially strong organization overpowers the weaker one. Acquisitions often happen during recession in economy or during declining profit margins. In this process, one that is financially stronger and bigger establishes it power. The combined operations then run under the name of the powerful entity. A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association.
Q9.	Swift Insurance is a company engaged in the business of providing medical insurance maintaining a market share of 25 to 30 per cent in last five years. Recently, the company decided to enter into the business of auto insurance by having foreign collaboration. Identify the strategy being followed by the Swift Insurance with its advantages. **(RTP, May 2018, NA) (Study Material)**
	Overall Swift Insurance is following growth or expansion strategy as it is redefining the business and enlarging its scope. The step will also substantially increase investment in the business. The new business is related and at the same time caters to a different segment and accordingly can be termed as related diversification. The new business falls within the scope of general insurance and horizontally related to the existing business. In the process of expansion, the company will be able to exploit: ● Its brand name. ● The marketing skills available. ● The existing sales and distribution infrastructure. ● Research and development. ● Economies of scale
Q10.	Strategic alliances are formed if they provide an advantage to all the parties in the alliance. Do you agree? Explain in brief the advantages of a strategic alliance. **(RTP, May 2018, NA)**

	Or What are the advantages of a strategic alliance? **(MTP 2, Nov 2021, 5 Marks)**
	A strategic alliance is a relationship between two or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own. The strategic partners maintain their status as independent and separate entities, share the benefits and control over the partnership, and continue to make contributions to the alliance until it is terminated. Strategic alliances are formed if they provide an advantage to all the parties in the alliance. These advantages can be broadly categorised as follows: **(i) Organizational:** Strategic alliances may be formed to learn necessary skills and obtain certain capabilities from the strategic partner. Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain. A strategic partner may provide a good or service that complements each other, thereby creating a synergy. If one partner is relatively new or untried in a certain industry, having a strategic partner who is well-known and respected will help add legitimacy and creditability to the venture. **(ii) Economic:** Alliances can reduce costs and risks by distributing them across the members of the alliance. Partners can obtain greater economies of scale in an alliance, as production volume increase, causing the cost per unit to decline. Finally, partners can take advantage of co-specialization, where specializations are bundled together, creating additional value. **(iii) Strategic:** Organizations may join to cooperate instead of compete. Alliances may also create vertical integration where partners are part of supply chain. Strategic alliances may also be useful to create a competitive advantage by the pooling of resources and skills. This may also help with future business opportunities and the development of new products and technologies. Strategic alliances may also be used to get access to new technologies or to pursue joint research and development. **(iv) Political:** Sometimes there is need to form a strategic alliance with a local foreign business to gain entry into a foreign market either because of local prejudices or legal barriers to entry. Forming strategic alliances with politically-influential partners may also help improve overall influence and position.
Q11.	What do you understand by co-generic merger? **(MTP 1, May 2018, 2 Marks)** **Or** Describe the term 'Co-generic merger'. **(SA, May 2018, 2 Marks)**
	In co-generic merger two or more merging organizations are associated in some way or the other related to the production processes, business markets, or basic required technologies. Such merger include the extension of the product line or acquiring components that are required in the daily operations. It offers great opportunities to business to diversify around a common set of resources and strategic requirements.

Q12.	Shoaib and Salim, two brothers are the owners of a cloth manufacturing unit located in Lucknow. They are doing well and have substantial surplus funds available within the business. Shoaib is interested in acquiring another industrial unit located in Lucknow manufacturing tableware such as dinner sets, cups and saucers, bowls. etc. On the other hand , Salim desires to start another unit to produce readymade garments. Discuss the nature of corporate strategies being suggested by two brothers. Which one is better? **(MTP 2, May 2018, 5 Marks)**
	Shoaib wishes to diversify in a business that is not related to their existing line of product and can be termed as conglomerate diversification. He is interested in acquiring another industrial unit located in Lucknow manufacturing tableware such as dinner sets, cups and saucers, bowls, which is not related to their existing product. In conglomerate diversification, the new businesses/ products are disjointed from the existing businesses/products in every way; it is a totally unrelated diversification. In process/ technology/ function, there is no connection between the new products and the existing ones. Conglomerate diversification has no common thread at all with the firm's present position. On the other hand, Salim seeks to move forward in the chain of existing product by adopting vertically integrated diversification. The cloth being manufactured by the existing processes can be used as raw material of garments manufacturing business. In such diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process and moves forward or backward in the chain. It enters specific product/process steps with the intention of making them into new businesses for the firm. The characteristic feature of vertically integrated diversification is that here, the firm does not jump outside the vertically linked product-process chain. Both types of diversifications have their own benefits. While vertically integrated diversification brings synergy, a conglomerate diversification helps in diversifying the risk. It is possible that a downturn in one business is offset by upswing in other business. In the vertically integrated diversification firms can take advantage of their existing competence that in turn will improve chances of success.
Q13.	Write short note on Conglomerate merger. **(MTP 2, May 2018, 3 Marks)**
	Merger is considered to be a process when two or more companies come together to expand their business operations. In such a case the deal gets finalized on friendly terms and both the organizations share profits in the newly created entity. Conglomerate merger happens in case of organizations that are unrelated to each other combine together. There are no linkages with respect to customer groups, customer functions and technologies being used. There are no important common factors between the organizations in production, marketing, research and development and technology. In practice, however, there is some degree of overlap in one or more of these factors.
Q14.	Distinguish between the following: Forward integration and backward integration. **(RTP, Nov 2018, NA)**
	Forward and backward integration form part of vertically integrated diversification. In vertically integrated diversification, firms opt to engage in businesses that are vertically related to the existing

	business of the firm. The firm remains vertically within the same process. While diversifying, firms opt to engage in businesses that are linked forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm. Backward integration is a step towards creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lower its cost of production. On the other hand, forward integration is moving forward in the value chain and entering business lines that use existing products. Forward integration will also take place where organisations enter into businesses of distribution channels.
Q15.	Vastralok Ltd., was started as a textile company to manufacture cloth. Currently, they are in the manufacturing of silk cloth. The top management desires to expand the business in the cloth manufacturing. To expand they decided to purchase more machines to manufacture cotton cloth. Identify and explain the strategy opted by the top management of Vastralok Ltd. **(RTP, Nov 2018, NA) (Study Material)**
	Vastralok Ltd. is currently manufacturing silk cloth and its top management has decided to expand its business by manufacturing cotton cloth. Both the products are similar in nature within the same industry. The strategic diversification that the top management of Vastralok Ltd. has opted is concentric in nature. They were in business of manufacturing silk and now they will manufacture cotton as well. They wil be able to use existing infrastructure and distribution channel. Concentric diversification amounts to related diversification. In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. This means that in concentric diversification too, there are benefits of synergy with the current operations.
Q16.	List the advantages of Strategic Alliances. **(SA, Nov 2018, 2 Marks) (RTP, May 2019, NA)**
	Advantages of strategic alliance are: **(i) Organisational:** learn skills and obtain capabilities from strategic partners. **(ii) Economic:** Sharing of costs and risks by members ofalliance. **(iii) Strategic:** Rivals can join together to cooperate rather than compete. **(iv) Political:** Alliance with partners with political influence improve overall power position of the organisation.
Q17.	Correct/Incorrect. Acquiring of ambulance services by a hospital is an example of forward integration strategy. **(SA, Nov 2018, 2 Marks)**
	The statement is Incorrect. Acquiring of ambulance services by a hospital is an example of backward integration strategy. Backward integration is a step towards creation of effective supply by entering business of input providers. Forward integration is moving forward in the value chain.

Q18.	Correct/Incorrect. There is no such thing as backward integration. **(SA, Nov 2018, 2 Marks)**
	The statement is Incorrect. Organisations may diversify into new businesses that are vertically integrated with their existing business. Backward integration firms create effective supply by entering business of input providers. This strategy is employed to expand profits and gain greater control over production.
Q19.	Which of the following is not a type of diversification strategy? (a) Vertical diversification. (b) Concentric diversification. (c) Conglomerate diversification. (d) Co-generic diversification. **(RTP, May 2019, NA)**
	Correct answer: (d) Co-generic diversification
Q20.	An organization acquires its supplier is an example of: (a) Horizontal integrated diversification. (b) Forward integrated diversification. (c) Backward integrated diversification. (d) Conglomerate diversification. **(RTP, May 2019, NA)**
	Correct answer: (c) Backward integrated diversification
Q21.	Leatherite Ltd., was started as a leather company to manufacture footwear. Currently, they are in the manufacturing of footwears for males and females. The top management desires to expand the business in the leather manufacturing goods. To expand they decided to purchase more machines to manufacture leather bags for males and females. Identify and explain the strategy opted by the top management of Leatherite Ltd. **(MTP 1, May 2019, 5 Marks) (RTP, Nov 2021, NA)**
	Leatherite Ltd. is currently manufacturing footwears for males and females and its top management has decided to expand its business by manufacturing leather bags for males and females. Both the products are similar in nature within the same industry. The strategic diversification that the top management of Leatherite Ltd. has opted is concentric in nature. They were in business of manufacturing leather footwears and now they will manufacture leather bags as well. They will be able to use existing infrastructure and distribution channel. Concentric diversification amounts to related diversification. In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. The new product is a spin-off from the existing facilities and

	products/processes. This means that in concentric diversification too, there are benefits of synergy with the current operations.
Q22.	Acquision of a company producing readymade garments by a company manufacturing yarn is. a. Horizontal integration b. Horizontal Diversification c. Forward integration d. Backward integration **(MTP 2, May 2019, 1 Mark)**
	Correct answer: (c) Forward integration
Q23.	Conglomerate diversification can also be explained as: a. Merger b. Combination strategy c. Related diversification d. Unrelated diversification **(MTP 2, May 2019, 1 Mark)**
	Correct answer: (d) Unrelated diversification
Q24.	Gautam and Siddhartha two brothers are the owners of a cloth manufacturing unit located in Faridabad. They are doing well and have substantial surplus funds available within the business. They have different approaches regarding corporate strategies to be followed to be more competitive and profitable in future. Gautam is interested in acquiring another industrial unit located in Faridabad manufacturing stationery items such as permanent markers, notebooks, pencils and pencil sharpeners, envelopes and other office supplies. On the other hand, Siddhartha desires to start another unit to produce readymade garments. Discuss the nature of corporate strategies being suggested by two brothers and risks involved in it. **(SA, May 2019, 5 Marks) (Study Material)**
	Gautam wishes to diversify in a business that is not related to their existing line of product and can be termed as conglomerate diversification. He is interested in acquiring another industrial unit located in Faridabad manufacturing stationery items such as permanent markers, notebooks, pencils and pencil sharpeners, envelopes and other office supplies, which is not related to their existing product. In conglomerate diversification, the new businesses/ products are disjointed from the existing businesses/products in every way; it is a unrelated diversification. In process/ technology/ function, there is no connection between the new products and the existing ones. Conglomerate diversification has no common thread at all with the firm's present position. On the other hand, Siddhartha seeks to move forward in the chain of existing product by adopting vertically integrated diversification/ forward integration. The cloth being manufactured by the existing processes can be used as raw material of garments manufacturing business. In such diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process and moves forward or backward in the chain. It enters

	specific product/process steps with the intention of making them into new businesses for the firm. The characteristic feature of vertically integrated diversification is that here, the firm does not jump outside the vertically linked product-process chain. Both types of diversifications have their own risks. In conglomerate diversification, there are no linkages with customer group, customer marketing functions and technology used, which is a risk. In the case of vertical integrated diversification, there is a risk of lack of continued focus on the original business.
Q25.	Acquisition of another organisation that was using your product in their manufacturing is: A. Horizontal integrated diversification B. Forward integrated diversification C. Backward integrated diversification D. conglomerate diversification **(RTP, Nov 2019, NA)**
	Correct answer: (b) Forward integrated diversification
Q26.	If suppliers are unreliable or too costly, which of these strategies may be appropriate? (a) Horizontal integration (b) Backward integration (c) Market penetration (d) Forward integration **(MTP 1, Nov 2019, 1 Mark)**
	Correct answer: (b) Backward integration
Q27.	Organo is a large supermarket chain. It is considering the purchase of a number of farms that provides Organo with a significant amount of its fresh produce. Organo feels that by purchasing the farms, it will have greater control over its supply chain. Identify and explain the type of diversification opted by Organo? **(RTP, May 2020, NA) (Study Material)**
	Organo is a large supermarket chain. By opting backward integration and purchase a number of farms, it will have greater control over its supply chain. Backward integration is a step towards, creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production.
Q28.	Write short note on expansion through acquisitions and mergers. **(RTP, May 2020, NA) (MTP 1, Nov 2020, 5 Marks) (Study Material)**
	Acquisitions and mergers are basically combination strategies. Some organizations prefer to grow through mergers. Merger is considered to be a process when two or more companies come together to expand their business operations. In such a case the deal gets finalized on friendly terms and both

	the organizations share profits in the newly created entity. In a merger two organizations combine to increase their strength and financial gains along with breaking the trade barriers. When one organization takes over the other organization and controls all its business operations, it is known as acquisition. In this process of acquisition, one financially strong organization overpowers the weaker one. Acquisitions often happen during recession in economy or during declining profit margins. In this process, one that is financially stronger and bigger establishes it power. The combined operations then run under the name of the powerful entity. A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association where the powerful organization either consumes the operation or a company in loss is forced to sell its entity.
Q29.	Explain the term Merger and Acquisition as a growth strategy. Differentiate between both of them. State the situations in which such strategies are considered by any organization. **(RTP, Nov 2021, NA)**
	Acquisition or merger with an existing concern is an instant means of achieving expansion. It is an attractive and tempting proposition in the sense that it circumvents the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialise growth. Apart from the urge to grow, acquisitions and mergers are resorted to for purposes of achieving a measure of synergy between the parent and the acquired enterprises. Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on. Many organizations in order to achieve quick growth, expand or diversify with the use of mergers and acquisitions strategies. Merger and acquisition in simple words are d efined as a process of combining two or more organizations together. There is a thin line of difference between the two terms but the impact of combination is completely different in both the cases. Merger is considered to be a process when two or more organizations join together to expand their business operations. In such a case the deal gets finalized on friendly terms. Owners of pre-merged entities have right over the profits of new entity. In a merger two organizations combine to increase their strength and financial gains. While, when one organization takes over the other organization and controls all its business operations, it is known as acquisition. In the process of acquisition, one financially strong organization overpowers the weaker one. Acquisitions often happen during economic recession or during declining profit margins. In this process, one that is financially stronger and bigger establishes it power. The combined operations then run under the name of the powerful entity. A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association.
Q30.	A rubber manufacturer starts making shoe soles and gum can be termed as? (a) Conglomerate Diversification (b) Concentric Diversification (c) Horizontal Integration (d) Vertical Integration **(MTP 2, Nov 2021, 1 Mark)**
	Correct answer: (b) Concentric Diversification

Q31.	GWA, a leading Japan based automobile company decides to make India a hub for the company's 250 cc motor cycle to be manufactured in collaboration with the TPR Group, a leading Indian motorcycle manufacturer. The production is to be exported to the company's home market as well as to other African countries. What is this growth strategy called? Point out the most important advantages both the companies expect from such strategy/ collaboration. **(SA, Nov 2021, 5 Marks)**
	GWA of Japan and TRP group of India opted for strategic alliance as their growth strategy. A strategic alliance is a relationship between two or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own. Strategic alliances are often formed in the global marketplace between businesses that are based in different regions of the world. **Advantages of Strategic Alliance** Strategic alliance usually is only formed if they provide an advantage to all the parties in the alliance. These advantages can be broadly categorised as follows: **1. Organizational:** Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners. Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain. Having a strategic partner who is well-known and respected also helps add legitimacy and creditability to a new venture. **2. Economic:** There can be reduction in costs and risks by distributing them across the members of the alliance. Greater economies of scale can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline. Finally, partners can take advantage of co-specialization, creating additional value, such as when a leading computer manufacturer bundles its desktop with a leading monitor manufacturer's monitor. **3. Strategic:** Rivals can join together to cooperate instead of competing with each other. Vertical integration can be created where partners are part of supply chain. Strategic alliances may also be useful to create a competitive advantage by the pooling of resources and skills. This may also help with future business opportunities and the development of new products and technologies. Strategic alliances may also be used to get access to new technologies or to pursue joint research and development. **4. Political:** Sometimes strategic alliances are formed with a local foreign business to gain entry into a foreign market either because of local prejudices or legal barriers to entry. Forming strategic alliances with politically influential partners may also help improve your own influence and position.
Q32.	A tea farm owners plan to open tea cafes in tourist spots and to sell their own premium tea to build a brand. Which of the following can this be termed as? (a) Backward Integration (b) Forward Integration (c) Diversification (d) Horizontal Integration **(RTP, May 2022, NA)**
	Correct answer: (b) Forward Integration

Q33.	Diversification endeavours can be categorized into four broad classifications. State the basis for this classification and name the four categories. How is concentric diversification different from vertically diversification? Explain. **(RTP, May 2022, NA)**
	Diversification strategy involves expansion into new businesses that are outside the current business and markets of an organisation. Based on the nature and extent of their relationship to existing businesses, diversification can be classified into four broad categories: (i) Vertically integrated diversification (ii) Horizontally integrated diversification (iii) Concentric diversification (iv) Conglomerate diversification Concentric diversification takes place when the products are related. The new product is a spin-off from the existing facilities and products/processes. This means that in concentric diversification too, there are benefits of synergy with the current operations. However, concentric diversification differs from vertically integrated diversification in the nature of the linkage the new product has with the existing ones. In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process. Sequence moves forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm. The new product fall within the firm's current process-product chain. In concentric diversification, there is a departure from this vertical linkage, a new related product is added to the existing business. The new product is only connected in a loop-like manner at one or more points in the firm's existing process/ technology/ product chain.
Q34.	There has been fierce demand for both Gecko and FlyBee for the last 3 years. Gecko makes mass consumption pens while FlyBee is a notebook and diary brand - both being complementary goods of each other. But to grow further, FlyBee decided to take up competition with Gecko in pens segment and thereby launched, FlyPens. Identify and explain the growth strategy opted by FlyBee? **(MTP 1, May 2022, 5 Marks)**
	FlyBee is a notebook and diary brand. But to grow further, FlyBee decided to take up competition with Gecko in pens segment and thereby launched, FlyPens. FlyBee that is hitherto not into producing pens starts producing them and other similar products is following concentric diversification which is basically related diversification. In this form of diversification, the new business is linked to the existing businesses through existing systems such as processes, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. There are benefits of synergy with the current operations. The most common reasons for pursuing a concentric diversification are that opportunities in existing line of business are available.
Q35.	XYZ Co. was formed by the merger between a number of chemical companies. Since, it amed at expanding its presence in a large number of value added specialty chemical operations; within a few years, the company involved in activities like bulk chemicals, explosives, fertilizers, paints and commodity plastics. But expanding the scope of business to so many businesses; little it did for the bottom line. On analyzing, the top management found that although many of the businesses were

	linked in some way to the chemical industry, but there was little commonality between bulk chemicals and fertilizers, between plastics and paints, between explosives and plastic materials. In other words, the value created by the diversification was questionable. After reading this scenario, what do you think has gone wrong in this case? How do you think this problem can be rectified? **(Study Material)**
	In the present scenario, the problem is related to diversification strategy to expand and mark its presence. Diversification can be either related or unrelated. Related diversification is when the new business is linked to the existing business through process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. This means that in related diversification there are benefits of synergy with the current operations as the new product is only connected in a loop-like manner at one or more points in the firm's existing process/technology/product chain. Whereas, in unrelated diversification, no such linkages exist; the new businesses/ products are disjointed from the existing businesses/ products in every way. In process/technology/function, there is no connection between the new products and the existing ones. Conglomerate diversification has no common thread at all with the firm's present position. In the present case, the company tried to diversify in products like bulk chemicals, explosives, fertilizers, paints and commodity plastics thinking that the diversification is linked in some way to the chemical industry. But when the bottom line did not improve with this diversification; the top management explored and found that there were far fewer synergies among the company's operations that it had initially thought. There was little commonality between bulk chemicals and fertilizers, between plastics and paints, between explosives and advanced materials which means that the company made a dire mistake in understanding whether the diversification was related or unrelated. The probable solution for this would be breaking up the company into constituent parts; may be two or three and put the related business into the relevant SBUs and consider selling off the businesses that are totally unrelated or totally get into unrelated diversification and form a structure accordingly.
Q36.	Distinguish between concentric and conglomerate diversification. **(Study Material)**
	Concentric diversification occurs when a firm adds related products or markets. On the other hand, conglomerate diversification occurs when a firm diversifies into areas that are unrelated to its current line of business. In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. In conglomerate diversification, no such linkages exist; the new business/ product is disjointed from the existing bussinesses/products. The most common reasons for pursuing a concentric diversification are that opportunities in a firm's existing line of business are available. However, common reasons for pursuing a conglomerate growth strategy is that opportunities in a firm's current line of business are limited or opportunities outside are highly lucrative.
Q37.	What are acquisitions? Discuss with examples of two companies resorting to this strategy. **(Study Material)**

	Acquisition of or merger with existing concern is an instant means of achieving the expansion. It is an attractive and tempting proposition in the sense that it circumvents the time, risks, and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialise growth. Organisations consider merger and acquisition proposals in a systematic manner, so that the marriage will be mutually beneficial, a happy and lasting affair. Apart from the urge to grow, acquisitions and mergers are resorted to for purposes of achieving a measure of synergy between the parent and the acquired enterprises. Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on. Only positive synergetic effects are relevant in this connection which denote that the positive effects of the merged resources are greater than the sum of the effects of the individual resources before merger or acquisition. Some of the recent/ popular instances of acquisition are listed below: ● Tata digital acquires online grocery Bigbasket. ● HUL's acquisition of GSK Consumers. ● Tata's acquisition of Anglo Dutch steelmaker Corus ● Tata's acquisition of British Jaguar Land Rover ● Mittal Steel's takeover of Arcelor

3.3 Retrenchment

Q1.	Correct/Incorrect. Turnaround should succeed liquidation strategy. **(RTP, May 2018, NA)**
	The statement is Incorrect. A retrenchment strategy considered the most extreme and unattractive is liquidation strategy, which involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure. In an ideal scenario, turnaround should be attempted first and should precede option of liquidation.
Q2.	XYZ Ltd. is a multi-product company, suffering from continuous losses since last few years and has accumulated heavy losses which have eroded its net worth. What strategic option is available to the management of this sick company? Advise with reasons. **(SA, May 2018, 5 Marks)**
	XYZ Ltd. is a sick company with accumulated losses that have eroded its net worth. The multi-product company may analyse its various products to take decisions on the viability of each. The company may consider retrenchment strategy. Retrenchment becomes necessary for coping with hostile and adverse situations in the environment and when any other strategy is likely to be suicidal. Retrenchment strategy is adopted because of continuous losses and unviability and stability can be ensured by reallocation of resources from unprofitable to profitable businesses.

	Retrenchment strategy is followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies as follows: **Turnaround strategy:** If the organization chooses to transform itself into a leaner structure and focuses on ways and means to reverse the process of decline, it adopts a turnaround strategy. It may try to reduce costs, eliminate unprofitable outputs, generate revenue, improve coordination, better control, and so on. **Divestment Strategy:** Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. **Liquidation Strategy:** In the retrenchment strategy, the most extreme and unattractive is liquidation strategy. It involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure. The management of multiproduct sick company manufacturing various items need to understand pros and cons of each strategic option. The decision will depend upon the specific circumstances of each product and management goals of the company.
Q3.	What is Divestment strategy? When is it adopted? **(RTP, Nov 2018, NA) (RTP, Nov 2020, NA) (Study Material)**
	Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. For a multiple product company, divestment could be a part of rehabilitating or restructuring plan called turnaround. A divestment strategy may be adopted due to various reasons: ● When a turnaround has been attempted but has proved to be unsuccessful. ● A business that had been acquired proves to be a mismatch and cannot be integrated within the company. ● Persistent negative cash flows from a particular business create financial problems for the whole company. ● Severity of competition and the inability of a firm to cope with it. ● Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it. ● A better alternative may be available for investment.
Q4.	Why a Turnaround Strategy is required for a business? **(MTP 2, Nov 2018, 5 Marks)** **Or** Write a short note on need for turnaround strategy. **(MTP 1, Nov 2019, 5 Marks)**

	Turnaround is needed when an enterprise's performance deteriorates to a point that it needs a radical change of direction in strategy, and possibly in structure and culture as well. It is a highly - targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. It is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is difficult. The overall goal of turnaround strategy is to transorm an underperforming or distressed company to normalcy in terms of acceptable levels of profitability, solvency, liquidity and cash flow. To achieve its objectives, turnaround strategy must reverse causes of distress, resolve the financial crisis, achieve a rapid improvement in financial performance, regain stakeholder support, and overcome internal constraints and unfavourable industry characteristics.
Q5.	With the global economic recession Soft Cloth Ltd. incurred significant losses in all its previous five financial years. Currently, they are into manufacturing of cloth made of cotton, silk, polyster, rayon, lycra and blends. Competition is also intense on account of cheap imports. The company is facing cash crunch and has not been able to pay the salaries to its employees in the current month. Suggest a grand strategy that can be opted by Soft Cloth Ltd. **(RTP, May 2019, NA) (Study Material)**
	Soft Cloth Ltd. is facing internal as well as external challenges. The external environment is in economic recession and the organization is facing cash crunch. The company needs to work on retrenchment / turnaround strategy. The strategy is suitable in case of issues such as: ● Persistent negative cash flow. ● Uncompetitive products or services ● Declining market share ● Deterioration in physical facilities ● Overstaffing, high turnover of employees, and low morale ● Mismanagement The company may consider to substantially reduce the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies. If the organization chooses to focus on ways and means to reverse the process of decline, it adopts at turnaround strategy. If it cuts off the loss-making units, divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment strategy. If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy.
Q6.	Which of the following can be used in retrenchment strategy? a. Reducing assets. b. Operational improvement. c. Cutting cost. d. All of the above. **(MTP 2, May 2019, 1 Mark)**
	Correct answer: (d) All of the above

Q7.	A company manufactures computers that are of low in production cost, competitive price, and quality to their competitor's product. Profits and market share are declining day by day. Shree, a senior executive realizes that drastic strategies have to be created for the survival of a company. After SWOT analysis by assessing the strengths and weaknesses, they come up with the conclusion that they cannot compete in the computers with the competitors. The management directs Shree to act quick and develop a suitable strategic plan. Discuss the strategy which can be opted by Shree. **(MTP 2, May 2019, 5 Marks)**
	Shree can opt for turnaround strategy which is a highly-targeted effort to return the company to profitability and increase positive cash flows to a sufficient level. Organizations those have faced a significant crisis that has negatively affected operations require turnaround strategy. Once turnaround is successful the organization may turn to focus on growth. **Conditions for turnaround strategies** When firms are losing their grips over market, profits due to several internal and external factors, and if they have to survive under the competitive environment they have to identify danger signals as early as possible and undertake rectification steps immediately. These conditions may be, inter alia cash flow problems, lower profit margins, high employee turnover and decline in market share, capacity underutilization, low morale of employees, recessionary conditions, mismanagement, raw material supply problems and so on. **Action plan for turnaround strategy** Stage One – Assessment of current problems Stage Two – Analyze the situation and develop a strategic plan Stage Three – Implementing an emergency action plan Stage Four – Restructuring the business Stage Five – Returning to normal
Q8.	Pizza Galleria was India's first pizza delivery chain enjoying monopoly for several years. However, after entry of Modino and Uncle Jack it is struggling to compete. Both Modino and Uncle Jack have opened several eateries and priced the product aggressively. In last four years the chain has suffered significant losses. The chain wishes to know whether they should go for turnaround strategy. List out components of action plan for turnaround strategy. **(RTP, Nov 2019, NA) (Study Material)**
	Pizza Chain may choose to have turnaround strategy if there are: ● Persistent negative cash flow from business. ● Uncompetitive products or services. ● Declining market share. ● Deterioration in physical facilities. ● Over-staffing, high turnover of employees, and low morale. ● Mismanagement. For turnaround strategies to be successful, it is imperative to focus on the short and long- term financing needs as well as on strategic issues. The chain may attempt to leverage the potential Indian market by engaging a new logistics partner. It may bring innovation in food items, as well as quality

and improvements in the overall dine-in and delivery experience. During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning.

A workable action plan for turnaround would involve:

Stage One – Assessment of current problems: The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused.

Stage Two – Analyze the situation and develop a strategic plan: Before making any major changes; determine the chances of the business's survival. Identify appropriate strategies and develop a preliminary action plan.

Stage Three – Implementing an emergency action plan: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. A positive operating cash flow must be established as quickly as possible and enough funds to implement the turnaround strategies must be raised.

Stage Four – Restructuring the business: The financial state of the organization's core business is particularly important. If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement.

Stage Five – Returning to normal: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added. Emphasis is placed on a number of strategic efforts such as carefully adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.

Q9.

Which strategy is implemented after the failure of turnaround strategy?

(a) Expansion strategy

(b) Diversification strategy

(c) Divestment strategy

(d) Growth strategy

(MTP 1, Nov 2019, 1 Mark) (MTP 2, May 2021, 1 Mark)

Correct answer: (c) Divestment strategy

Q10.

Differentiate between divestment and liquidation strategy.

(MTP 1, Nov 2019, 5 Marks) (MTP 2, May 2021, 5 Marks) (MTP 2, Nov 2021, 5 Marks) (Study Material)

Divestment Strategy	Liquidation Strategy
Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit center or SBU.	It involves closing down a firm and selling its assets.
Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. Option of a turnaround may even be ignored if it is obvious that divestment is the only answer.	Liquidation becomes only option in case of severe and critical conditions where either turnaround and divestment are not seen as solution or have been attempted but failed.
Efforts are made for the survival of	Liquidation as a form of retrenchment strategy

organization.	is considered as the most extreme and unattractive.
Survival of organization helps in retaining personnel, at least to some extent.	There is loss of employment with stigma of failure.

Q11. An XYZ Company is facing continuous losses. There is decline in sales and product market share. The products of the company became uncompetitive and there is persistent negative cash flow. The physical facilities are deteriorating and employees have low morale. At the board meeting, the board members decided that they should continue the organization and adopt such measures that the company functions properly. The board has decided to hire young executive Shayamli for improving the functions of the organization. What corporate strategy should Shayamli adopt for this company and what steps to be taken to implement the corporate strategy adopted by Shayamli?

(SA, Nov 2019, 5 Marks) (Study Material)

XYZ Company is facing continuous losses, decline in sales and product market share, persistent negative cash flow, uncompetitive products, declining market share, deterioration in physical facilities, low morale of employees. In such a scenario, Shayamli may choose turnaround strategy as this strategy attempts to reverse the process of decline and bring improvement in organizational health. This is also important as Board has decided to continue the company and adopt measures for its proper functioning.

For success, Shayamli needs to focus on the short and long-term financing needs as well as on strategic issues. During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. A workable action plan for turnaround would involve:

Stage One – Assessment of current problems: In the first step, assess the current problems and get to the root causes and the extent of damage.

Stage Two – Analyze the situation and develop a strategic plan: Identify major problems and opportunities, develop a strategic plan with specific goals and detailed functional actions.

Stage Three – Implementing an emergency action plan: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive.

Stage Four – Restructuring the business: If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement.

Stage Five – Returning to normal: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added.

Q12. Retrenchment strategy in the organization can be explained as

(a) Reducing trenches (gaps) created between individuals.

(b) Divesting a major product line or market.

(c) Removal of employees from job through the process of reorganization.

(d) Removal of employees from job in one business to relocate them in other business.

(RTP, May 2020, NA)

	Correct answer: (b) Divesting a major product line or market
Q13.	Explain in brief the reasons to adopt turnaround strategy. **(MTP 1, May 2020, 5 Marks)**
	Reasons to adopt Turnaround Strategy: 1. Turnaround is needed when an enterprise's performance deteriorates to a point that it needs a radical change of direction in strategy, and possibly in structure and culture as well. 2. It is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. 3. It is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is difficult. 4. The overall goal of turnaround strategy is to return an underperforming or distressed company to normalcy in terms of acceptable levels of profitability, solvency, liquidity and cash flow. 5. To achieve its objectives, turnaround strategy must reverse causes of distress, resolve the financial crisis, achieve a rapid improvement in financial performance, regain stakeholder support, and overcome internal constraints and unfavourable industry characteristics.
Q14.	General public is discerning from buying air conditioning units based on the Health Ministry guidelines regarding emergence of a contagious viral pandemic. Consequently, Nebula Pvt. Ltd, a manufacturer of evaporation coils used in air conditioning units has faced significant loss in working capital due to sharp fall in demand. The company conducted financial assessment and developed a workable action plan based on short and long term financial needs. But for immediate needs, an emergency plan has been implemented. It includes selling scrap, asset liquidation and overheads cost reduction. Further, to avoid any such untoward event in future, they plan to diversify into newer business areas along with its core business. Identify and explain the strategy opted by M/s. Nebula Pvt. Ltd.? **(RTP, Nov 2020, NA)**
	M/s. Nebula Pvt Ltd has opted Turnaround Strategy as the company while facing serious working capital crunch persistently conducted an assessment of current problem and developed a workable action plan based on short and long term financial needs and strategic issues. A workable action plan for turnaround would involve: **Stage One – Assessment of current problems:** In the first step, assess the current problems and get to the root causes and the extent of damage. **Stage Two – Analyze the situation and develop a strategic plan:** Identify major problems and opportunities, develop a strategic plan with specific goals and detailed functional actions. **Stage Three – Implementing an emergency action plan:** If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. **Stage Four – Restructuring the business:** If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement.

Q15. Briefly describe the meaning of divestment and liquidation strategy and establish difference between the two.

(SA, Nov 2020, 5 Marks)

Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful.

Liquidation strategy is a retrenchment strategy considered the most extreme and unattractive strategy, which involves closing down a firm and selling its assets.

Difference between Divestment strategy and Liquidation strategy:

Basis of Difference	Divestment Strategy	Liquidation Strategy
Meaning	Divestment strategy involves sale or liquidation of a portion of business.	Liquidation strategy involves closing down a firm and selling its business.
Policy option	Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. Option of a turnaround may even be ignored if it is obvious that divestment is the only answer.	Liquidation becomes only option in case of severe and critical conditions where either turnaround or divestment are not seen as solution or have been attempted but failed.
Purpose	Efforts are made for survival of the organization.	Liquidation as a form of retrenchment strategy is unattractive and considered as the last resort.
Consequences	Survival of organization helps in retaining personnel, at least to some extent.	There is loss of employment and opportunities with stigma of failure.

Q16. X Pvt. Ltd. had recently ventured into the business of co-working spaces when the global pandemic struck.. This has resulted in the business line becoming unprofitable and unviable, and a failure of the existing strategy. However, the other businesses of X Pvt. Ltd. are relatively less affected by the pandemic as compared to the recent co-working spaces. Suggest a strategy for X Pvt. Ltd. with reasons to justify your answer.

(SA, Jan 2021, 5 Marks) (Study Material)

It is advisable that divestment strategy should be adopted by X Pvt. Ltd.

In the given situation where the business of co-working spaces became unprofitable and unviable due to Global pandemic, the best option for the company is to divest the loss making business.

Retrenchment may be done either internally or externally. Turnaround strategy is adopted in case of internal retrenchment where emphasis is laid on improving internal efficiency of the organization, while divestment strategy is adopted when a business turns unprofitable and unviable due to some external factors. In view of the above, the company should go for divestment strategy.

	Further, divestment helps address issues like: 1. Persistent cash flows from loss making segment could affect other profit-making segments, which is the case in the given scenario. 2. Inability to cope from the losses, which again is uncertain due to pandemic. 3. Better investment opportunity, which could be the case if X Pvt. Ltd. can invest the money it generates from divestment.
Q17.	Mini theatre Ltd. was a startup venture of three young IIM graduates. They developed an application to watch web-based content like web series, TV Shows, theatre shows, etc. after purchasing their exclusive rights. They were successful in getting many consumers enrolled with them. After a certain span of time, the company realized that some regional content like 'bangla movies', 'Gujarati shows' etc. were having high cost and less viewership. The leadership team of Mini theatre Ltd. decided to sell the rights and curtail any further content development in these areas. Identify and explain the corporate strategy adopted by the leadership team of Mini theatre Ltd. **(RTP, May 2021, NA)**
	The leadership team of Mini theatre Ltd. decided to cuts off the loss -making units, reduces the functions performed that some of regional content like 'bangla movies', 'Gujarati shows' etc. were having high cost and less viewership, it adopts a divestment strategy. The leadership team of Mini theatre Ltd. decided to sell the rights and curtail any further content development in these areas. Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.
Q18.	The CEO of a textile mill is convinced that his loss making company can be turned around. Suggest an action plan for a turnaround to the CEO. **(SA, May 2021, 5 Marks)**
	A workable action plan for turnaround of the textile mill would involve: ● **Stage One - Assessment of current problems:** In the first step, assess the current problems and get to the root causes and the extent of damage. ● **Stage Two - Analyze the situation and develop a strategic plan:** Identify major problems and opportunities, develop a strategic plan with specific goals and detailed functional actions after analyzing strengths and weaknesses in the areas of competitive position. ● **Stage Three - Implementing an emergency action plan:** If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. ● **Stage Four - Restructuring the business:** If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement. ● **Stage Five - Returning to normal:** In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added.

Q19.	Mixfix was having a tough time with its operations and wanting to restructure itself from scratch. For this, they consult a veteran in business strategy, Mrs. Sunita K, who post analysis of their business said, " your dead business is worth more than alive". What did Mrs. Sunita hint at? (a) Restructuring Business (b) Liquidation (c) Business Process Re-engineering (d) Divestment **(MTP 1, Nov 2021, 2 Marks)**
	Correct answer: (b) Liquidation
Q20.	"There are certain conditions or indicators which point out that a turnaround is needed if the company has to survive." Discuss. **(SA, Nov 2021, 5 Marks)**
	Rising competition, business cycles and economic volatility have created a climate where no business can take viability for granted. Turnaround strategy is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. Organizations that have faced a significant crisis that has negatively affected operations requires turnaround strategy. Turnaround strategy is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is a question. When organization is facing both internal and external pressures making things difficult then it has to find something which is entirely new, innovative and different. Being organization's first objective is to survive and then grow in the market; turnaround strategy is used when organization's survival is under threat. Once turnaround is successful the organization may turn to focus on growth. **Conditions for turnaround strategies:** When firms are losing their grips over market, profits due to several internal and external factors, and if they have to survive under the competitive environment, they have to identify danger signals as early as possible and undertake rectification steps immediately. These are certain conditions or indicators which point out that a turnaround is needed if the company has to survive. These danger signals are: ● Persistent negative cash flow from business. ● Uncompetitive products or services. ● Declining market share. ● Deterioration in physical facilities. ● Over-staffing, high turnover of employees, and low morale. ● Mismanagement.
Q21.	Racers Ltd. manufactures bicycles. Until recently it has adopted a differentiation strategy, offering high quality bicycles which Racers Ltd. sells at a high profit margin. In recent years, Racers Ltd. has entered a period of decline due to the market becoming flooded with cheaper, high quality bicycles from abroad, where labour costs are lower. Racers Ltd. has therefore decided to adjust its strategy and adopt a focus approach, targeting its bicycles towards professional athletes. This will allow Racers Ltd. to continue earning high margins, though the size of its potential market will likely fall. Identify and explain the need of adopting this strategy by Racers Ltd. to manage decline? **(RTP, May 2022, NA)**

Racers Ltd. has adopted Turnaround strategy. This involves Racers Ltd. repositioning itself in the market in an attempt to once again gain competitive advantage.

Turnaround is needed when an enterprise's performance deteriorates to a point that it needs a radical change of direction in strategy, and possibly in structure and culture as well. It is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. It is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is difficult.

The overall goal of turnaround strategy is to return an underperforming or distressed company to normalcy in terms of acceptable levels of profitability, solvency, liquidity and cash flow. To achieve its objectives, turnaround strategy must reverse causes of distress, resolve the financial crisis, achieve a rapid improvement in financial performance, regain stakeholder support, and overcome internal constraints and unfavourable industry characteristics.

Q22. Under what conditions would you recommend the use of Turnaround strategy in an organization? What could be a suitable work plan for this?

(Study Material)

Rising competitions, business cycles and economic volatility have created a climate where no business can take viability for granted. Turnaround strategy is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. Organisations that have faced a significant crisis that has negatively affected operations requires turnaround strategy. Turnaround strategy is used when both threats ans weaknesses adversely affects the health of an organization so much that its basic survival is a question. When organization is facing both internal and external pressures making things difficult then it has to find something which is entirely new, innovative and different. Being organisation's first objective is to survive and then grow in the market; turnaround strategy is used when organisation's survival is under threat. Once turnaround is succesful, the organization may turn to focus on growth.

Conditions for turnaround strategies: When firms are losing their grips over market, profits due to several internal and external factors, and if they have to survive under the competitive environment they have to identify danger signals as early as possible and undertake rectification steps immediately. These conditions may be, inter alia cash flow problems, lower profit margins, high employee turnover and decline in market share, capacity underutilization, low morale of employees, recessionary conditions, mismanagement, raw material supply problems and so on.

Action plan for turnaround strategy

Stage One – Assessment of current problems: The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused. Once the problems are identified, the resources should be focused towards those areas essential to efficiently work on correcting and repairing any immediate issues.

Stage Two – Analyze the situation and develop a strategic plan: Before making any major changes; determine the chances of the business's survival. Identify appropriate strategies and develop a preliminary action plan. For this, one should look for the viable core businesses, adequate bridge financing and available organizational resources. Analyze the strength and weaknesses in the areas of competitive position. Once major problems and opportunities are identified, develop a strategic plan with specific goals and detailed functional actions.

Stage Three – Implementing an emergency action plan: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. The plan typically include human resource, financial, marketing and operations actions to

	restructure debts, improve working capital, reduce costs, improve budgeting practices, prune product lines and accelerate high potential products. A positive operating cash flow must be established as quickly as possible and enough funds to implement the turnaround strategies must be raised. **Stage Four – Restructuring the business:** The financial state of the organization's core business is particularly important. If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement. During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. Core products neglected over time may require immediate attention to remain competitive. Some facilities might be closed; the organizations may even withdraw from certain markets to make organization leaner or target its products toward a different niche. The 'people mix' is another important ingredient in the organization's competitive effectiveness. Reward and compensation systems that encourage dedication and creatively encourage employees to think profits and return on investments. **Stage Five – Returning to normal:** In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added. Emphasis is placed on a number of strategic efforts such as carefully adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.
Q23.	What strategic option is available to the management of a sick company dealing in an electronic home appliance? Give reasons for your answer. **(Study Material)**
	A sick company has huge accumulated losses that has eroded its net worth. The electronic home appliance company may analyse its various products to take decisions on the viability of each. Retrenchment becomes necessary to cope with hostile and adverse situations in the environment and when any other strategy is likely to be suicidal. The nature, extent and timing of retrenchment are matters to be carefully decided by management, depending upon each contingency. **Retrenchment strategy is adopted because:** ● The management no longer wishes to remain in business either partly or wholly due to continuous losses and unviability. ● The environment faced is threatening. ● Stability can be ensured by reallocation of resources from unprofitable to profitable businesses. Retrenchment strategy is followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem arear and diagnose the causes of the problems. These steps result in different kinds of retrenchment strategies. **Turnaround strategy:** If the organization chooses to transform itself into a leaner structure and focuses on ways and means to reverse the process of decline, it adopts a turnaround strategy. It may try to reduce costs, eliminate unprofitable outputs, generate revenue, improve coordination, better control, and so on. It may also involve changes in top management and reorienting leadership. **Divestment Strategy:** Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful.

	Liquidation Strategy: In the retrenchment strategy, the most extreme and unattractive is liquidation strategy. It involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure. Many small scale units, proprietorship firms, and partnership ventures liquidate frequently but medium and large sized companies rarely liquidate in India. The company management, government, banks and financial institutions, trade unions, suppliers and creditors and other agencies are extremely reluctant to take a decision, or ask, for liquidation. Liquidation strategy may be unpleasant as a strategic alternative but when a "dead business is worth more than alive", it is a good proposition. The management of multiproduct sick company manufacturing various electrical home appliances be explained about each of the above three options of retrenchment strategy with their pros and cons. But the appropriate advice with respect to a particular option of retrenchment strategy will depend on the specific circumstances of each electrical home appliances and management goals of the company.

3.4 Combination

Q1.	Explain the meaning of the Combination strategies. **(RTP, May 2018, NA) (RTP, Nov 2018, NA)**
	Combination Strategies refer to a mix of different strategies like stability; expansion, diversification or retrenchment to suit particular situations that an enterprise is facing. For instance, a strategy of diversification/acquisition may call for retrenchment in some obsolete product lines.

3.5 Generic Topics

Q1.	Corporate level strategy is concerned with the following- a) How do we want to compete? b) Where do we want to compete? c) How to support the strategy implementation? d) All of the above **(Sample MCQs)**
	Correct answer: (b) Where do we want to compete?
Q2.	Geographical Diversification, Product diversification and Entry Mode are the domains of: a) Functional Strategy

	b) Business Strategy c) Corporate Strategy d) All of the Above **(Sample MCQs)**
	Correct answer: (c) Corporate Strategy
Q3.	Arena Ltd. manufactures computers that are of low in production cost, competitive price, and quality to their competitor’s product. Profits and market share are declining day by day. Shreekanth, a senior executive realizes that drastic strategies have to be created for the survival of a company. After SWOT analysis by assessing the strengths and weaknesses, they come up with the conclusion that they cannot compete in the computers with the competitors. The management directs Shreekanth to act quick and develop a suitable strategic plan. Discuss the strategy which can be opted by Shreekanth. **(MTP 1, May 2018, 5 Marks) (Study Material)**
	Shreekant opt for turnaround strategy which is a highly-targeted effort to return Arena Ltd. to profitability and increase positive cash flows to a sufficient level. Organizations those have faced a significant crisis that has negatively affected operations require turnaround strategy. Once turnaround is successful the organization may turn to focus on growth. **Conditions for turnaround strategies** When firms are losing their grips over market, profits due to several internal and external factors, and if they have to survive under the competitive environment they have to identify danger signals as early as possible and undertake rectification steps immediately. These conditions may be, inter alia cash flow problems, lower profit margins, high employee turnover and decline in market share, capacity underutilization, low morale of employees, recessionary conditions, mismanagement, raw material supply problems and so on. **Action plan for turnaround strategy** ● Stage One – Assessment of current problems ● Stage Two – Analyze the situation and develop a strategic plan ● Stage Three – Implementing an emergency action plan ● Stage Four – Restructuring the business ● Stage Five – Returning to normal
Q4.	Explain the meaning of Directional Strategy. **(SA, May 2018, 2 Marks)**
	Directional strategies, also called grand strategies, provide basic directions for strategic actions towards achieving strategic goals. Such strategies are formulated at the corporate level so are also known as corporate strategies. The corporate strategies a firm can adopt have been classified into four broad categories: stability, expansion, retrenchment, and combination.
Q5.	Atrix Ltd. is a company engaged in the designing, manufacturing, and marketing of mechanical instruments like speed meters, oil pressure gauges, and so on. Their products are fitted into two and four wheelers. During the last couple of years, the company has been observing a fall in the market

	share. This is on account of shift to the new range of electronic instruments. The customers are switching away mechanical instruments that have been the backbone of Atrix Ltd. As a CEO of Atrix Ltd., what can be the strategic options available with you. **(MTP 1, Nov 2018, 5 Marks)**
	Atrix is having a product portfolio that is evidently in the decline stage. The product is being replaced with the technologically superior product. Strategically the company should minimize their dependence on the existing products and identify other avenues for the survival and growth. As a CEO of Atrix Ltd., following can be the strategic options available with the CEO: ● Invest in new product development and switchover to the new technology. Atrix Ltd. also need time to invest in emerging new technology. ● They can acquire or takeover a competitor, provided they have or are able to generate enough financial resources. ● They may also consider unrelated growth and identify other areas for expansion. This will enable Atrix Ltd. to spread their risks. ● In longer run, they should divest the existing products. However, they may continue with the existing products in a limited manner for such time there is demand for the product.
Q6.	Arrange divestment, liquidation, stability and turnaround strategies in order of preference for adoption by a typical organisation. A. Turnaround, stability, liquidation and divestment. B. Divestment, liquidation, stability and turnaround. C. Stability, turnaround, liquidation and divestment. D. Stability, turnaround, divestment and liquidation. **(RTP, Nov 2019, NA)**
	Correct answer: (d) Stability, turnaround, divestment and liquidation