Case Study-3

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Industry	Tea- Blending and Packaging
Subjects	Strategic Cost Management, Advanced Financial Management, Corporate and Economic Laws
Topics	Business Model: Change in Distribution Channel, Customer Profitability Analysis, Forward Contract, Foreign Exchange Management (Overseas Investment) Rules 2022, Interest Rate Swap, Porter's Five Forces

Prime Tea Private Limited-2

Prime Tea Private Limited (PTPL) was established in 1938, headquartered in Kolkata. The company is privately owned by the Triboovandas family members, who have been in the tea business for the past 3 generations. Shri Bhushan Triboovandas started out as a broker in the Siliguri Auction centre. In due course, he started a tea blending and packaging company, PTPL in Kolkata. Tea leaves are blended and packed at its production facilities and sold further to tea distributors. Tea distributors in turn sell the packages to other smaller wholesalers or large retail outlets. Retail chains across India stock tea packages blended by PTPL.

In smaller cities and towns, where there is no presence of proper distributors, PTPL has local sales agents that it hires on contract to sell tea to small grocery stores and other local shops (SGSs). Goods are sent to these local agents on consignment. Tea packages have a long shelf life and can be stored up to a year if stored in appropriate conditions. PTPL commands a moderate 8% market share in terms of sales in the Indian Market.

PTPL has been a profitable business for most of the years of its existence. The past many years have seen significant inflationary trends in the economy. Like many other companies, PTPL too has been enduring the increase in tea leaf price, which is the primary raw material. To combat reducing profit margins due to inflation, it has concocted a uniform blend that it sells under the brand name "A1 Tea". The blend is prepared by mixing few popular tea flavours into one. This concoction was done with the help of an expert tea sommelier a decade back. PTPL has used this same composition over the last many years. The tea that PTPL prepares under the "A1 Tea" is of the black tea variety, which is the most popular tea variety consumed in India.

The Indian marketplace is crowded with many tea companies like PTPL. In retail outlets and grocery stores shelves stocking tea beverage have many brands stocked together. There is nothing much to differentiate PTPL's "A1 Tea" brand from the rest. Brands have to fight to gain visibility among customers and this is done using attractive packaging, increasing advertisement spend etc. Hence, customers are more price sensitive rather than conscious about quality of tea.

Today, in 2023 the total Indian Tea market is estimated to be ₹34,400 crore with branded business constituting approximately 74% of the total market value. The global tea market is estimated to range between $45-50 billion, with primary demand stemming from the Black Tea segment. There is a growing interest in other segments such as Green Tea, Fruit & Herbal, Decaf, Speciality, among others. Despite optimistic prospects, the management at PTPL observes stagnation in tea sales rather than growth.

Mr. Kumar, son of Bhushan Triboovandas is the CEO of PTPL. Last month, he called the senior management of the company to understand the reason for stagnating sales. This month, there was a follow up meeting where the findings of the investigations detailed above, were presented to him. Anticipating heated arguments, Mr. Kumar on behalf of PTPL, has hired you as a consultant to guide the company on ways to improve its sales and increase its market share. He wants to focus on the smaller market segment, which is the sales in smaller towns and cities that are handled by contract based local sales agents. Local agents need to travel on an average 60 kms a day meeting SGSs who are willing to stock tea. It was found that local sales agents were doing business with only 25% of the SGSs within their area of operation.

When you along with Sally, the sales manager, met the local sales agents here is what they had to say: *"A1 Tea" has a good taste and has reasonable preference among customers. There are not too many companies selling tea in our areas, hence choice is lesser, therefore competition is also lesser. PTPL can establish a good market presence here. However, we need to travel on an average 60 kms just to make a sales call. PTPL pays us 2% commission for each package of "A1 Tea" sold to the local grocer. This hardly covers the expenses we incur on travel. Instead, we call up once a month to check if the store needs fresh supplies. This will at least save the travel cost. Only then it is viable to sell "A1 Tea" here. Otherwise, the company has to increase the commission rate to at least 8% to make it worth the travel we need to undertake."*

Scenario-1

It has now been two weeks since you have started working on the assignment. Various discussions have been made with different levels of management and operational staff. Various business models have been discussed with Mr. Kumar. Eventually, after many iterations, the senior management agrees that distribution channel will be changed. The current system of consignment sales will be discontinued. The proposal is explained below:

PTPL wishes to adopt a new distribution channel, that will be to deliver "A1 Tea" directly to the SGSs in smaller towns. Each SGS can login to the specially designed portal and place an order for "A1 Tea" directly with PTPL. Depending on the average demand by the end user PTPL has decided to offer its tea packages in 1/2 kg. pack, 1 kg. pack and 2 kgs. pack. Against each type of package, the local store (SGS) can choose the quantity required. Once received, PTPL will then process the order, bundle the entire order into one package that will be delivered to the local store within 3 days of order. The local store has to settle the entire amount due electronically through bank transfer or digital payment systems like UPI, digital wallet etc. while placing the order. In order to increase the popularity of "A1 Tea" among the end use consumers, it is suggested to offer teacups along with the tea packages. Advertising and promotional activities like free tea tasting stalls in popular spots where people get together (like parks, shopping centres, railways stations, bus stops) will be undertaken.

By increasing its market reach, sales from this expansion plan are expected to contribute up to 15% of PTPL's total revenue. This is substantially more than the current contribution of 1% of total revenue.

PTPL has a policy agreement with the grocers (SGSs), that "A1 Tea" packages cannot be opened and sold in loose. This is so in order to maintain the quality of tea. Quality of loose tea will not be the same as that sold in airtight packages. Lower quality will affect customer perception of "A1 Tea". This can negatively impact PTPL's brand value.

SGSs can provide feedback and register complaints with PTPL either through the portal or by calling up the service department that is going to be set up for this purpose.

A meeting has been set up to discuss this proposed plan. As the management consultant, you are the lead presenter of the plan. The question answer session is now open. Below is a sample of few of the questions that you had to answer during the meeting. You are requested to provide your detailed comments and answers to these.

Required

What is the rationale behind adopting the new distribution channel of doing business directly with SGSs? ANALYSE.

Answer

Doing business directly with SGSs through the new distribution channel brings PTPL much closer to SGSs. These stores are potential point of sale of tea to the end user. PTPL has so far relied on local sales agents to connect with these SGSs. However, the agents are not motivated enough to drive sales. It was found that local sales agents were doing business with only 25% of the SGSs within their area of operation. The margins of the company are already squeezed due to inflationary pressures. In this background, agents are already demanding a fourfold increase in commission from 2% to 8%. However, given their current performance, it might not be in PTPL's interest to use their services since it's not at all effective. There is no assurance of better service by paying this extra cost. By directly interacting with the stores/ shops, PTPL *will have a direct channel of communication* and can get complete and proper feedback directly from them. It is far more effective to use the specially designed portal as a channel (way) to reach out to them since the target segment is geographically spread out over a larger area. The dedicated customer service department can gather information that will help the company improve its operations and resolve customer complaints in a much quicker and more effective manner. *Hence*, given the geographical spread of the target customer segment, lack of effective support from consignment agents, inflationary cost trends that hike up costs, better connect with the market etc., it makes good business sense to follow the newer distribution channel of directly selling to SGSs.

Required

One of the suggestions given was that packaging tea into smaller packets increases the cost. Packaging is not really adding value to the company. Instead of having smaller packages, why not have one large 5kg "A1 Tea" package? EVALUATE.

Answer

A business should eliminate non-value-added activities in order to improve margins. This is especially true in times of inflation. However, while eliminating these activities, the company has to make sure that it is not disrupting any other area or impacting value. As per the suggestion, with the view to reduce packaging material cost, if it decides to sell "A1 Tea" in 5 kg packets instead of packets of smaller quantities, this will have repercussions on the value that PTPL wishes to offer. ***Its value proposition is to "Increase the availability of "A1 Tea" in small cities and towns where the choice of tea is limited".*** The eventual market segment that is going to benefit from this value is the retail customers, primarily households in smaller towns. Their requirements will be for smaller quantities of tea rather than bulk requirements of 5kg at one go.

In this case, increasing package size to save on packaging cost will adversely impact sales since SGSs can sell tea only in small quantities to their end-user retail customers. Big packets selling bulky 5 kg tea will rather hurt sales and harm the value that PTPL wants to deliver. So, care should be taken while eliminating non-value-added services.

This suggestion can be considered only if the grocers agree that there will be equal, if not more, demand for 5kg bulk packages by the end user. SGSs are a link that helps PTPL to understand the pulse of the market. An end user will be attracted to bulk purchases only if *substantial discounts* are provided. Hence, while saving on packaging costs, the net sales revenue per kg of tea reduces. If this is at all a plausible proposition, these points must be kept in mind as they impact profitability.

Note- PTPL has an agreement with the grocers that tea packages cannot be opened, and that tea cannot be sold in open loose lots. Hence, end users can buy "A1 Tea" only in packages.

Scenario-2

PTPL has successfully adopted and executed the plan in a phased manner. The company can now directly sell its tea to the SGSs based on their online orders. A significant increase in the volume of sales through this revenue channel is anticipated. The company now wants to develop an MIS report that gives detailed information about the sales order volume and profitability. The MIS aims to have the information captured at state level, regional level right down to customer level. The company policies under this plan include:

(1) Discount of 5% is given on selling price if each order size is cumulatively more than 50 kgs. The order can comprise of any combination of ½ kg. pack, 1 kg. pack and 2 kgs. pack.

(2) PTPL delivers the order to the SGS. At the same time, it offers flexibility to the SGSs to arrange for their own transport. In case the SGS arranges for its transport, further discount of 8% is given on the selling price of each tea pack.

(3) Selling price of tea is ₹300 per kg. Therefore, 1 kg. package sells at ₹300 each, 2 kgs. package sells at ₹600 each and ½ kg. package sells at ₹150 each.

(4) Variable cost per kg. is ₹200 per kg.

(5) Order processing costs are ₹2,000 per order.

(6) Delivery costs, where PTPL is arranging for delivery ₹3,000 per delivery.

(7) Delivery will be within 3 days of placing the order. If there is a rush order, typically delivery within a single day, the cost of delivery would be ₹5,000 per delivery.

Below is an extract of the MIS for the town of Palani, Tamil Nadu. It has 3 SGSs: Customer A, Customer B and Customer C.

Particulars	Customer A	Customer B	Customer C
Total sales in a month (kgs.)	250	400	1,020
Number of orders	2	2	15
Number of deliveries – normal	2	-	10
Number of deliveries – rush	-	-	5

Order quantity is the same for each order placed by each customer.

Required

Provide a critical ANALYSIS of the difference in profitability of each customer.

Answer

Each of the customers places an order above 50 kgs. per order. Customer A's order size is 125 kgs. per order (250 kgs. / 2 orders), Customer B's order size is 200 kgs. (400 kgs. / 2 orders) and Customer C's order size is approximately 68 kgs. (1,020 kgs. / 15 orders). Therefore, all of them can avail the 5% quantity discount. This amounts to ₹15 per kg. (5% of ₹300 per kg.). Delivery discount of 8% further reduction can be given only to Customer B, since this is the only customer that arranges for its own delivery. This amounts to further reduction of ₹24 per kg. (8% of ₹300 per kg.). The individual customer profitability can be calculated as below:

Particulars	Customer A	Customer B	Customer C
Selling Price per kg.	300	300	300
Less: Quantity Discount - 5% of selling price	15	15	15
Less: Delivery Discount - 8% of selling price	---	24	---
Net Selling Price (₹)	285	261	285
Less: Variable Cost per kg. (₹)	200	200	200
Contribution per kg. (₹)	85	61	85
Total Sales in a month (kgs.)	250	400	1,020
Total Contribution (₹)	21,250	24,400	86,700
Less: Overheads (₹)			
Delivery Cost	6,000	---	30,000
Ordering Cost	4,000	4,000	30,000
Extra Cost - rush delivery	---	---	25,000
Profit per Customer (₹)	11,250	20,400	1,700

Analysis

It can be seen that Customer B is the most profitable, followed by Customer A. Customer C is the least profitable. In terms of quantum, Customer A buys the least, however the number of orders are just 2. Hence, the fixed order cost of ₹2,000 per order is absorbed over a larger order size. This is true with regards to Customer B also since a larger order size absorbs the fixed order cost of ₹2,000 per order. It can be noticed that out of the 15 orders relating to Customer C, 5 orders are rush orders requiring delivery within a single day. The cost of these rush order delivery is much higher at ₹5,000 per delivery. Therefore, despite being the largest customer among the three, Customer C is the least profitable. PTPL can seek to pass on the rush delivery cost to the customer instead of bearing it entirely. Since rush order deliveries are 1/3 of the total orders placed by Customer C, PTPL can seek to have an understanding with the customer and try to find a way to reduce this. Charging for rush deliveries will deter the customers from placing unnecessary and unreasonable requests. This will help to improve profitability derived from the customer.

Customer B is extended an additional discount of ₹24 per kg. (8% of selling price) since the customer arranges for their own delivery. The normal delivery cost to Palani is ₹3,000 per delivery. Customer B orders 400 kgs. in a month by placing 2 orders. Hence, if PTPL had shipped the goods, it could have done it at ₹15 per kg. (₹3,000 × 2 orders = ₹6,000 spread over 400 kgs.). Instead, due its pricing policy it is incurring an extra cost of ₹9 per kg. for the orders by Customer B. Here, PTPL can either reduce the discount to 5% of selling price (₹15 / ₹300) or discontinue this policy and arrange for delivery of goods to Customer B.

It can hence be concluded that volume of sales alone does not guarantee higher profits as in the case of Customer C. Similarly, faulty pricing policies can also hurt profitability, as in the case of Customer B.

Scenario 3

Work is underway to adopt the new distribution channel of doing business directly with SGSs. It might take upto 2 years to completely implement this plan. The Board of Directors of PTPL have been working on expanding the plant capacity to meet the requirements of the current expansion plan. A set of 10 machines need to be bought for this project. The gestation period would be 2 years, whereas the machines have to be ordered and imported from USA. After this period, the cash flow will start increasing gradually over 15 years. Overall, the expansion project is expected to generate positive cash flows. For this, PTPL will have to settle an import bill for $1,30,000. There are two options:

(i) Pay immediately by availing overdraft facility. Currently it has clean overdraft limit and bank charges 14 percent per annum for availing the same facility.

(ii) Pay after three months with interest @ 7 percent per annum and cover position in forward market.

The exchange rates in the market are as follows:

Spot rate (₹/$): 82.19/ 82.21

3-Months forward rate (₹/$): 82.98/ 83.01

Required

PTPL seeks your ADVISE on the option to be chosen to hedge the foreign exchange risk.

Answer

If PTPL pays now, it will have to buy US$ in Spot Market by availing overdraft facility. Accordingly, the outflow under this option will be:

	₹
Amount required to purchase $1,30,000 [$1,30,000 × ₹82.21]	1,06,87,300
Add: Overdraft Interest for 3 months @14% p.a.	3,74,056
	1,10,61,356

If PTPL makes payment after 3 months, then, it will have to pay interest for 3 months @7% p.a. and then to buy $ in forward market. The outflow under this option will be as follows:

	$
Amount of Bill	1,30,000
Add: Interest for 3 months @7% p.a.	2,275
	1,32,275

Amount to be paid in Indian Rupee after 3 months under the forward purchase contract - ₹1,09,80,148 (US$1,32,275 × ₹83.01).

Advise: Since outflow of cash is least in (ii) option, hence, it should be opted for.

MCQ-1

PTPL has given another consulting assignment to you to have an in-depth industry analysis to understand PTPL's current position within the industry, understanding the value chain, identifying prospects for growth, future scenario etc. This would give the company a correct and fair view about the feasibility of its future acquisition plans. This study is being undertaken independently of the expansion plans mentioned in above in the case study, which also includes capital assets acquisition project of ~₹1 crore mentioned in previous section.

The study lasted a minimum of four months, and its findings were presented to the senior management. To summarize the findings of the study, it concluded that *"muted prices plus rising cost spells a stale brew for tea companies. The domestic market has saturated with penetration as high as 80% of the tea drinking population. There are few fragments **like** small town markets where there is potential for some growth. However, apart from this, there is limited growth potential for almost all companies within the industry including PTPL. The wages of workers have been revised in every three years. This is pertinent because tea industry is very cost intensive, with labour cost accounting for at least 60% of the cost of production. Industry margins are under pressure. PTPL's overall performance to remain a sustainable business will depend on its ability to sell at remunerative prices and manage costs efficiently."*

Given this bleak outlook, PTPL has reached a conclusion that it has reached a stage of maturity in this business, which of the following actions by the management will not be in the overall interests of the company?

(a) Open company owned stores in major metros in order to sell "A1 Tea" to customers directly (Forward integration)

(b) Introduce product lines selling economy, popular and premium grade tea by promoting tea in as an aspirational beverage for health or lifestyle choice

(c) Acquire tea plantation estates if available at attractive rates (Backward Integration)

(d) After appropriate due diligence in terms of business feasibility, acquire promising start ups which have the potential to disrupt the tea ecosystem

Answer

The correct answer will be (a) Open company owned stores in major metros in order to sell A1 Tea to customers directly (Forward integration).

Reason

PTPL has reached a stage of maturity in the business. The industry study mentions that the market is already saturated with penetration levels as high as 80%. Only limited scope for market growth exists like that in small towns and cities. Hence, opening company owned stores in major metros in order to sell "A1 Tea" directly to customers will not be in the overall interests of the company.

MCQ-2

PTPL chooses to pursue vertical integration by acquiring the tea plantation of a neighbouring country, 'SL'. Due to the recent economic crisis in 'SL', it is straddled with high unemployment rates. The famed tea industry in 'SL' is also reeling under the crisis. Many plantation companies are going bankrupt. PTPL decides to explore acquisitions in this market, where acquisitions of tea estates producing high quality tea leaves may be available at reasonable rates. It opts to invest in SL's 200-acre plantation. CFO has identified an investment opportunity and feels confident that it will be approved by the board. The board generally favours acquiring distressed assets if any in neighbouring countries, as this provides supply chain benefits. Approximately a year ago, PTPL acquired a Testing & Research Laboratory in a neighbouring country 'NP' exclusively for tea-related research.

The Chief Legal Officer cautions against moving forward with the fresh investment, emphasizing its non-Indian company nature. Nevertheless, the CFO argues that the investment is viable, citing laboratory acquisition in country 'NP' where no approval was required. The Chief Legal Officer, however, presents the following information:

Particulars	Amount ₹ Crore
PTPL's Equity Investment - >51% in Testing & Research Laboratory	1,100
Bank Guarantee provided to NP's Banks on behalf of Testing & Research Laboratory	1,600
SL's Based Company Proposed Investment Value	750
Net Worth of PTPL	1,100
Bonus Shares capitalised through Retained Earnings	250

Assess the CFO's assertion regarding PTPL's ability to proceed with the investment in SL's 200-acre plantation.

(a) The CFO is correct, that PTPL can make this investment as there are no restrictions imposed by the Indian Government.

(b) The CFO is incorrect. However, if the investment value is reduced by ₹50 Crore, then PTPL can proceed with the proposed investment.

(c) CFO is correct as Chief Law Officer is not aware of recent amendments of FEMA which advocates ease of foreign investments by the Indian Companies.

(d) The CFO is correct, and PTPL can proceed with the proposed investment. Even after this investment, PTPL still have a remaining foreign investment limit of ₹1,550 Crore.

Answer

The correct answer is B. The CFO is incorrect. However, if the investment value is reduced by ₹50 Crore, then PTPL can proceed with the proposed investment.

Reason

As per Schedule I, Part 3 of the Foreign Exchange Management (Overseas Investment) Rules 2022, (1) the total financial commitment made by an Indian entity in all the foreign entities taken together at the time of undertaking such commitment shall not exceed 400 percent of its net worth as on the date of the last audited balance sheet or as directed by the Reserve Bank, (2) The total financial commitment referred to in sub-paragraph (1) shall not include capitalisation of retained earnings for reckoning such limit but shall include –

(i) utilisation of the amount raised by the issue of American Depository Receipts or Global Depositary Receipts and stock-swap of such receipts; and

(ii) utilisation of the proceeds from External Commercial Borrowings to the extent the corresponding pledge or creation of charge on assets to raise such borrowings has not already been reckoned towards the above limit.

Financial Commitment includes amount of Investment made by a Person Resident in India by way of Overseas Direct Investment, Debts other than Overseas Portfolio Investments and Non-Fund Based Liabilities. Bank Guarantee is one of the Non-Fund Based Liabilities.

Overseas Direct Investments includes investment by way of –

(i) Acquisition of unlisted equity capital of a foreign entity or

(ii) Subscription as a part of Memorandum of Association of foreign entity,

(iii) Investment in >= 10% of the paid-up equity share capital or

(iv) Investment with control where investment is <10% of the paid-up equity share capital of listed foreign entity

The computations are as follows:

Particulars	Amount ₹ Crore
A. PTPL's Equity Investment - >51% in Testing & Research Laboratory	1,100
B. Bank Guarantee provided to NP's Banks on behalf of Testing & Research Laboratory	1,600
(i) Total Current Foreign Direct Investment (A+B)	2,700
C. Net Worth of PTPL	1,100
D. Bonus Component in the Net Worth of Company	250
(ii) Total Financial Commitment Allowed (C-D)×400%	3,400
E. Possible Further Investment (ii) - (i)	700
F. SL's Based Company Proposed Investment Value	750
Reduction required in Investment Value (F-E)	50

MCQ-3

To fund the investment of ~$85 million in SL's 200-acre plantation, PTPL plans to raise $30 million through debt. With the intention of maintaining certainty in future interest payments, PTPL aims to secure a fixed interest rate. PTPL can borrow for one year at a fixed rate of 6% or at a floating rate of 2% above SOFR. Management of PTPL decides to enter into a swap arrangement with Company Tima. Company Tima also wishes to raise $30 Million. To take advantage of any fall in interest rates Tima is interested in borrowing funds at Floating Rate. However, it can only borrow funds at fixed rate of 7% p.a. or at SOFR +4%, because of lower credit rating in comparison of PTPL.

What effective rate will each end up paying if both have agreed to enter into a Swap agreement and split the resultant gain equally.

(a) PTPL: 7% and Tima: SOFR +2%

(b) PTPL: 5.5% and Tima: SOFR +3.5%

(c) PTPL: SOFR +2% and Tima: 7%

(d) PTPL: SOFR +3.5% and Tima: 5.5%

Answer

The correct answer is (b)- PTPL: 5.5% and Tima: SOFR +3.5%.

Reason

There is bigger difference in the variable rate so to take advantage of this, Tima will borrow fixed and PTPL then has to borrow at a variable rate. Accordingly, Swap arrangement shall be carried out as follows:

Working

	Tima	PTPL	Difference
Fixed	7%	6%	1%
Floating	S + 4%	S + 2%	2%
Absolute Difference			1%
Split of gain equally	+0.5%	+0.5%	-1%
Net Interest	S + 3.5%	5.5%	

MCQ-4

As understood from the case study, that industry margins are under pressure due to prolonged high inflation. Survival of companies and future prospects of the tea industry's overall performance to remain a sustainable business will depend on its ability to sell at remunerative prices and manage costs efficiently.

Supply chain highlights the interdependency of each part of the chain. When managing a supply chain, a business may wish to ensure that the entire industry ecosystem (other entities) also remain sustainable. Entities should have sufficient cash and/or profits. Which of the following reasons explains the reason for this?

(a) Sustainable business ensure that the business has sufficient information on all parts of its supply chain

(b) Sustainable business ensures quality throughout the supply chain

(c) Sustainable business ensures ongoing demand for the business's products for which continuous supply is also needed

(d) Sustainable business ensures maximum collaboration throughout the supply chain

Answer

The correct answer is (c), sustainable business ensures ongoing demand for the business's products for which continuous supply is also needed.

Reason

Unless there is a demand for the product, the need for suppliers won't be required. Therefore, in order to survive, companies like PTPL need to earn money by charging remunerative prices. This means that need to recoup their costs and earn regular profits. At the same time, if the prices charged are very high, demand for the product will reduce. This will not sustain PTPL or companies like it.

The other way of improving margins is to cut costs. This is done by procuring material at low prices, paying low wages, using cheaper resources etc. However, unless the supplier finds it remunerative to sell, PTPL cannot procure its raw material. So, the supplier should also benefit from sale to PTPL. Similarly, very low wages will lead to attrition among workers, very cheap resources will lead to quality issues. Everyone does business to make profits and customers derive value at reasonable prices. Each link in the supply chain should ensure that the ecosystem benefits allowing for normal profits, sufficient cash resources to be earned. Otherwise, the industry will not sustain.

MCQ-5

PTPL is using Porter's Five Model to examine key aspects of tea industry and the impact that some of its strategic decisions can have on various forces. One of the points being considered is the decision to adopt the new distribution channel of directly reaching out to SGSs. This is a novel distribution system in the industry. Which of the following statements are true?

(a) Risk of competitive rivalry has been lowered

(b) Threat of substitute has been lowered

(c) Threat of new entrants has been lowered

(d) Bargaining power of suppliers has been lowered

Answer

The correct answer is (a) risk of competitive rivalry has been lowered.

Reason

Since this is a novel distribution system in the industry, PTPL has a first mover advantage over its rivals. This lowers the risk of competitive rivalry. Sustaining this advantage however depends on whether the rivals are able to replicate and better this new distribution channel.

Concept Insight

It is important to note that, it is possible for a firm to be mature while the industry it operates in remains dynamic or less mature. *The maturity of a firm and the maturity of an industry are distinct concepts.* While it is common for mature firms to operate in mature industries, it is entirely possible for a mature firm to exist in an industry that is still evolving or undergoing significant changes. This situation can arise for various reasons like where the firm may have found a niche within the industry where it dominates or specializes, allowing it to remain mature even as the broader industry evolves. Therefore, it's important for firms to continually assess their strategies and adapt to changes in the business environment, regardless of whether their industry is mature or experiencing growth. Flexibility, innovation, and strategic decision making are key factors in sustaining a mature firm's success over the long term.