

CA INTER SM MAY 24 SOLUTION

Question 5 (a)

BOYA Ltd. is a venture in the market present for a decade. Till 2023, it was working on the values and vision of its founder while operating in limited area of operations.

Growth opportunities exist for BOYA Ltd. Considering the changing environment, company is interested to leverage new skills in marketing, technology, product development and financial management. As a known fact, modifying one aspect might have a ripple effect on other elements. The company wants to understand various hard and soft elements interrelated with each other in the company and having a bearing on effective operational results.

As a strategist, you intend to prepare a questionnaire based on both types of elements by analyzing the organizational design. The response to the same will help in finding an answer to ensure effectiveness through the interaction of such elements.

Briefly discuss the strategic model you will use in the given situation. State the limitations of the model as well.

(5 Marks)

Answer

The McKinsey 7S Model refers to a tool that analyzes a company's "organizational design." The goal of the model is to depict how effectiveness can be achieved in an organization through the interactions of hard and soft elements. The McKinsey 7S Model focuses on how the "Soft Ss" and "Hard Ss" elements are interrelated, suggesting that modifying one aspect might have a ripple effect on the other elements in order to maintain an effective balance.

The following elements are the hard elements in an organization:

- **Strategy:** The direction of the organization, a blueprint to build on a core competency and achieve competitive advantage to drive margins and lead the industry.
- **Structure:** Depending on the availability of resources and the degree of centralization or decentralization that the management desires, it chooses from the available alternatives of organizational structures.
- **Systems:** The development of daily tasks, operations and teams to execute the goals and objectives in the most efficient and effective manner.

The Soft elements are difficult to define as they are more governed by the culture. But these soft elements are equally important in determining an organization's success as well as growth in the industry. ***The following are the soft elements in this model:***

- **Shared Values:** The core values which get reflected within the organizational culture or influence the code of ethics of the management.
- **Style:** This depicts the leadership style and how it influences the strategic decisions of the organization. It also revolves around people motivation and organizational delivery of goals.
- **Staff:** The talent pool of the organization.

- **Skills:** The core competencies or the key skills of the employees play a vital role in defining the organizational success.

But like any other strategic model, this model has its limitations as well:

- It ignores the importance of the external environment and depicts only the most crucial elements within the organization.
- The model does not clearly explain the concept of organizational effectiveness or performance.
- The model is considered to be more static and less flexible for decisionmaking.
- It is generally criticized for missing out the real gaps in conceptualization and execution of strategy.

Question 5 (b)

Elvis Global is a famous OTT platform facing fierce competition from its competitors amid changing consumer preferences. This has made it difficult to retain customers as the existing television channels are also launching their own platforms. The company has appointed Raghav to lead the company forward as the sales & marketing manager. Raghav needs to design creative and innovative advertising campaigns to gain a competitive edge, engage the public and capture the market.

Identify the strategic level that represents Raghav's role at Elvis Global. As a strategic advisor, highlight the various benefits of strategic management in overcoming different challenges to Raghav.

(5 Marks)

Answer

Strategic level that represents Raghav's role at Elvis Global is of **Functional Level Manager** as he has been appointed to lead as the Sales and Marketing Manager. Functional level managers are responsible for the specific business functions or operations such as:

- Human resources,
- Purchasing,
- Product development,
- Customer service, and so on.

Each organization has to build its competitive advantage over the competitors in the business warfare in order to win. This can be done only by following process of strategic management – strategic analysis, formulation and implementation, evaluation and control of strategies.

The major benefits of strategic management are:

- Strategic management helps organizations to be **proactive** instead of reactive in shaping its future.
- Strategic management provides **framework for all major decision** of an enterprise such as decision on business, product, markets, manufacturing facilities, investments and organizational structure.



- Strategic management helps the organization to **develop certain core competencies and competitive advantages** that would facilitate assist in its fight for survival and growth.
- Strategic management serves as a **corporate defense mechanism** against mistake and pitfalls.
- Strategic management seeks to **prepare the organization to face the future** and act as pathfinder to various business opportunities.
- Strategic management helps to **enhance the longevity** of the business.
- Organization are able to **identify the available opportunities** and identify ways and means as how to reach them.
- The strategic management **gives a direction** to the company to move ahead. It defines the goals and mission. It helps management to define realistic objectives and goals which are in line with the vision of the company.

Question 5 (b)

Yash is planning to launch his new tech start-up. He is exploring different locations across the country to establish his company in the right business environment. One option is the city of Bengaluru, the silicon valley of India, with an engaging network of entrepreneur's investors, advisors and mentors. Coupled with various subsidies for new ventures and tax benefits, Bengaluru might be an ideal choice for Yash to establish his company and increase the chances of success.

Define the term Business Environment with respect to the above scenario. Explain the different ways in which the interaction of a business with its environment can be helpful in developing a successful strategy.

(5 Marks)

Answer

- The business environment is highly dynamic and continuously evolving. Strategists provide an interface between the organizational abilities and the opportunities and challenges it must deal within the larger environment.
- The term "business environment" refers to all external factors, influences, or situations that in some way affect business decisions, plans, and operations. Organizational success is determined by its business environment, and even more from its relationship with it.
- Strategic management is involved with choosing a long-term direction in relation to these resources and opportunities. There is a close and continuous interaction between a business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively.

It helps the business in the following ways:

1. **Determine opportunities and threats:** The interaction between the business and its environment would explain opportunities and threats to the business. It helps to find new needs and wants of the consumers, changes in laws, changes in social behaviors, and tells what new products the competitors are bringing in the market to attract consumers.
2. **Give direction for growth:** The interaction with the environment enables the business to

identify the areas for growth and expansion of their activities. Once the business is aware and understands the changes happening around, it can plan and strategies to have successful business.

3. **Continuous Learning:** The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in the realm of business.
4. **Image Building:** Environmental understanding helps the business organizations to improve their image by showing their sensitivity to the environment in which they operate. For example, in view of the shortage of power, many companies have set up captive power plants with their factories to meet their own requirement of power as well as extend surplus capacities in the vicinity. Understanding the needs of the environment help to showcase that the business is aware and responsive to the needs. It creates a positive image and helps it to prosper and win over the competitors.
5. **Meeting Competition:** It helps the businesses to analyse the competitors' strategies and formulate their own strategies accordingly. The idea is to flourish and beat competition for its products and services.

Question 6 (a)

'Innovation leads to unnecessary expenses that do not give as many returns.' Do you agree with the statement? Give reasons in support of your answer.

(5 Marks)

Answer

Innovation: Innovation drives up gradation of existing product lines or processes, leading to increased market share, revenues, profitability and most important customer satisfaction.

Some may argue that innovation leads to unnecessary expenses that do not give as much returns, but on the contrary, for a business to grow long term, innovation offers the following:

1. **Helps to solve complex problems:** A business strives to find opportunities in existing problems of the society, and it does so through planned innovation in areas of expertise. This guided innovation helps solve complex problems by developing customer centric sustainable solutions. For example, the pressing problem of environmental damage is being tackled head on by shifting to renewable sources of energy like solar, wind, sea waves, etc. It might be costly in introductory stages but in the long run it will only have economical and environmental sustainability.
2. **Increases productivity:** Innovation leads to simplification and in most cases automation of existing tasks. Productivity is defined as a measure of final output from a task or a process, and companies are willing to spend millions on increasing their productivity. Innovation, by automating repetitive tasks, and simplifying the long chain of processes, adds to productivity of teams and thereby the organisation as a whole. For example, MS Excel, every finance professional uses this software to simplify and automate their manual tasks. Such digital innovation which leads to improved productivity, creates opportunities to further



develop processes and products within and outside the organisation. Thus, innovation creates a ripple effect that has a far and wide impact across industries.

3. Gives competitive advantage: Being ahead of competition is a need, and businesses spend majority of their strategic time building solutions to achieve this advantage. An interesting concept about innovation is the faster a business innovates, the farther it goes from its competitor's reach. Innovative products need less marketing as they aim to provide added satisfaction to consumers, thus, creating a competitive advantage. Innovation not only helps retain the existing customers but helps acquire new ones with ease.

Question 6 (b)

Explain how organizations can effectively manage strategic uncertainties in a rapidly changing business environment.

(5 Marks)

Answer

Strategic uncertainty refers to the unpredictability and unpredictability of future events and circumstances that can impact an organization's strategy and goals. It can be driven by factors such as changes in the market, technology, competition, regulation, and other external factors.

Dealing with strategic uncertainty can be challenging and organizations need to have the flexibility, resilience, and agility to quickly respond to changes in the environment and minimize its impact. To be manageable, they need to be grouped into logical clusters or themes.

It is then useful to assess the importance of each cluster in order to set priorities with respect to information gathering and analysis.

- **Flexibility:** Organizations can build flexibility into their strategies to quickly adapt to changes in the environment.
- **Diversification:** Diversifying the organization's product portfolio, markets, and customer base can reduce the impact of strategic uncertainty.
- **Monitoring and Scenario Planning:** Organizations can regularly monitor key indicators of change and conduct scenario planning to understand how different future scenarios might impact their strategies.
- **Building Resilience:** Organizations can invest in building internal resilience, such as strengthening their operational processes, increasing their financial flexibility, and improving their risk management capabilities.
- **Collaboration and Partnerships:** Collaborating with other organizations, suppliers, customers, and partners can help organizations pool resources, share risk, and gain access to new markets and technologies.

Question 7 (a)

What are the key characteristics of business products that contribute to the overall competitiveness and dynamics of the market?

(5 Marks)

Answer

Business products have certain characteristics as follows:

- Products are either tangible or intangible:** A tangible product can be handled, seen, and physically felt, such as a car, book, pen, table, mobile handset and so on. Alternatively, an intangible product is not a physical good, such as telecom services, banking, insurance, or repair services.
- Product has a price:** Businesses determine the cost of their products and charge a price for them. The dynamics of supply and demand influence the market price of an item or service. The market price is the price at which quantity provided equals quantity desired. The price that may be paid is determined by the market, the quality, the marketing, and the targeted group. In the present competitive world price is often given by the market and businesses have to work on costs to maintain profitability.
- Products have certain features that deliver satisfaction:** A product feature is a component of a product that satisfies a consumer need. Features determine product pricing, and businesses alter features during the development process to optimize the user experience. Products should be able to provide value satisfaction to the customers for whom they are meant. Features of the product will distinguish it in terms of its function, design, quality and experience. A customer's cumulative experience with a product from its purchase to the end of its useful life is an important component of a product feature.
- Product is pivotal for business:** The product is at the center of business around which all strategic activities revolve. The product enables production, quality, sales, marketing, logistics and other business processes. Product is the driving force behind business activities.
- A product has a useful life:** Every product has a usable life after which it must be replaced, as well as a life cycle after which it is to be reinvented or may cease to exist. We have observed that fixed line telephone instruments have largely been replaced by mobile phones.

Question 7 (b)

'A company's mission statement is typically focused on its present business scope.' Explain the significance of a mission statement.

(5 Marks)

Answer

- Mission statement is an answer to the question "Who we are and What we do" and hence has to focus on the organization's present capabilities, focus activities and business makeup.
- An organization's mission states what customers it serves, what need it satisfies, and what type of product it offers.
- Mission is an expression of the growth ambition of the organization.
- A company's mission statement is typically focused on its present business scope - "who we are and what we do"; mission statements broadly describe an organization's present capabilities, customer focus activities and business makeup.
- The following points must be considered while writing a mission statement of a company i.e. the Significance of a Mission statement:



- To establish the special identity of the business - one that typically distinguishes it from other similarly positioned companies.
- Needs which business tries to satisfy, customer groups it wishes to target and the technologies and competencies it uses and the activities it performs.
- Good mission statements should be unique to the organisation for which they are developed.
- The mission of a company should not be to make profit. Surpluses may be required for survival and growth, but cannot be the mission of a company.

Mission statement should reflect the philosophy of the organizations that is perceived by the senior managers. A good mission statement should be precise, clear, feasible, distinctive and motivating.

Question 8 (a)

What are channels? Why is channel analysis important? Explain the different types of channels?

(5 Marks)

Answer

Channels: are the distribution system by which an organisation distributes its product or provides its service. To understand the concept of channels let us see some examples of how the following companies distribute their products and services:

- **Lakme**- Sells its products *via* retail stores, intermediary stores (like Nykaa, Westside, Reliance Trends), as well as online mode like Amazon, Flipkart, Nykaa online and its own website.
- **Boat Headphones**- Only online *via* e-commerce platforms like Flipkart and Amazon.
- **Coca Cola**- Retail shops across the nation, in each district, each town as well as online mode *via* Dunzo, Blinkit, etc.

All the above are the channels *via* which companies sell their products and services to the customers. The wider and stronger the channel the better position a business has to fight and win over competition. Also, having robust channels of business distribution help keep new players away from entering the industry, thus acting as barriers to entry.

There are typically three channels that should be considered: Sales channel, product channel and service channel:

1. ***The Sales Channel***- These are the intermediaries involved in selling the product through each channel and ultimately to the end user. The key question is: Who needs to sell to whom for your product to be sold to your end user? For example, many fashion designers use agencies to sell their products to retail organizations, so that consumers can access them.
2. ***The Product Channel***- The product channel focuses on the series of intermediaries who physically handle the product on its path from its producer to the end user. This is true of Australia Post, who delivers and distributes many online purchases between the seller and purchaser when using e-Bay and other online stores.

3. **The Service Channel-** The service channel refers to the entities that provide necessary services to support the product, as it moves through the sales channel and after purchase by the end user. The service channel is an important consideration for products that are complex in terms of installation or customer assistance. For example, a Bosch dishwasher may be sold in a Bosch showroom, and then once sold it is installed by a Bosch contracted plumber.

Question 8 (b)

Explain the concept of vertically integrated diversification. How is forward integration different from backward integration?

(5 Marks)

OR

Recommend a tool to analyze the competitive position of various rival companies in the market and outline the step by step procedure for using the identified tool.

(5 Marks)

Answer

Concentric diversification is generally understood in two directions, vertical and horizontal integration;

Vertically Integrated Diversification: 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 characteristic feature of vertically integrated diversification is that the firm remains in the vertically linked product-process chain. A firm can either opt for forward or backward integration or horizontal integration.

Forward and Backward Integration: Forward and backward integration forms 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.

Backward integration is concerned with creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production/supply 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. For example, A large supermarket chain considers to purchase a number of farms that would provide it a significant amount of fresh produce.

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 organizations enter into businesses of distribution channels. For example, A coffee bean manufacturer may choose to merge with a coffee cafe.

OR

**Answer**

The ADL matrix derived its name from Arthur D. Little. It is a portfolio analysis technique that is based on product life cycle. The approach forms a two dimensional matrix based on:

- Stage of industry maturity, and
- The firms competitive position,
- Environmental assessment and business strength assessment.

Stage of industry maturity is an environmental measure that represents a position in industry's life cycle. Competitive position is a measure of business strengths that helps in categorization of products or SBU's into one of five competitive positions: dominant, strong, favourable, tenable and weak. It is four by five matrix.

The competitive position of a firm is based on an assessment of the following criteria:

Dominant: This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.

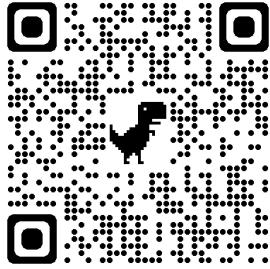
Strong: By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitors.

Favourable: This position, which generally comes about when the industry is fragmented and no one competitor stand out clearly, results in the market leaders a reasonable degree of freedom.

Tenable: Although the firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.

Weak: The performance of firms in this category is generally unsatisfactory although the opportunities for improvement do exist.

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