Chapter 1- Introduction to Strategic Management

Strategy

- Strategy is the ***game plan*** that the ***management*** of a business ***uses*** to take ***market*** position, conduct its ***operations***, attract and satisfy ***customers***, ***compete*** successfully, and ***achieve organisational objectives***.
- ***Long-range blueprint*** of an organisation's ***desired image***, ***direction*** and ***destination***, i.e., what it wants to be, what it wants to do, how it wants to do things, and where it wants to go.
- Strategy provides an integrated framework for the ***top management*** to search for, evaluate and exploit beneficial ***opportunities***, to perceive and meet potential ***threats*** and crisis, to make full use of ***resources*** and ***strengths***, and to offset corporate weaknesses.
- However, strategy is ***no substitute*** for sound, alert and responsible management.

Strategy can never be perfect, flawless and optimal.

- It is in the very nature of strategy that it is ***flexible*** and ***pragmatic***;
- it is **art of** the **possible**;
- it **does not preclude** second-best choices, trade-offs, sudden emergencies, pervasive pressures, failures and frustrations.
- That is why in a sound strategy, **allowances** are made for possible miscalculations and unanticipated events.

Strategy is partly proactive and partly reactive

A company's strategy is typically a **blend** of

- **proactive** actions on the part of managers
    - to improve the company's **market position** and
    - **financial performance** and
- **reactions** to
    - **unanticipated developments** and
    - **fresh** market **conditions**.
- In other words, a company uses both proactive and reactive strategies to **cope up** with the uncertain business environment.
- **Proactive** strategy is **planned** strategy whereas **reactive** strategy is adaptive **reaction** to **changing** circumstances.
- A business organization **cannot always plan** all their strategies in advance and often **need to blend** planned strategies with reactive strategies.

Strategy is partly proactive and partly reactive. Discuss.
(RTP, May 2018, NA) (SA, Nov 2018, 5 marks) (MTP1, Nov 2019, 5 marks) (RTP, Nov 2020, NA) (MTP1, May 2021, 5 marks) (ICAI Study Material)

OR

"A business organization cannot always plan all their strategies in advance and often need to blend planned strategies with reactive strategies." Do you agree with the statement? Give reasons.
(MTP2, May 2022, 5 marks) (RTP, May 2023, NA)

Yummy Foods and Tasty Foods are successfully competing in the business of ready to eat snacks in Patna. Yummy has been pioneer in introducing innovative products. These products will give them good sale. However, Tasty Foods will introduce similar products in reaction to the products introduced by the Yummy Foods taking away the advantage gained by the former.
Discuss the strategic approach of the two companies. Which is superior?
(RTP, Nov 2018, NA) (MTP1, Nov 2021, 5 Marks) (MTP2, May 2023, 5 Marks) (ICAI Study Material)

Kamal Sweets Corner, a very popular sweets shop in Ranchi, was facing tough competition from branded stores of packaged sweets and imported goods. The owners realised that their business reduced by 50% in the last six months, and this created a stressful business environment for them. To find a solution, they consulted a business consultant to help them develop a strategy to fight competition and sustain their century old family business. The business consultant advised them to innovate a new snack for the public and market it as a traditional snack of the region. The owners liked the idea and developed a new snack called Dahi Samosa, which very quickly became popular amongst the public and it helped regain the lost business of Kamal Sweets Corner.

One of the very crucial importance of strategic management was used by the business consultant to help the owners of Kamal Sweets Corner. Which one could it be? Also, was this strategy Reactive or Proactive? According to you who are more beneficial in general parlance?
(MTP2, May 2021, 5 marks)

ALBELA' Foods and 'JustBE' Foods are successfully competing chain of restaurants in India. ALBELA' s are known for their innovative approach, which has resulted in good revenues. On the other hand, JustBE is slow in responding to environmental change. The initial stages of Covid-19 pandemic and the ensuring strict lockdown had an adverse impact on both the companies. Realizing its severity and future consequences. ALBELA, foods immediately chalked out its post lockdown strategies, which include initiatives like:
(a) Contactless dinning
(b) New category of foods in the menu for boosting immunity
(c) Improving safety measures and hygiene standards
(d) Introducing online food delivery app
Seeing the positive buzz around these measures taken by ALBELA Food, JustBE Foods also thinks to introduce these measures.
(i) Identify the strategic approach taken by 'ALBELA' Foods and 'JustBE' Foods.
(ii) Discuss these strategic· approach.
(iii) Which strategic approach is better and why?
(SA, July 2021, 5 marks)

Management

The term 'management' is used in two senses

a. It is used with reference to a ***key group*** in an organisation in-charge of its affairs
   - chief organ entrusted with the task of making the ***organisation purposeful*** and ***productive***.
   - by undertaking the task of ***bringing together*** and ***integrating*** the ***disorganised resources*** of manpower, money, material, and technology, which are then combined into a functioning whole.

b. The term 'Management' is also used with reference to a set of ***interrelated functions*** and ***processes*** carried out by the management (Key group of people) of an organisation ***to achieve*** its ***objectives***
   - These functions include Planning, Organising, Directing, Staffing and Control.

Strategic Management

The term 'strategic management' refers to the **managerial process** of

- developing a strategic **vision**,
- setting **objectives**,
- crafting a **strategy**,
- **implementing** and **evaluating** the strategy,
- and initiating corrective **adjustments** where deemed appropriate.

Overall objectives of strategic management

The overall objectives of strategic management are two-fold:

- To ***create competitive advantage*** (something unique and valued by the customer), so that the company can ***outperform*** the ***competitors*** in all aspects of organisational performance.
- To guide the company ***successfully through*** all changes in the ***environment***.

"Originally called, business policy, strategic management emphasises the **monitoring** and **evaluation** of **external opportunities** and **threats** in the **light** of a company's **strengths** and **weaknesses** and **designing strategies** for the **survival** and **growth** of the company."

Importance of Strategic Management

'Survival of fittest 'as told by darwin is the only principle of survival for organization, where 'fittest' are not the 'largest' or 'strongest' organizations but those who can change and adapt successfully to the changes in business environment.

The major benefits of STRATEGIC MANAGEMENT are:

Gives Direction / Define Goals And Mission, Realistic Objective

- 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.

Proactive (Action, Control, Vagaries)

- Strategic management helps organisations to be ***proactive*** instead of reactive in shaping its future.
- Organisations are able to ***analyse*** and ***take actions*** instead of being mere spectators.
- They are able to ***control*** their own ***destiny*** in a better manner.
- It helps them in working within the ***vagaries*** of the environment and shaping it, instead of getting carried away by its turbulence or uncertainties.

Framework For Decisions (Decisions On ……, Better Guidance)

- Strategic management provides a framework for all major decisions of an enterprise
    - such as ***decisions on businesses***, ***products***, ***markets***, manufacturing facilities, investments and organisational structure.
    - It provides ***better guidance*** to the entire organisation on the ***crucial point*** - what it is trying to do.

Face The Future And Act As Path Finder / Opportunity

- Strategic management seeks to prepare the organisation to face the future and act as ***pathfinder*** to various ***business opportunities***.
- Organisations are able to identify the available opportunities and identify ***ways and means*** as how to reach them.

Corporate Defense Mechanism

- Strategic management serves as a ***corporate defence mechanism*** against mistakes and pitfalls.
- It helps organisations to ***avoid costly*** mistakes in product market choices or investments.

Longevity (दीर्घायु) (लम्बी उम्र)

- Strategic management helps to enhance the **longevity** of the **business**.
- It helps the organization to take a **clear stand** in the related industry and **makes sure** that it is **not** just **surviving on luck**.

Core Competencies And Competitive Advantage

- Strategic management helps the organisation to develop certain ***core competencies*** and ***competitive advantages*** that would facilitate assistance in its fight for survival and growth.

Points	Story

Limitations of Strategic Management

The presence of strategic management **cannot counter all hindrances** and always achieve success. There are limitations attached to strategic management. These can be explained in the following lines

Environment is difficult to understand

- Environment is highly **complex** and **turbulent**. It is **difficult** to **understand** the complex environment and **exactly pinpoint** how it will **shape**-up in future.
- The organisational **estimate** about its future shape may awfully **go wrong** and jeopardise all strategic plans.
- The environment affects as the organisation has to deal with suppliers, customers, governments and other external factors.

Time consuming

- Strategic management is a **time-consuming process**.
- Organisations spend a lot of time in preparing, communicating the strategies that may **impede daily operations** and negatively impact the **routine business**.

Costly

Strategic management is a **costly process**.

- Strategic management adds a lot of **expenses** to an organization.
- **Expert** strategic planners need to be engaged, **efforts** are made for **analysis** of external and internal environments, **devise** strategies and properly implement.
- These can be really **costly** for organizations with limited resources particularly when **small** and **medium** organizations create strategies to **compete**.

Difficult to estimate response

In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the ***competitive responses*** to a ***firm's strategies***.

Define Strategic Management.
(RTP, May 2018, NA)

The presence of strategic management cannot counter all hindrances and always achieve success for an organisation. What are the limitations attached to strategic management?
(RTP, May 2018, NA) (MTP1, May 2019, 5 Marks) (MTP2, May 2021, 5 Marks) (MTP1, May 2022, 5 Marks) (MTP2, May 2022, 5 Marks)

OR

Define Strategic Management. Also discuss the limitations of Strategic Management.
(SA, May 2018, 5 Marks) (RTP, May 2021, NA) (RTP, Nov 2021, NA) (MTP1, Nov 2022, 5 Marks) (MTP2, Nov 2023, 5 Marks)

OR

Are there any limitations attached to strategic management in organizations? Discuss.
(RTP, May 2019, NA) (MTP1, May 2020, 5 Marks) (MTP2, Nov 2022, 5 Marks) (ICAI Study Material)

OR

'Strategic Management is not a panacea for all the corporate ills, it has its own pitfalls which can't counter all hindrances and always achieve success'. Do you agree with this statement? Discuss.
(SA, May 2019, 5 Marks)

OR

"The strategic management cannot counter all hindrances and always achieve success for an organization." Do you agree with this statement? Give arguments in support of your answer.
(SA, Nov 2022, 5 Marks) (RTP, Nov 2023, NA)

Ramesh Sharma has fifteen stores selling consumer durables in Delhi Region. Four of these stores were opened in last three years. He believes in managing strategically and enjoyed significant sales of refrigerator, televisions, washing machines, air conditioners and like till four years back. With shift to the purchases to online stores, the sales of his stores came down to about seventy per cent in last four years.
Analyse the position of Ramesh Sharma in light of limitations of strategic management.
(RTP, Nov 2019, NA) (RTP, Nov 2020, NA) (ICAI Study Material)

Briefly explain the importance of strategic management.
(MTP1, May 2018, 5 marks) (RTP, Nov 2018, NA) (MTP2, Nov 2018, 5 marks)

OR

"Each organization must build its competitive advantage keeping in mind the business warfare. This can be done by following the process of strategic management". Considering its statement, explain major benefits of strategic management.
(SA, Dec 2021, 5 Marks) (RTP, Nov 2022, NA)

OR

What benefits accrue by following a strategic approach to managing?
(RTP, Nov 2018, NA) (MTP1, Nov 2020, 5 Marks) (RTP, May 2023, NA)

OR

Strategic management helps an organization to work through changes in environment to gain competitive advantage. In light of statement discuss its benefits.
(RTP, Nov 2019, NA) (MTP2, Nov 2021, 5 Marks)

OR

What is Strategic Management? What benefits accrue by following a strategic approach to managing?
(ICAI Study Material)

Is strategic management a bundle of tricks and magic? Elucidate the statement.
(MTP2, May 2018, 5 marks)

Strategic Intent (Vision, Mission, Goals, Objectives and Values)

Strategic Intent

- Strategic intent refers to purposes of what the organisation strives for senior managers must define "what they want to do" and "why they want to do".
- "Why they want to do" represents strategic intent of the firm.
- Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives.
- Strategic intent could be in the form of vision and mission statements for the organisation at the corporate level.
- Strategic intent is generally stated in broad terms but when stated in precise terms it is an expression of aims to be achieved operationally, i.e., goals and objectives.
- Components of Strategic Intent
    - Vision
    - Mission
    - **Goals and Objectives**
    - **Values/ Value System**

Vision

- Vision implies the blueprint of the company's future position.
- Top management's views about the company's direction and the product customer-market-technology focus constitute the strategic vision for the company.
- Strategic vision describes
    - management's aspirations for the business,
    - providing a panoramic view of the "where we are to go" and
    - a convincing rationale for why this makes good business sense for the company.
- Strategic vision thus
    - points out a particular direction,
    - charts a strategic path to be followed in future, and
    - moulding organisational identity.
- A clearly articulated strategic vision
    - communicates management's aspirations to stakeholders and
    - helps steer the energies of company personnel in a common direction.
- For Example - Henry Ford's vision inspired others, mobilized company resources, and guided strategic decisions.

Essentials of a strategic vision

- The entrepreneurial challenge in developing a strategic vision is to think creatively about how to prepare a company for the future.
- Forming a strategic vision is an exercise in intelligent entrepreneurship.
- A well-articulated strategic vision creates enthusiasm among the members of the organisation.

- The best-worded vision statement clearly illuminates the direction in which the organisation is headed.

Mission

- A mission is an answer to the basic question 'what business are we in and what we do'.
- 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 organisations present capability, customer focus, activities, and business makeup.
- Every organisation must have a strong focus on mission and business definition, as these two are crucial for strategic planning.

Why should an organisation have a mission?

- To ensure unanimity of purpose within the organisation.
- To develop a basis, or standard, for allocating organisational resources.
- To provide a basis for motivating the use of the organisation's resources.
- To establish a general tone or organisational climate, to suggest a businesslike operation.
- To serve as a focal point for those who can identify with the organisation's purpose and direction.
- To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organisation.
- To specify organisational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled.

Essentials of a good mission statement - Points to be considered while writing a mission statement

A good mission statement should be precise, clear, feasible, distinctive and motivating. Following points are useful while writing a mission of a company:

- One of the roles of a mission statement is to give the organisation its own special identity, business emphasis and path for development – one that typically sets it apart from other similarly positioned companies.
- A company's business is defined by what needs it is trying to satisfy, which customer groups it is targeting and the technologies and competencies it uses and the activities it performs.
- Good mission statements are – unique to the organisation for which they are developed.

What is our mission? And what business are we in?

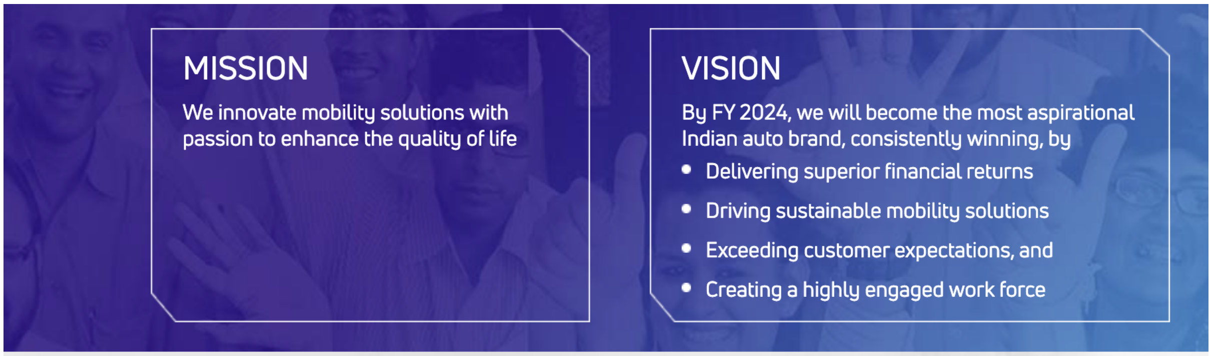
Peter Drucker and Theodore Levitt Emphasised that every business firm must clarify the corporate mission and define accurately the business the firm is engaged in. They also explained that towards facilitating this task, the firm should raise and answer certain basic questions concerning its business, such as:

- What is our mission?
- What is our ultimate purpose?
- What do we want to become?
- What kind of growth do we seek?
- What business are we in?
- Do we understand our business correctly and define it accurately in its broadest connotation?
- Whom do we intend to serve?
- What human need do we intend to serve through our offer?
- What brings us to this particular business?
- What would be the nature of this business in the future?
- In what business would we like to be in, in the future?

According to Peter Drucker, every organisation must ask an important question "What business are we in?" and get the correct and meaningful answer. The answer should have marketing or external perspective and should not be restated to the production or generic activities of business. For example

Company	Production-oriented answer	Marketing-oriented answer
Indian Oil	We produce oil and gasoline products.	We provide various types of safe and cost-effective energy.
Indian Railways	We run a railroad	We offer a transportation and material-handling system.
Lakme	In the factory, we make cosmetics.	In the retail outlet, we sell hope.

Tata motor - Vision and Mission



Goals and Objectives

- Business organisations translate their vision and mission into goals and objectives.
- Goals are open-ended attributes that denote the future states or outcomes.
- Objectives are close-ended attributes which are precise and expressed in specific terms.
- Thus, the Objectives are more specific and translate the goals to both long term and short-term perspective. However, this distinction is not made by several theorists on the subject. ICAI uses them interchangeably.
- Objectives are organisation's performance targets – the results and outcomes it wants to achieve. They function as yardsticks for tracking an organisation's performance and progress.
- They provide meaning and sense of direction to organisational endeavour. Organisational structure and activities are designed, and resources are allocated around the objectives to facilitate their achievement.

Characteristics of Objectives

Objectives To be meaningful to serve the intended role, must possess the following characteristics:

- Objectives should define the organisation's relationship with its environment.
- They should be facilitative towards achievement of mission and purpose.
- They should provide the basis for strategic decision-making.
- They should provide standards for performance appraisal.
- They should be concrete and specific.
- They should be related to a time frame.
- They should be measurable and controllable.
- They should be challenging.
- Different objectives should correlate with each other.
- Objectives should be set within the constraints of organisational resources and external environment.

A need for both short-term and long-term objectives

As a rule, a company's set of financial and strategic objectives ought to include both short-term and long-term performance targets.

- Having quarterly or annual objectives focuses attention on delivering immediate performance improvements.
- Targets to be achieved within three to five years' prompt considerations of what to do now to put the company in position to perform better down the road.

Long-term objectives

To achieve long-term prosperity, strategic planners commonly establish long-term objectives in seven areas.

- Profitability
- Productivity
- Competitive Position
- Employee Development
- Employee Relations
- Technological Leadership
- Public Responsibility

Long-term objectives represent the results expected from pursuing certain strategies.

- Strategies represent the actions to be taken to accomplish long-term objectives.
- The time frame for objectives and strategies should be consistent, usually from two to five years.

When an organization has already achieved its long-term goals and simply wants to maintain that level, their short-term and long-term objectives can be the same.However, if elevating performance, short-range goals become steps towards long-term objectives.

Clearly established objectives offer many benefits.

They provide direction, allow synergy, aid in evaluation, establish priorities, reduce uncertainty, minimize conflicts, stimulate exertion, and aid in both the allocation of resources and the design of jobs.

Values

- **Values are the deep-rooted principles which guide an organisation's decisions and actions.**
- **A few common examples of values are – Integrity, Trust, Accountability, Humility, Innovation, and Diversity.**
- **They can never be compromised, either for convenience or short-term economic gain.**
- **Values often reflect the values of the company's founders—Hewlett-Packard's celebrated "HP Way" is an example.**
- **They are the source of a company's distinctivenes**
- A company's value sets the tone for how the people think and behave, especially in situations of dilemma.
- It creates a sense of shared purpose to build a strong foundation and focus on longevity of the company's success.
- Employees often seek employers with relatable values, impacting their work and personal life.
- Consumers often choose companies whose purpose aligns with their values, showing values' internal and external impact.
- Values often drive intent, making them broader in scope than intent.

Define strategic intent. Briefly explain the elements of strategic intent.
(RTP, May 2018, NA)

OR

What are the elements in strategic intent of organisation?
(RTP, May 2019, NA) (RTP, May 2020, NA)

OR

"Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives." In the light of this statement, discuss the elements of strategic intent.
(SA, Nov 2022, 5 Marks)

Distinguish between Vision and Mission
(RTP, May 2018, NA)

OR

Distinguish between vision statement and mission statement.
(MTP2, May 2018, 5 Marks) (MTP1, Nov 2018, 5 Marks)

Write a short note on Essentials of a strategic vision.
(RTP, Nov 2018, NA)

OR

What is strategic vision? Describe the essentials of strategic vision.
(SA, Nov 2020, 5 Marks)

'Objectives' and 'Goals' provide meaning and sense of direction to organizational endeavour. Explain.
(RTP, Nov 2018, NA)

What are the characteristics which must be possess by objectives, to be meaningful to serve the intended role?
(SA, May 2019, 5 Marks)

OR

What are 'objectives'? What characteristics must it possess to be meaningful?
(RTP, May 2021, NA) (RTP, May 2022, NA) (MTP2, May 2023, 5 Marks)

Mr Raj has been hired as a CEO by XYZ ltd a FMCG company that has diversified into affordable cosmetics. The company intends to launch Feelgood brand of cosmetics. XYZ wishes to enrich the lives of people with its products that are good for skin and are produced in ecologically beneficial manner using herbal ingredients. Draft vision and mission statement that may be formulated by Raj.
(RTP, Nov 2019, NA) (RTP, Nov 2020, NA) (ICAI Study Material)

Why an organisation should have a mission? What considerations are to be kept in mind while writing a good mission statement of a company?
(SA, Nov 2019, 5 Marks)

OR

What should be the major components of a good mission statement?
(RTP, Nov 2022, NA)

Mission statement of a company focuses on the question: 'who we are' and 'what we do'. Explain briefly.
(MTP2, May 2021, 5 Marks) (MTP2, May 2022, 5 Marks) (RTP, May 2023, NA)

Explain briefly the key areas in which the strategic planner should concentrate his mind to achieve desired results.
(RTP, May 2021, NA) (RTP, Nov 2022, NA)

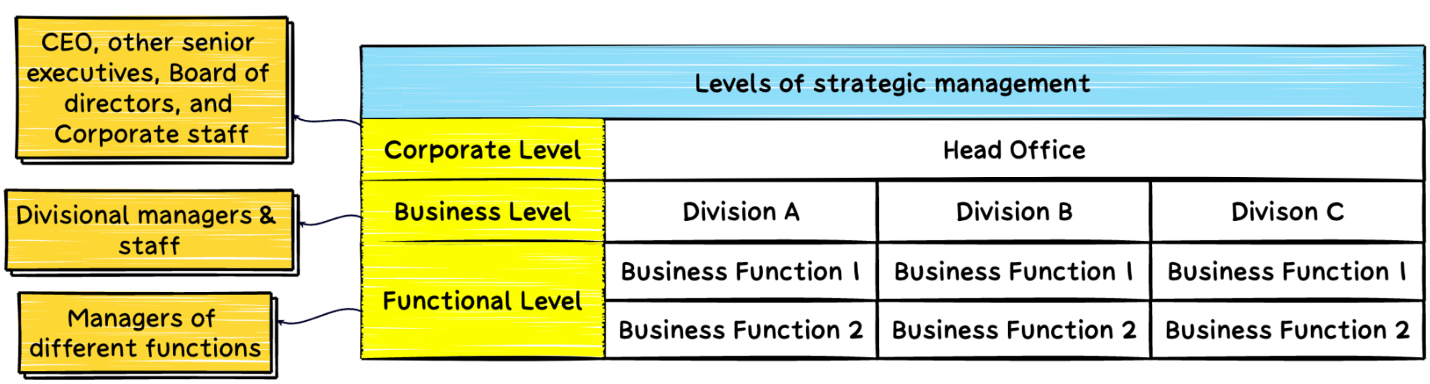
Strategic Levels in Organisations

- A typical large organization is a multi-divisional organisation that competes in several different businesses.
- It has separate self-contained divisions to manage each of these businesses.

Generally, there are three main levels of management:

- Corporate level
- Business level
- Functional level

General managers are found at the first two of these levels, but their strategic roles differ depending on their sphere of responsibility.



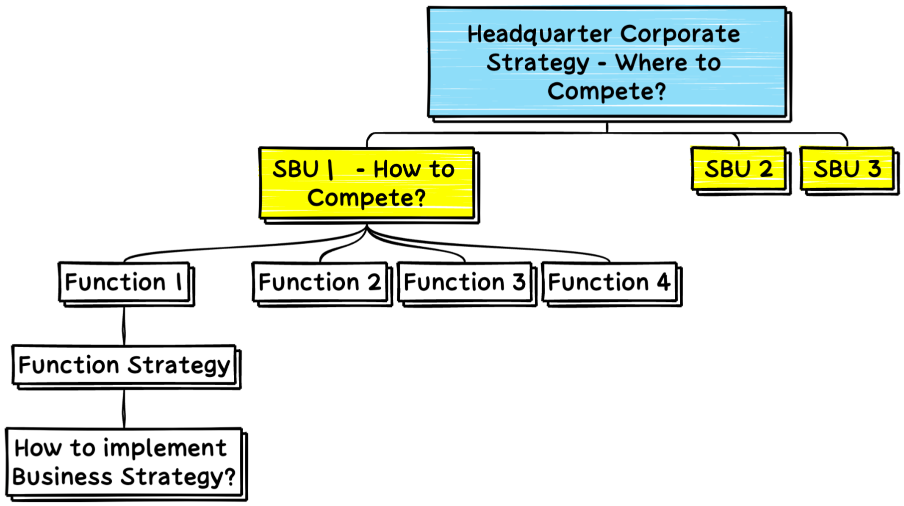
SBU (Strategic business Unit)

- These are the key businesses.

- It is a unit of the company
    - that has a separate mission & objectives &
    - which can be planned independently from other company businesses.
- It can be a company division, product line within a division etc.

CHARACTERISTICS

1. Single business or collection of related businesses that can be planned for separately
2. Has its own set of competitors?
3. Has a manager who is responsible for strategic planning & profit.



Corporate level of management

- The **corporate level of management** consists of the
    - ➢ Chief Executive Officer (CEO),
    - ➢ other senior executives,
    - ➢ the board of directors, and
    - ➢ corporate staff.
- These individuals participate in strategic decision making within the organization.
- The role of **corporate-level managers** is
    - to oversee the development of strategies for the whole organisation.
    - defining the mission and goals of the organisation,
    - determining what businesses it should be in,
    - allocating resources among the different businesses,
    - formulating and implementing strategies that span individual businesses, and providing leadership for the organisation as a whole.
- Corporate-level managers provide a link between the people who oversee the strategic development of a firm and those who own it (the shareholders).
- Corporate-level managers, and particularly the CEO, can be viewed as the guardians of shareholders' welfare. It is their responsibility to ensure that the corporate and business strategies of the company are consistent with maximizing shareholders' wealth.
- If they are not, then ultimately the CEO is likely to be held accountable by the shareholders.

Business-level manager

- The strategic role of these managers is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.
- Thus, whereas corporate-level managers are concerned with strategies that span individual businesses, business-level managers are concerned with strategies that are specific to a particular business.

Functional-level managers

- They are responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions.
- Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division.
- functional managers have a major strategic role
  - To develop functional strategies in their area that help fulfil the strategic objectives set by business- and corporate-level general managers.
  - Functional managers provide most of the information that makes it possible for business- and corporate-level general managers to formulate realistic and attainable strategies.
  - Functional managers, being closer to customers, can generate key ideas that might turn into major strategies, therefore general managers must listen to functional managers.
  - An equally great responsibility for managers at the operational level is strategy implementation: the execution of corporate and business-level plans.

Which is better - Top Down Approach or Bottom-Up Approach?

A top-down approach to decision making is when decisions are made solely by leadership at the top i.e. corporate level of management, while the bottom-up approach gives all teams across the levels a voice in decision making.

Network of relationship between the three levels

- The corporate level decides what the business wants to achieve, while the business level draws ideas and plans to execute the same, which eventually flow down to the functional level to execute and achieve results.
- There are 3 major types of networks of relationship between the levels and also amongst the same levels of a business;

Functional and Divisional Relationship

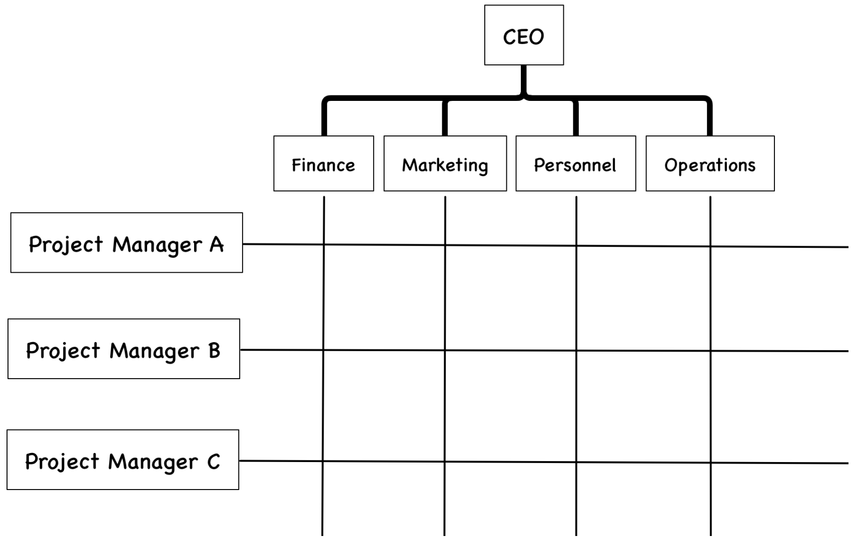
- It is an independent relationship, where each function or a division is run independently headed by the function/division head, who is a business level manager, reporting directly to the business head, who is a corporate level manager.
- Functions maybe like Finance, Human Resources, Marketing, etc. while
- Divisions may depend on the products like for a toys manufacturer - kids toys, teenager toys, etc. could be divisions.

Horizontal Relationship

- In a horizontal or flat structure, all positions, from top management to staff, share the same hierarchical level.
- This leads to openness and transparency in work culture and focused more on idea sharing and innovation.
- This type of relationship between levels is more suitable for startups where the need to share ideas with speed is more desirable.

Matrix Relationship

- It features a grid-like structure of levels in an organisation, with teams formed with people from various departments that are built for temporary task-based projects.
- This relationship helps manage huge conglomerates with ease where it is nearly impossible to track and manage every single team independently.
- An important feature of this structure is that employees typically report to two managers - a functional manager and a project manager. This ensures that employees have clear guidance and support for their daily tasks (from the functional manager) and project-specific tasks (from the project manager).
- It is complex for smaller organisations, but extremely useful for large organisations.



Define the role of corporate level managers.
(RTP, Nov 2018, NA)

Distinguish between the three levels of strategy formulation.
(MTP1, Nov 2018, 5 marks)

OR

Explain the difference between three levels of strategy formulation.
(RTP, May 2020, NA) (MTP 1, May 2023, 5 Marks) (ICAI Study Material)

OR

Distinguish between the following: Corporate and business level.
(RTP, May 2019, NA)

List the different strategic levels in an organisation.
(SA, Nov 2018, 2 marks)

Enumerate the task to be performed as a strategic manager of a company.
(MTP2, May 2019, 5 marks)

ABC Limited is in a wide range of businesses which include apparels, lifestyle products, furniture, real estate and electrical products. The company is looking to hire a suitable Chief Executive Officer. Consider yourself as the HR consultant for ABC limited. You have been assigned the task to enlist the activities involved with the role of the Chief Executive Officer. Name the strategic level that this role belongs to and enlist the activities associated with it.
(SA, Jan 2021, 5 marks) (MTP2, Nov 2022, 5 Marks) (ICAI Study Material) (MTP1, Nov 2023, 5 Marks)

Dharam Singh, the procurement department head of Cyclix, a mountain biking equipment company, was recently promoted to look after sales department along with procurement department. His seniors at the corporate level have always liked his way of leadership and are assures that he would ensure the implementation of policies and strategies to the best of his capacity but have never involved him in decision making for the company.Do you think this is the right approach? Validate your answer with logical reasoning around management levels and decision making.
(RTP, May 2021, NA) (ICAI Study Material)

Mr. Mehta sharing with his friend in an informal discussion that he has to move very cautiously in his organization as the decisions taken by him has organisation wide impact and involves large commitments of resources. He also said that his decisions decide the future of his organisation. Where will you place Mr. Mehta in the organizational hierarchy and explain his role in the organization.
(RTP, Nov 2021, NA)

ABC Ltd. currently sells its product in two major markets - Europe and Asia. While it is a market leader in Europe, ABC Ltd. has struggled to penetrate the more competitive Asian market. ABC Ltd. hired a strategic consultant to analyze the situation and submit his report to them. After the report received from the strategic consultant, it has therefore decided to pull out of Asia entirely and focus on its European markets only. This decision relates to which level in ABC Ltd. and explain the role of managers at this level in the organization.
(RTP, May 2022, NA)

“Management at all levels develop strategies”. Explain the different strategies formulated at different levels of management
(SA, May 2023, 5 Marks)

Chapter 2 - Strategic Analysis: External Environment

Introduction

Organisations differ in size, product types, markets, location, and legal status due to diversity.Organisations, regardless of size or features, respond to external factors known as the business environment.

Strategy and Business Environment

- The business environment is highly ***dynamic*** and ***continuously evolving***.
- 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.

There is a ***close*** and ***continuous interaction*** between a business and its environment. It helps the business in the following ways:

i. **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 behaviours***, and tells what new products the competitors are bringing in the market to attract consumers.

ii. **Give direction for growth**
   - The interaction with the environment enables the business to ***identify the areas for growth*** and expansion of their activities.

iii. **Continuous Learning:** The managers are motivated to ***continuously update*** their knowledge, understanding and skills to meet the predicted changes in the realm of business.

iv. **Image Building:** Environmental understanding helps the business organizations to ***improve their image*** by showing their sensitivity to the environment in which they operate.

v. **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.

To flourish, a business must be ***aware*** of, ***assess***, and ***respond*** to the many opportunities and threats present in its environment. In order to succeed, the business must not only be aware of the numerous aspects of its surroundings but also be able to handle and adapt to them. The business must continuously ***evaluate*** its environment and ***modify*** its operations in order to thrive and expand.

Micro and Macro Environment

The external environment can be categorised in two major types as follows:

- Micro environment
- Macro environment

Micro Environment

- Micro-environment is related to a ***small area*** or ***immediate periphery*** of an organization.
- It influences an organization regularly and directly.
- Micro environment consists of suppliers, consumers, marketing intermediaries, competitors, etc.
- These are ***specific*** to the said business or firm.
- Within the micro or the immediate environment in which a firm operates we need to address the following issues:
  - The ***employees*** of the firm, their characteristics and how they are organised.
  - The existing ***customer base*** on which the firm relies for business.
  - The ways in which the firm can raise its ***finance***.
  - Who are the firm ***suppliers*** and how are the links between the two being developed?
  - The ***local community*** within which the firm operates.

    - The ***direct competition*** and their comparative performance.
- The factors in the micro environment often relate an organization to the macro issues influencing the way a firm reacts in the marketplace.

Elements of Macro Environment

- Macro environment has broader dimensions as it consists of economic, sociocultural, technological, political and legal factors.
- The environment includes factors outside the firm which can lead to opportunities for, or threats to the firm.

Demographic Environment

- Demographics are the ***characteristics of a population*** that have been classified and explained according to certain criteria, such age, gender, and income, in order to understand the features of a specific group.
- Demographic analysis considers factors such as race, age, income, education, possession of assets, house ownership, job position, region, and the degree of education.
- Data about these qualities across homes and within a demographic variable are of importance to both businesses and economists.
- India has a relatively younger population as compared to many other countries.
- Many multinationals are interested in India considering its population size.
- Business Organizations need to study different demographic factors. Particularly, they need to address following issues:
    - What demographic trends will affect the ***market size*** of the industry?
    - What demographic trends represent ***opportunities*** or ***threats***?
- The size, age distribution, geographic dispersion, ethnic mix, and income distribution of a population are all of great importance to the organisation.
- Identifying the implications of changing demographic characteristics or population components for a future strategic competitiveness is often a challenge for strategists.

Socio-Cultural Environment

- Complex group of factors such as social traditions, values and beliefs, level and standards of literacy, the ethical standards and state of society, the extent of social stratification, conflict, cohesiveness and so forth.
- It differs from demographics in the sense that it is not the characteristics of the population, but it is the ***behaviour and the belief system of that population.***
- The core beliefs of a particular society tend to be persistent.
- It is difficult for a business to change these core values
- This means, that businesses have to adjust to social norms and beliefs to operate successfully.
- The social environment primarily affects the strategic management process within the organization in the areas of mission and objective setting, and decisions related to products and markets.

Economic Environment

- Economic conditions have a ***direct*** bearing over the business strategies.
- The economic environment refers to the overall ***economic situation*** around the business and include conditions at the regional, national and global levels.
- It includes conditions in the markets for resources that have an effect on the supply of inputs and outputs of the business, their costs, and the dependability, quality, and availability.
- Economic environment determines the ***strength*** and ***size*** of the market.
- The purchasing power in an economy depends on current income, prices, savings, circulation of money, debt and credit availability.
- Income distribution patterns determine the business possibilities.
- The important point to consider is to find out the effect of economic prospect, growth and inflation on the operations of the business.
- For example - Higher interest rates harm businesses with high debt and reduce real estate market demand by limiting loan access.

- Economic conditions, like GDP, per capita income, markets, capital, trade growth, and inflation, indicate a nation's economic health.

Political-Legal Environment

- Political-legal environment takes into account elements like the
    - general level of ***political development***,
    - the degree to which business and economic issues have been ***politicised,***
    - the degree of ***political morality***,
    - the state of ***law*** and ***order***,
    - ***political stability***,
    - the political ***ideology*** and ***practises*** of the ruling party,
    - the ***effectiveness*** and ***purposefulness*** of governmental agencies,
    - and the scope and type of ***governmental intervention*** in the economy and industry.
- It is partly general to all similar enterprises and partly specific to an individual enterprise.
- The type of government running a country is a powerful influence on business.
- Businesses must consider ***changes in regulations*** and the ***impact of taxes and duties*** on their operations.
- Businesses prefer to operate in a country where there is a sound legal system.
- Businesses need to understand laws protecting consumers, competition, and intellectual property, including company and labor laws.

Technological Environment

- A highly important factor in the present times is technology.
- Technology has changed the way people communicate and do things, the ways of doing business
- Technology and business are ***linked*** and are ***interdependent*** on one another.
- Businesses use new discoveries to adapt themselves for the advancement of society.
- With the use of technology, many organisations are able to reduce paperwork, schedule payments more efficiently, and coordinate inventories efficiently and effectively.
- This helps to ***reduce the costs*** of companies, and ***shrink time and distance***, thus, capturing a ***competitive advantage*** for the company.
- Technological changes affect business operations, often requiring significant alterations in operational and marketing strategies.
- Technology is leading to many new business opportunities as well as making obsolete (act as a threat also) most of the existing business products and services.
- Artificial intelligence, machine learning, robotic process automation is some of the new technological tools that businesses are adopting and can act as both opportunity and threat to a business.

PESTLE– A tool to Analyse Macro Environment

- The term PESTLE is often used to describe a framework for analysis of macro environmental factors.
    - P - Political
    - E - Economic
    - S - Socio-cultural
    - T - Technological
    - L - Legal
    - E - Environmental
- Political, economic, social, and technological (PEST) analysis was the name given to the framework in the past; however, later, the framework has been expanded to include environmental and legal factors as well.
- PESTLE analysis involves ***identifying*** the political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of ***scanning*** the environmental influences that have affected or are likely to affect an organization or its policy.
- The PESTLE analysis is ***simple*** to understand and ***quick*** to implement.
- The advantage of this tool is that it encourages management into ***proactive*** and ***structured thinking*** in its decision making.

We have already studied all other elements other than the Environmental factors
Environmental factors affect industries such as tourism, farming, and insurance. Growing awareness of climate change is affecting how companies operate and the products they offer--it is both creating new markets and diminishing or destroying existing ones.

Quick View of Elements of PESTLE Framework and related factors

Political	Economic
• Political stability • Political principles and ideologies • Current and future taxation policy • Regulatory bodies and processes • Government policies • Government term and change • Thrust areas of political leaders	• Economy situation and trends • Market and trade cycles • Specific industry factors • Customer/end-user drivers • Interest and exchange rates • Inflation and unemployment • Strength of consumer spending
Social	**Technological**
• Lifestyle trends • Demographics • Consumer attitudes and opinions • Brand, company, technology image • Consumer buying patterns • Ethnic/religious factors • Media views and perception	• Replacement technology/solutions • Maturity of technology • Manufacturing maturity and capacity • Innovation potential • Technology access, licensing, patents, property rights and copyrights
Legal	**Environmental**
• Business and Corporate Laws • Employment Law • Competition Law • Health & Safety Law • International Treaty and Law • Regional Legislation	• Ecological/environmental issues • Environmental hazards • Environmental legislation • Energy consumption • Waste disposal

Internationalization of Business

- Internationalization has emerged as the dominant commercial trend over the last couple of decades.
- It enables a business to enter ***new markets*** in search of ***greater earnings*** and ***less expensive resources***.
- Additionally, expanding internationally enable a business to achieve ***greater economies of scale*** and ***extend*** the ***lifespan*** of its products.
- The strategic-management process mirrors domestic firms in global firms but is more complex due to extra variables.
- International strategy planning helps businesses systematically approach internationalization.
- Scanning the external environment aids in identifying global market opportunities and threats.

Characteristics of a global business

To be specific, a global business has three characteristics:

- It is a ***conglomerate*** of multiple units (located in different parts of the globe) but all linked by common ownership.
- Multiple units draw on a ***common pool of resources,*** such as money, credit, information, patents, trade names and control systems.
- The units respond to some ***common strategy***. Besides, its managers and shareholders are also based in different nations.

Developing internationally

International development is ***expensive*** and ***challenging***. Moving on in a thorough and structured manner is thus the ideal approach to adopt. The steps in international strategic planning are as follows:

- Evaluate global opportunities and threats and ***rate*** them with the internal capabilities.
- Describe the ***scope*** of the firm's global commercial operations.
- ***Create*** the firm's global business objectives.
- ***Develop*** distinct corporate strategies for the global business and whole organisation.

Why do businesses go global?

- ***Technological developments*** and evolving ***political views*** are two important factors in the rapid rise of multinational organisations.
- Because of technological advances, the process of internationalisation is now simpler than it was previously.
- Worldwide communication makes it easier to define and implement global strategy by linking corporate headquarters with their abroad operations.
- In addition, introduction of ***improved transportation*** has increased the mobility of money, people, raw materials, and finished items. There are several reasons why companies go global. These are explained as follows:
    - The first and foremost reason is the ***need to grow***.Organizations globally expand their operations to tap into opportunities worldwide, fulfilling a basic organizational need.
    - There is ***rapid shrinking of time and distance*** across the globe,
        - because of faster communication, speedier transportation, growing financial flow of funds and rapid technological changes.
    - It is being realised that the ***domestic markets*** are ***no longer adequate.***
    - The ***competition*** present domestically ***may not exist*** in some of the international markets.
    - There can be varied other reasons such as need for ***reliable*** or ***cheaper*** source of ***raw-materials***, cheap ***labour***, etc.
    - Companies often set up overseas plants to ***reduce high transportation costs***.
    - The ***rise of services*** to constitute the largest single sector in the world economy.
    - The apparent and real ***collapse of international trade barriers*** redefines the roles of state and industry.
    - Globalization enables firms worldwide to ***form strategic alliances***, countering ***economic*** and ***technological threats*** and capitalizing on their unique advantages.

International Environment

Assessments of the international environment can be done at three levels: multinational, regional, and country.

Multinational environmental analysis

- identifying, anticipating, and monitoring significant components of the ***global environment*** on a large scale.
- Understanding global developments covering economic and other macro elements is important.
- Governments may have free or interventionist tendencies in economies that needs to be carefully considered.
- These characteristics are evaluated based on their present and expected future impact.

Regional environmental analysis

- **Regional environmental analysis** is a more ***in-depth evaluation*** of the critical factors in a specific geographical area.
- The emphasis would be on discovering ***market opportunities*** for goods, services, or innovations in the chosen location.

Country environmental analysis

- **Country environmental analysis** has to take a deeper look at the important environmental factors.

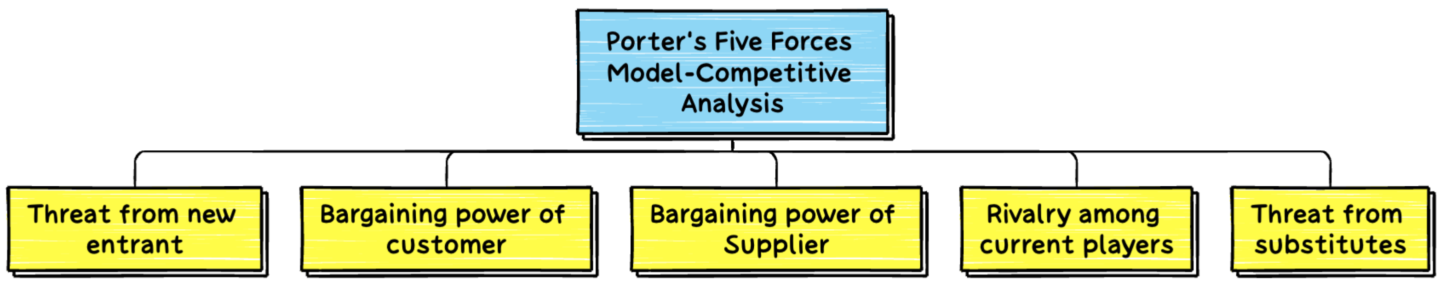
- Study of economic, legal, political, and cultural dimensions is required in order for planning to be successful.

Why companies should go global? Mention any five reasons.
(SA, Nov 2020, 5 Marks)

Industry Environment Analysis

Porter's Five Forces Model

- To understand the competitive environment of the company the managers need to focus only on the important tasks rather than gathering bulk of unimportant information.
- The task of focusing only on important task can be done with the help of some well-defined concepts and analytical tools.
- A powerful and widely used tool for systematically ***diagnosing*** the significant ***competitive pressures*** in a market and ***assessing the strength and importance*** of each is the five-force model of competition.
- This model holds that, the state of competition in an industry is a composite of competitive pressures operating in five major areas of the market.



How to use it ?

The strategists can use the five-forces model to determine what competition is like in a given industry by undertaking the following steps:

- Step 1: ***Identify*** the specific competitive pressures associated with each of the five forces.
- Step 2: ***Evaluate*** how strong the pressures comprising each of the five forces are (fierce, strong, moderate to normal, or weak).
- Step 3: ***Determine*** whether the collective strength of the five competitive forces is conducive to earn attractive profits.

Threat of New Entrants

- ***Profitability*** tends to be ***higher*** when other firms are blocked from entering the industry.
- New entrants can reduce industry profitability because
  - they add new production capacity
    - leading to ***increase supply*** of the product
    - even at a ***lower price***
  - and can substantially ***erode existing firm's market share*** position.
- To discourage new entrants, existing firms can try to raise barriers to entry.
- Barriers to entry represent ***economic forces*** (or 'hurdles') that slow down or impede entry by other firms.
- Barriers to entry can be as follows

(i) **Capital Requirements:** When a large amount of capital is required to enter an industry, firms ***lacking funds*** are effectively barred from the industry, thus enhancing the profitability of existing firms in the industry.

(ii) **Economies of Scale:**Economies of scale ***decrease per-unit cost*** as production ***volume increases***, discouraging new industry entrants.

(iii) **Product Differentiation:** Product differentiation creates ***unique*** product features, reinforcing entry barriers by escalating new entrants' costs.

(iv) Switching Costs - High switching costs, involving testing, negotiation, and training, often make buyers reluctant to switch firms.
(v) Brand Identity - ***Strong brand identity***, especially for high-cost, infrequent purchases, poses significant entry barriers for new entrants.
(vi) Access to Distribution Channels - The control of physical ***distribution channels*** by existing firms impedes new entrants' access, despite the internet's growth.
(vii) Possibility of Aggressive Retaliation - The threat of ***incumbents' retaliatory actions***, like price cuts and heightened advertising, can deter new firms from entering an industry.

Bargaining Power of Buyers

- The bargaining power of the buyers influences not only the ***prices*** that the producer can charge but also influences ***costs*** and ***investments*** of the producer.
- This is because powerful buyers usually bargain for ***better services*** which involves more investment on the part of the producer.
- Buyers of an industry's products or services can sometimes exert considerable pressure on existing firms to secure ***lower prices*** or ***better services***. This leverage is particularly evident when
  - Buyers have ***full knowledge*** of the sources of products and their substitutes
  - They spend a lot of money on the industry's products i.e. they are ***big buyers.***
  - The industry's product is not perceived as critical to the buyer's needs and buyers are ***more concentrated*** than firms supplying the product. They can easily ***switch to the substitutes*** available.

Bargaining Power of Suppliers

The more specialized the offering from the supplier, greater may be its clout.
Suppliers can influence the profitability of an industry in a number of ways. Suppliers can command bargaining power over a firm when

- Their products are ***crucial*** to the buyer and ***substitutes*** are ***not available.***
- They can lead to ***high switching costs***.
- They are ***more concentrated*** than their buyers.

The Nature of Rivalry in the Industry

- The intensity of rivalry in an industry is a significant determinant of industry attractiveness and profitability.
- The competitors influence strategic decisions at different strategic levels.
- The impact is ***more evident at functional level***, like in the prices being charged, more aggressive advertising, and building pressures on costs, product and so on.
- The intensity of rivalry can influence the costs of suppliers, distribution, and of attracting customers and thus directly affect the profitability.
- The ***more intensive*** the ***rivalry***, the ***less attractive*** is the ***industry***.
- Rivalry among competitors **tends to be cutthroat and industry profitability low** when
  - An industry has ***no clear leader***.
  - ***Competitors*** in the industry are ***numerous.***
  - Competitors operate with ***high fixed costs***.
  - Competitors face ***high exit barriers***.
  - Competitors have ***little opportunity*** to differentiate their offerings.
  - The industry faces ***slow*** or ***diminished growth.***

Industry Leader: A dominant industry leader can ***deter price wars*** and ***outlast smaller rivals*** due to superior financial resources, preventing contests, as seen in India's domestic air travel industry.

Number of Competitors: An industry leader's pricing control weakens with ***more rivals,*** as seen in sectors like handicrafts, where numerous producers intensify internal rivalry.
Fixed Costs: Organizations with high fixed costs often ***reduce prices*** to utilize excess capacity, leading to ***lower industry profitability***, as seen in sectors like airlines and telecommunications.

Exit Barriers - Profitability increases when competitors with few exit barriers leave the industry, as firms with ***specialized assets*** often ***can't easily exit***, ***intensifying competition***.

Product Differentiation: Industries allowing product differentiation, unlike sectors with undifferentiated commodities like memory chips or natural resources, often see ***higher profitability*** due to ***reduced price wars***.

Slow Growth - Declining industry growth leads to ***intensified rivalry*** as firms struggle to maintain or grow their market share, ***reducing overall profitability***.

Threat of Substitutes

- To predict profit pressure from this source, firms must search for products that ***perform the same***, or ***nearly the same***, function as their existing products.
- Real estate, insurance, bonds and bank deposits for example are clear substitutes for common stocks, because they represent alternate ways to invest funds.
- The threat of substitutes is great in many high tech industries as well.
- For example
    - introduction of digital filmless cameras virtually replace the film cameras and threatened the existence of Eastman Kodak and Fuji Film.
    - Further, the introduction of smartphones has replaced cameras to a great extent.

Industry attractiveness and profitability are shaped by the five forces, which govern key elements like cost and investment, thus determining the potential for attractive profits.

Explain Porter's five forces model as to how businesses can deal with the competition.
(MTP2, May 2018, 6 Marks) (RTP, Nov 2018, NA) (MTP2, Nov 2018, 6 Marks) (MTP1, May 2019, 5 Marks) (ICAI Study Material)

OR

Competitive pressures operate as a composite in five areas of the overall market. Elaborate.
(RTP, May 2021, NA)

OR

Explain briefly the competitive forces in any industry as identified by Michael Porter.
(SA, May 2018, 5 Marks)

OR

What are the five competitive forces in an industry as identified by Michael Porter?
(RTP, May 2022, NA)

What are the common barriers that are faced by new entrants when an existing firm earns higher profits?
(RTP, May 2018, NA) (RTP, May 2023, NA)

OR

Rahul Sharma is Managing Director of a company which is manufacturing trucks. He is worried about the entry of new businesses. What kind of barriers will help Rahul against such a threat?
(RTP, May 2019, NA)

Buyers can exert considerable pressure on business. Do you agree? Discuss.
(RTP, Nov 2019, NA)

OR

Buyers of an industry's products or services can sometimes exert considerable pressure on the company. In the light of the five forces as propagated by Michael Porter explain this force. Also state as to when this leverage is evident.
(SA, May 2023, 5 Marks)

Baby Turtle is a children's clothing brand that has been created a new age demand for washable diapers. The major benefit for the brand has been that not many companies have shown interest in the product, thinking it is not viable, however customers majorly working mothers are loving their product. The core material needed for production is also used in many other water proofing products in various industries. Baby Turtle sources this material from a renowned supplier at comparatively low prices. Which of the five forces of competitive pressure would Baby Turtle experience due to above setup and what are major factors that create such pressure for a product? Do you think Baby Turtle has an advantage in some way to fight off this pressure?
(ICAI Study Material)

Discuss in what conditions rivalry among competitors tends to be cut-throat and profitability of the industry goes down.

(SA, Nov 2019, 5 Marks)

OR

What are the factors which determine the nature of rivalry in an industry?
(SA, Nov 2021, 5 Marks)

Eco-carry bags Ltd., a recyclable plastic bags manufacturing and trading company has seen a potential in the ever-growing awareness around hazards of plastics and the positive outlook of the society towards recycling and reusing plastics.
A major concern for Eco-carry bags Ltd. are paper bags and old cloth bags. Even though they are costlier than recyclable plastic bags, irrespective, they are being welcomed positively by the consumers.
Identify and explain that competition from paper bags and old cloth bags fall under which category of Porter's Five Forces Model for Competitive Analysis?
(RTP, May 2020, NA) (ICAI Study Material)

"The bargaining power of suppliers determines an industry's attractiveness and profitability." Discuss.
(SA, May 2022, 5 Marks)

There are many companies in the market offering COVID vaccine. Analyse the product in terms of threat of new entrants.
(SA, May 2021, 5 Marks)

Easy Access is a marketing services company providing consultancy to a range of business clients. Easy Access and its rivals have managed to persuade the Government to require all marketing services companies to complete a time-consuming and bureaucratic registration process and to comply with an industry code of conduct. Do you think that by doing this Easy Access and its rivals has an advantage in some way to fight off competitors? Explain.
(RTP, Nov 2021, NA) (RTP, Nov 2023, NA)

Rajiv Arya is owner of an electrical appliance company that specializes in manufacturing of domestic vacuum cleaners. There are four other manufacturers with similar products and sales volume. Current rival firms also own a number of patents related to the product. The supplier base for procurement of raw material is also very large as there are multiple suppliers.
Identify Porter's Five Forces that may be classified as significant for the company? Explain
(RTP, Nov 2022, NA) (MTP2, Nov 2023, 5 Marks)

A startup company is thinking of launching of a low cost detergent powder in the market. The market of the said product is already dominated by a big FMCG player.
You are advised to put forward your suggestions to the management of the company to deal with the problems of 'Entry 'Barrier' while launching the low cost detergent powder.
(RTP, Nov 2022, NA)

Pulkit was very confident about cloud kitchen business model, and he bought three real estate spaces in very hideous localities. Later due to government and court orders the cloud kitchens had to be only operated in a well-ventilated space, which made his investment redundant. What aspect of industry competition Pulkit currently faced as a result of this situation?
(MTP2, May 2023, 5 Marks) (MTP2, Nov 2023, 5 Marks)

Understanding Product and Industry

Product

- Businesses sell products. A product can be either a ***good*** or a ***service***. It might be physical good or a service, an experience. Business products have certain characteristics as follows:
- Products are either ***tangible*** or ***intangible***.
- Product has a ***price***. Businesses determine the cost of their products and charge a price for them.
  - The price that may be paid is determined by the ***market***, the ***quality***, the ***marketing***, and the ***targeted group.***
  - On account of competition, businesses are not able to fix market price by adding profit margin on the costs. Rather, they work on ***reducing the costs*** given the prevailing market price.
- Products have certain features that deliver satisfaction.
  - 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 ***centre 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.

Product Life Cycle

- An important concept in strategic choice is that of product life cycle (PLC).
- It is a useful concept for ***guiding strategic choice***.
- Essentially, PLC is an ***S-shaped curve*** which exhibits the ***relationship of sales with respect to time*** for a product that passes through the four successive stages of ***introduction***, ***growth, maturity*** and ***decline***.
- This concept can also be used for businesses as well.

The first stage of PLC is the introduction stage

- with ***slow sales growth***,
- in which ***competition*** is almost ***negligible***,
- ***prices*** are relatively ***high***, and ***markets*** are ***limited***.
- The ***growth*** in sales is at a ***lower rate*** because of lack of awareness on the part of customers.

The second phase of PLC is growth stage

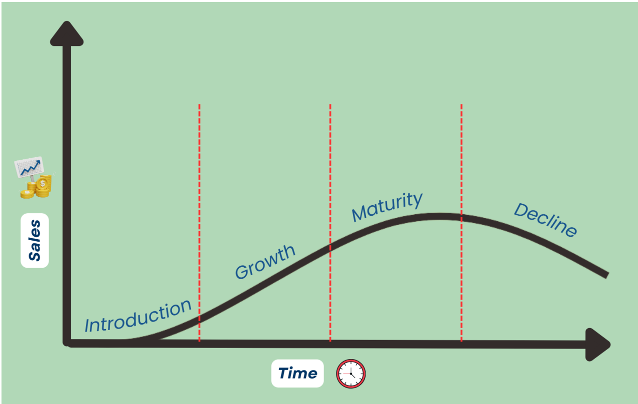
- ***Rapid market acceptance***.
- In the growth stage, the ***demand expands rapidly***, ***prices fall***, ***competition increases***, and ***market expands***.
- The customer has knowledge about the product and shows interest in purchasing it.

The third phase of PLC is the maturity stage

- There is a slowdown in the growth rate.
- The competition gets tough, and the market stabilizes.
- Profit comes down because of stiff competition.
- At this stage, organizations have to work to maintain stability.

In the fourth stage of PLC ***sales declines*** with sharp downward drift in sales.

- The sales and profits fall down sharply due to some ***new product replaces the existing product***.
- So, a combination of strategies can be implemented to stay in the market either by diversification or retrenchment.



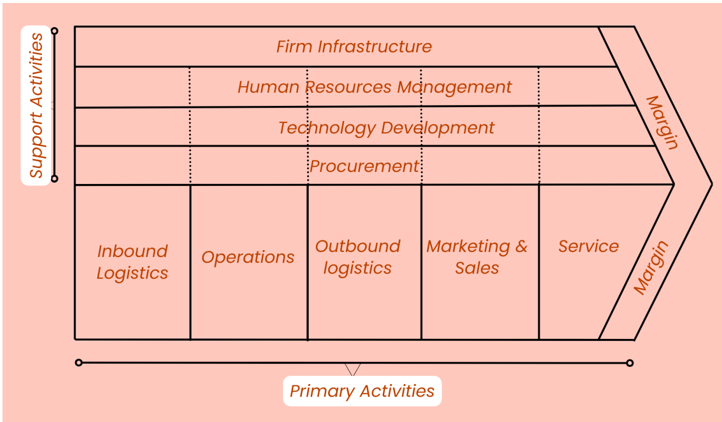
Advantage of the PLC

- The main advantage of the PLC approach is that it can be used to ***diagnose a portfolio of products*** (or businesses) in order to establish the stage at which each of them exists.
- Particular attention is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choice can be made.
- For instance, expansion may be a feasible alternative for businesses in the introductory and growth stages.
- Mature businesses may be used as sources of cash for investment in other businesses which need resources.

- A combination of strategies like selective harvesting, retrenchment, etc. may be adopted for declining businesses. In this way, a ***balanced portfolio*** of businesses may be built up by exercising a strategic choice based on the PLC concept.

Value Chain Analysis

- Value chain analysis is a method of examining each activity in value chain of a business in order to ***identify areas for improvements***.
- This analysis could be used to ***improve*** the sequence of operations, ***enhancing efficiency*** and creating a ***competitive advantage***. Value chain analysis can be used by businesses of all sizes, from sole proprietorships to multinational organisations.
- The two basic steps are involved
  - identifying separate activities and
  - assessing the value added from each.



The primary activities of the organization are grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service.

- **Inbound logistics** are the activities concerned with ***receiving***, ***storing*** and ***distributing the inputs*** to the product/service. This includes materials handling, stock control, transport etc. Like, transportation and warehousing.
- **Operations transform these inputs into the final product or service:** machining, packaging, assembly, testing, etc. convert raw materials in finished goods.
- **Outbound logistics** ***collect***, ***store*** and ***distribute*** the ***product to customers***. For tangible products this would be warehousing, materials handling, transport, etc. In the case of services, it may be more concerned with arrangements for bringing customers to the service, if it is a fixed location (e.g. sports events).
- **Marketing and sales** provide the means whereby consumers/users are made ***aware*** of the product/service and are able to purchase it. This would include sales administration, advertising, selling and so on. In public services, communication networks which help users' access a particular service are often important.
- **Service** are all those activities, which ***enhance or maintain the value*** of a product/service, such as installation, repair, training and spares.

Each of these groups of primary activities are linked to **support activities**. These can be divided into four areas;

- **Procurement:** This refers to the processes for ***acquiring the various resource inputs*** to the primary activities (not to the resources themselves). As such, it occurs in many parts of the organization.
- **Technology development:** All value activities have a 'technology', even if it is simply know-how. The key technologies may be ***concerned directly*** with the product (e.g. R&D product design) or with processes (e.g. process development) or with a particular resource (e.g. raw materials improvements).
- **Human resource management:** This is a particularly important area which transcends all primary activities. It is concerned with those activities involved in ***recruiting, managing, training, developing and rewarding*** people within the organization.

- **Infrastructure:** The systems of planning, finance, quality control, information management, etc. are crucially important to an organization's performance in its primary activities. Infrastructure also consists of the ***structures and routines*** of the organization which sustain its culture.

Attractiveness of Industry

Industry analysis helps identify issues and determine the industry's attractiveness, guiding strategists on whether it presents a good opportunity or has poor prospects, crucial for capital investment decisions The important factors on which the management may base such conclusions include:

- The industry's ***growth potential,*** is it futuristically viable?
- Whether competition currently permits adequate profitability and whether ***competitive forces*** will become stronger or weaker?
- Whether industry ***profitability*** will be favorably or favorably affected by the prevailing driving forces?
- An organization's ***competitive position*** and its potential to strengthen or weaken impact its profitability, even in a lackluster industry, while strong rivals can make an attractive industry unappealing.
- The potential to capitalize on the ***vulnerabilities of weaker rivals*** (perhaps converting an unattractive industry situation into a potentially rewarding company opportunity).
- Whether the company is able to ***defend*** against or ***counteract*** the factors that make the industry unattractive?
- The ***degrees of risk and uncertainty*** in the industry's future.
- The ***severity of problems*** confronting the industry as a whole.
- Whether ***continued participation*** in this industry adds importantly to the firm's ability to be successful in other industries in which it may have business interests?

As a general proposition, if an industry's ***overall profit prospects are above average***, the industry can be considered ***attractive;*** if its profit prospects are ***below average***, it is ***unattractive***. ***Attractiveness is relative, not absolute***. Industry environments unattractive to weak competitors may be attractive to strong competitors.

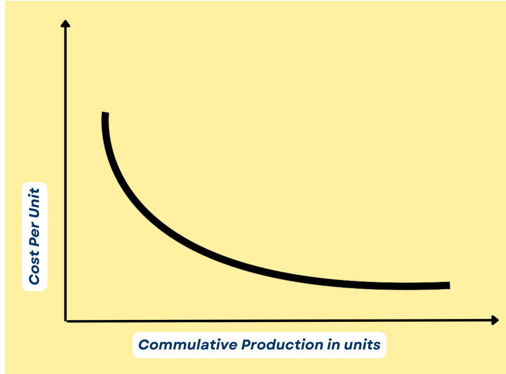
Experience Curve

- Experience curve akin to a learning curve which explains the ***efficiency increase*** gained by workers through ***repetitive productive work***.
- Experience curve is based on the commonly observed phenomenon that ***unit costs decline*** as a firm ***accumulates experience*** in terms of a cumulative volume of production.
- It is based on the concept, ***"we learn as we grow".***
- The implication is that larger firms in an industry would tend to have ***lower unit costs*** as compared to those for smaller companies, thereby gaining a ***competitive cost advantage***.
- Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production.

Experience curve has following features:

- As business organizations ***grow***, they ***gain experience***.
- Experience may provide an ***advantage over the competition***. Experience is a key barrier to entry.
- Large and successful organizations possess ***stronger "experience effects"***.

A typical experience curve may be depicted as follows:



As a business grows, it understands the complexities and benefits from its experiences.

The concept of experience curve is relevant for a number of areas in strategic management.

- For instance, the experience curve is considered a ***barrier for new firms*** contemplating entry in an industry.
- It is also used to ***build market share*** and ***discourage competition***.

Value Creation

- Value creation is an activity or performance by the firm to create value that ***increases the worth*** of goods, services, business processes or even the whole business system.
- Ultimately, this concept gives business a ***competitive advantage*** in the industry and helps them earn above average profits/returns.
- Competitive advantage leads to ***superior profitability***. At the most basic level, how profitable a company becomes depends on three factors:
  - the ***value customers place*** on the company's products;
    - The value customers place on a product reflects the ***utility t***hey get from a product—the happiness or satisfaction gained from consuming or owning the product.
    - Utility is ***something that customers get*** from a product. It is a function of the attributes of the product, such as its performance, design, quality, and point-of-sale and after-sale service.
  - the ***price that a company charges*** for its products; and
  - the ***costs of creating*** those products.
- It is basically the value the consumer ***wants to pay***, over and ***above the price*** that the business wants to charge from the consumer. This ***excess amount*** is called ***value creation***, wherein the consumers value the product or service more than it actually costs them.

Competitive advantage in two different ways

Michael Porter argues that a company can generate competitive advantage in two different ways, either through ***differentiation*** or ***cost advantage***.

- Differentiation means the capability to provide customers ***superior*** and ***special value*** in the form of product's ***special features*** and quality or in the form of aftersales customer service.
- As a result of differentiation, a company can demand ***higher price*** for its products or services.
- A company will earn ***higher profits*** due to differentiation in case the expenses stay comparable to the costs of competitors.

Value chain a tool to analyse origin of competitive advantage

Value chain analysis provides an excellent tool to examine the ***origin of competitive advantage***. It divides the organisations into two different strategically important group of activities, namely, ***primary activities*** and ***supporting activities***, which can help to ***comprehend*** the ***potential sources*** for differentiation and to ***understand*** an organisation's ***costs behaviour***.

ABC Ltd. manufactures and sells air purifier 'Fresh Breath'. The 'Fresh Breath' has seen sales growth of around 1% for the last two years, after strong growth in the previous five years. This is due to new products entering the market in competition with the 'Fresh Breath'. ABC

Ltd. is therefore considering cutting its prices to be in line with its major rivals with a hope to maintain the market share. Market research indicates that this will now cause a significant increase in the level of sales, even though in previous years price cuts have had little effect on demand. ABC ltd. is also planning to launch a promotional campaign to highlight the benefits of the 'Fresh Breath' against its rival products.
Identify and explain the stage of the product life cycle in which 'Fresh Breath' falls.
(RTP, May 2021, NA)

Write short note on "Phases and significance of Product Life Cycle".
(MTP2, May 2022, 5 Marks)

OR

Write a short note on Product Life Cycle (PLC) and its significance in portfolio diagnosis.
(ICAI Study Material)

OR

The CEO of ABC Enterprises, Mr. Rasik Mehta, had the idea of creating a fitness shake called Robust, which prompted the company to conduct research and development. The company conducted a market survey and feasibility study, which indicated that the idea was feasible and had potential for profitability. Consequently, the product was manufactured, marketed, and launched, which led to its success. As a result, the production of Robust grew, and it became widely available. However, with time, the demand for the product decreased, leading to its obsolescence. Identify and explain the concept highlighted in the above case?
(MTP2, May 2023, 5 Marks)

A company has recently launched a new product in the market. Initially, it faced slow sales growth, limited markets, and high prices. However, over time, the demand for the product expanded rapidly, prices fell, and competition increased. Identify the stages of the product life cycle (PLC) that the company went through.
(RTP, Nov 2023, NA)

Explain briefly the primary activities that are grouped into five main activities under Value chain analysis.
(MTP2, May 2023, 5 Marks)

Explain the concept of the experience curve and highlight its relevance in strategic management.
(RTP, May 2018, NA) (MTP2, Nov 2018, 5 Marks) (MTP1, Nov 2020, 5 marks) (ICAI Study Material)

OR

Write a short note on relevance of experience curve.
(MTP2, May 2018, 4 Marks)

Market and Customer

- A market is a ***place*** for ***interested parties***, ***buyers*** and ***sellers***, where items and services can be exchanged for a price.
- The market might be physical, such as a departmental store where people engage in person. They may also be virtual, such as an online market where buyers and sellers do not meet in person but tools of technology to strike a deal.
- In addition to this broad definition, the term market can apply to a wide range of contexts. For example, it might be used to describe the stock exchange, where securities are traded. It may also refer to a group of individuals trying to buy a specific commodity or service in a specific place, such as grain or vegetable market where farmers come to sell their produce.
- It may also be used to define a business or industry, such as the global oil market.

Marketing

- The term "marketing" encompasses a wide range of operations, including research, designing, pricing, promotion, transportation, and distribution.
- Often market activities are categorised and explained in terms of ***four Ps*** of marketing – ***product, place, pricing, and promotion.***
- These four kinds of marketing activities help marketers ***identify customer needs*** so they may ***meet their demands*** and ***deliver satisfaction.***
- Delivering the ***best customer experience*** and ***establishing, maintaining, and growing relationships*** with customers are the main goals of marketing.

Customer

- A customer is a person or business that ***buys products or services*** from another organisation.
- Customers are important because they ***provide revenue*** and organisations cannot exist without them.
- Businesses compete for customers by either marketing their products aggressively or reducing prices to expand their customer base.
- The terms ***customer*** and ***consumer*** are practically ***synonymous*** and are frequently used interchangeably.
- There is, however, a ***thin distinction***. Individuals or businesses that ***consume or utilise products*** and services are referred to as ***consumers***.
- ***Customers*** are the ***purchasers*** of products and services in the economy, and they might exist as consumers or only as customers.
- Businesses routinely research the characteristics of their consumers in order to finetune their marketing strategies and adjust their inventory to attract the most customers.
- Customers are frequently categorised based on demographics like as age, race, gender, ethnicity, economic level, and geographic region, which may all assist businesses in developing a profile of a perfect customer.

Customer Analysis

- Customer analysis is an ***essential marketing component*** of any strategic business plan.
- It identifies target clients, determines their wants, and then defines how the product meets those needs.
- Customer analysis includes
  - the ***administration*** of customer surveys,
  - the ***study*** of consumer data,
  - the ***evaluation*** of market positioning strategies,
  - ***development*** of customer profiles, and
  - the ***selection*** of the best market segmentation techniques.
- A number of parties, including buyers, sellers, distributors, salespeople, managers, wholesalers, retailers, suppliers, and creditors, can assist in gathering information to effectively ***assess the needs*** and ***desires*** of consumers.

Customer Behaviour

- Customer behaviour explains ***how they purchase*** products.
- It examines elements like shopping frequency, product preferences, and the perception of your marketing, sales, and service offerings.
- Understanding these details allows businesses to ***communicate*** with customers in an effective manner.
- Understanding the behaviours of customers enables businesses to ***establish effective marketing*** and ***advertising campaigns***, provide products and services that ***meet their needs***, and ***retain customers*** for repeat sales.

Consumer behavior may be influenced by a number of things. These elements can be categorized into the following three conceptual domains:

- **External Influences -** External influences, like advertisement, peer recommendations or social norms, have a ***direct impact*** on the psychological and internal processes that influence various consumer decisions. These aspects are divided into two groups – the ***company's marketing efforts*** and the ***numerous environmental elements.***
- **Internal Influences -** Internal processes are ***psychological factors*** internal to customer and affect consumer decision making. Consumer behaviour is influenced by a combination of internal and external influences, including motivation and attitudes.
- **Decision Making -** A rational consumer gathers information, weighs pros and cons, and integrates this with prior knowledge to make an informed decision The stages of decision making process can be described as:
  - ➢ ***Problem recognition***, i.e., identify an existing need or desire that is unfulfilled
  - ➢ Search for ***desirable alternative*** and list them
  - ➢ Seeking information on ***available alternatives*** and weighing their pros and cons.
  - ➢ Make a ***final choice***

This decision-making process is common for significant purchases like cars or appliances, contrasting with more casual choices like buying ice creams or soft drinks.

- **Post-decision Processes -** Post-purchase, consumers evaluate their satisfaction, with happy customers likely to repurchase and recommend, while dissatisfied ones won't repeat or endorse the product.

Competitive Strategy

- Competition is a fundamental attribute of economic systems and business.
- Businesses compete with each other for the ***same*** set of ***resources*** and ***customers***.
- Competition within an industry often aims to ***enhance the quality*** of services or improve the goods produced by firms.
- Competitive strategy defines how a firm ***expects to create*** and ***sustain a competitive advantage*** over competitors.
- Having a competitive advantage over competitors means being more profitable in the long run.
- The competitive strategy of a firm within a certain business field is analysed using two criteria
  - **the *creation* of competitive advantage and**
  - **the *protection* of competitive advantage.**

Competitive Landscape

- Competitive landscape is about ***identifying*** and ***understanding*** the ***competitors***
- Understanding of competitive landscape requires an application of ***"competitive intelligence"***
- Helps in assessing the ***competitor's strengths and weaknesses***.
- Helps in choosing the strategy.
- Ultimately helps in ***building*** the ***competitive advantage***.

Steps to understand Competitive Landscape

1. ***Identify*** the competitor
2. ***Understand*** the competitors
3. Determine the ***strengths*** of the competitors
4. Determine the ***weaknesses*** of the competitors
5. ***Put*** all of the ***information together***

Identify the competitor

- First step is to identify
- Actual data about their respective market share
- Answers the question ***"Who are the Competitors"***

Understand the competitors

- Understand the products and services
- Answers"***What are their product and Service"***
- How - Reports, Internet, Newspaper, Industry reports etc.

Determine the strengths of the competitors

- Many Questions
  - Financial Position
  - Cost & Price Advantage
  - Next Move
  - Distribution Network
  - Human Resource Strength

Determine the weaknesses of the competitors

- Consumer reports
- Media Reports

- Answers ***"Where are they lacking"***

Put all the information together

- Draw inferences
  - ***Not offered*** by Competitor
  - Fill the ***gap***
  - ***Areas*** to be strengthen
- Answers the questions
  - ***What*** will the business do with this information?
  - ***What improvements*** does the firm need to make?
  - ***How*** can the firm ***exploit*** the weaknesses of competitors?

Key factors for competitive success

- An industry's Key Success Factors (KSFs) are those things that most affect industry members' ***ability to prosper*** in the marketplace -
  - the particular strategy elements, product attributes, resources, competencies, competitive capabilities, that ***spell the difference between profit and loss*** and,
    - ultimately, between ***competitive success or failure***.
  - KSFs by their very nature are so important that all firms in the industry must pay ***close attention*** to them.
  - ***Misdiagnosing*** the industry factors ***critical to long-term competitive success*** greatly raises the risk of a misdirected strategy.
  - Hence, using the industry's KSFs as ***cornerstones*** for the company's strategy and trying to gain sustainable competitive advantage by excelling at one particular KSF is a fruitful competitive strategy approach.
  - Key success factors ***vary from industry to industry*** and even from ***time to time*** within the same industry as driving forces and competitive conditions change. Only ***rarely*** does an industry have ***more than three or four*** key success factors at any one time. And even among these three or four, ***one or two usually outrank*** the others in importance.

Identifying Key Success Factors

The answers to three questions help identify an industry's key success factors:

- On ***what basis do customers choose*** between the competing brands of sellers? What product attributes are crucial to sales?
- ***What resources and competitive capabilities*** does a seller need to have to be competitively successful, better human capital, quality of product or quantity of product, cost of service, etc.?
- ***What does it take*** for sellers ***to achieve a sustainable competitive advantage***, something that can be sustained for long term?

Suresh Singhania is the owner of an agri-based private company in Sangrur, Punjab. His unit is producing puree, ketchups and sauces. While its products have significant market share in the northern part of country, the sales are on decline in last couple of years. He seeks help of a management expert who advises him to first understand the competitive landscape.
Explain the steps to be followed by Suresh Singhania to understand competitive landscape.
(RTP, May 2018, NA) (ICAI Study Material)

OR

Explain the steps to understand the competitive landscape?
(MTP2, May 2018, 5 Marks)

OR

Dinesh Yadav is the owner of a beverage-based private company in Sonipat, Haryana. His unit is producing fruit juices, cold drinks, soda and lime. While its products have significant market share in the northern part of country, the sales are on decline in last couple of years. He seeks help of a management expert who advises him to first understand the competitive landscape. Explain the steps to be followed by Dinesh Yadav to understand competitive landscape.
(MTP1, May 2019, 5 Marks)

OR

What do you understand by 'Competitive Landscape'? What are the steps to understand the competitive landscape?
(SA, May 2019, 5 Marks) (MTP1, Nov 2022, 5 Marks)

OR

"Understanding the competitive landscape is important to build upon a competitive advantage". Explain.
(SA, July 2021, 5 Marks)

Define key success factors (KSFs).
(RTP, Nov 2018, NA)

Examine the significance of KSFs (Key Success Factors) for competitive success.
(SA, Nov 2018, 3 Marks) (MTP1, May 2021, 5 Marks)

STRATEGIC ANALYSIS

Meaning

- For strategy formulation analysis of a firm's ***external environment*** and its ***internal resources*** and capabilities is required.
- The analysis of a co.'s external & internal situation is called strategic analysis keeping in mind the 2 important situational considerations:
  - ***Industry & competitive conditions***
  - Company's own ***competitive capabilities***, ***resources***, i***nternal strengths & weaknesses & market position***

Without a perceptive understanding of the strategic aspects of a company's external and internal environments, the chances are greatly increased that managers will finalise a strategic game plan that doesn't fit the situation well, that holds little prospect for building competitive advantage, and that is unlikely to boost company performance.

Issues to be considered for strategic analysis

Strategy evolves over a period of time.

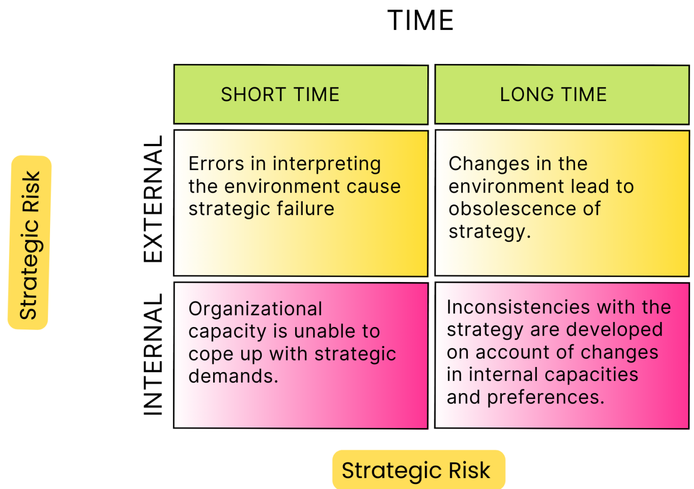
- Strategy evolves over a period of time. Strategy is a result of a series of ***small decisions*** taken over an extended period of time.
- Strategy evolves from ***experience*** and needs ***constant review*** and ***revision*** as the results start showing up.

Balance

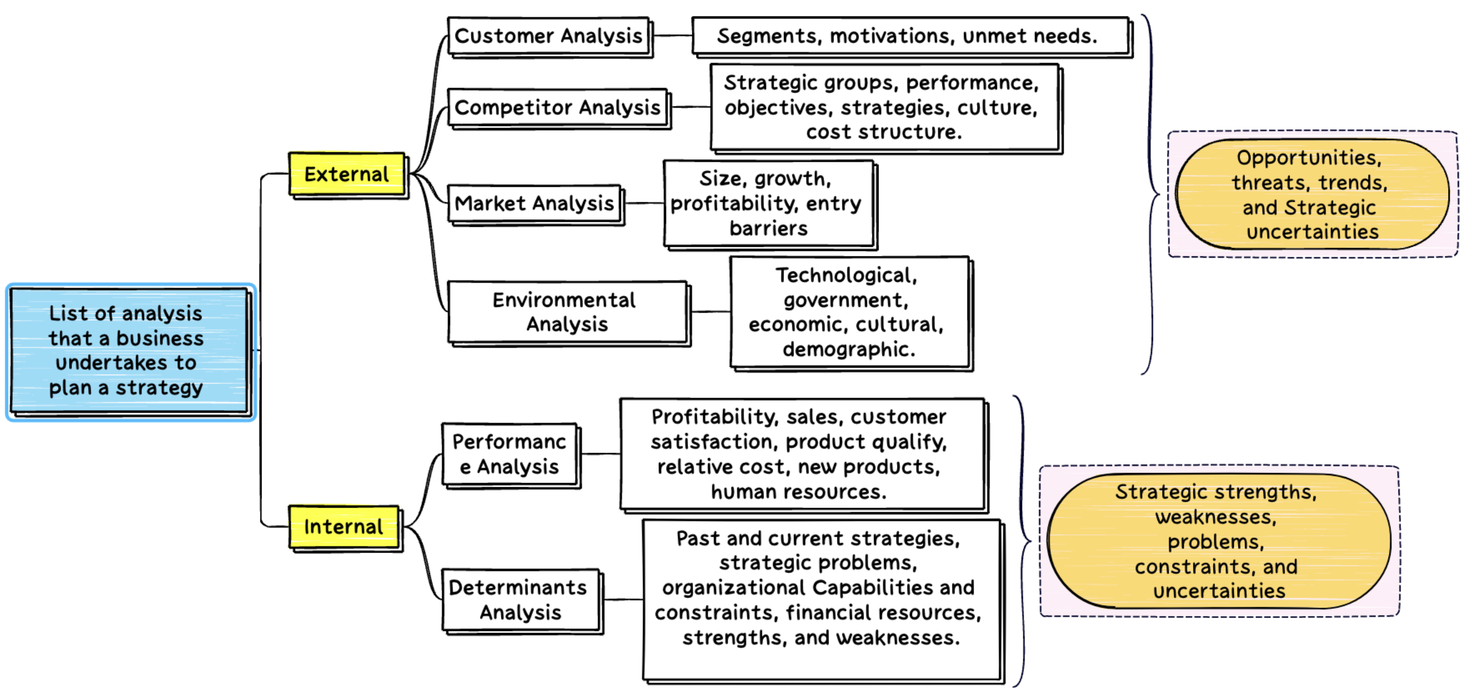
- The process of strategy formulation is often described as one of ***matching*** the ***internal potential*** of the organisation with the **external environmental opportunities**.
- There should be a **workable** (& not perfect as in reality the perfect match isn't feasible) **match** of the ***internal potential*** of org. with ***environmental opportunities***. Managers responsible for strategic decisions must balance opportunities, influences & constraints.

Risks

An important aspect of strategic analysis is to ***identify potential imbalances*** or risks and assess their consequences. Potential imbalances are created because of internal and external factors.



- External risks- occur due to inconsistencies ***between strategies & forces in the environment***
  - Short-Time - Errors in interpreting the environment cause strategic failure
  - Long-Time - Changes in the environment lead to obsolescence of strategy.
- Internal risks- occur because of ***forces within the firm*** or are directly interacting with org.
  - Short Time - Organizational capacity is unable to cope up with strategic demands.
  - Long - Time - Inconsistencies with the strategy are developed on account of changes in internal capacities and preferences.



Strategy Identification & Selection

After Undertaking the above mentioned analysis, following steps are taken

- ***Identify*** strategic alternatives
- ***Select*** strategy
- ***Implement*** the operating plan
- ***Review*** strategies