

## CHAPTER 2: STRATEGIC ANALYSIS – EXTERNAL ENVIRONMENT

1. Yash is planning to launch his new tech start-up. He is exploring different locations across the country to establish his company in the right business environment. One option is the city of Bengaluru, the silicon valley of India, with an engaging network of entrepreneurs, investors, advisors and mentors. Coupled with various subsidies for new ventures and tax benefits, Bengaluru might be an ideal choice for Yash to establish his company and increase the chances of success. Define the term Business Environment with respect to the above scenario. Explain the different ways in which the interaction of a business with its environment can be helpful in developing a successful strategy.

Answer:

- The term "business environment" refers to all **external** factors, influences or situations **that affect business decisions**, plans and operations.
- In Yash's case, various subsidies for new ventures and tax benefits in Bengaluru impact the strategic decisions for his tech start-up.
- There is a **close** and **continuous interaction** between a business and its environment. It helps the business in the following ways:

a) Determine opportunities and threats

- The interaction between the business and its environment helps Yash to **identify new customer needs, emerging trends** and **potential market opportunities**.
- This can guide the development of innovative products and services that meet market demands.
- It also helps Yash to understand changes in **laws, social behaviors** and **competitor actions** to anticipate and mitigate potential threats to his start – up.

b) Give direction for growth

- The interaction with the environment enables Yash to **identify areas for growth** and **expansion**.
- Recognizing market trends and technological advancements allows him to **strategize effectively, ensuring the start-up scales successfully**.

- Awareness of the changes around the business environment facilitates better planning and strategic decisions in line with start-up's goals.

c) Continuous Learning

- Continuous interaction with the environment motivates Yash and his team to **continuously update** their knowledge, understanding, and skills.
- Staying **informed about industry trends and advancements** ensures the start-up remains **competitive**.
- This ongoing learning process enhances the start-up's ability to adapt to changes, promoting innovation and responsiveness to market shifts.

d) Image Building

- Understanding and responding to environmental needs help the start-up build a positive image.
- Adopting sustainable practices or **contributing to local initiatives** can **enhance** the **company's reputation**.
- Demonstrating sensitivity to the business environment shows that the start-up is responsible and community-focused, attracting customers and partners who value corporate social responsibility.

e) Meeting Competition

- Interaction with the environment allows Yash to analyze competitors' strategies and adapt accordingly.
- Understanding **competitors' strengths and weaknesses** helps in **crafting strategies** that provide a **competitive edge**.
- The start-up can also position itself uniquely in the market, differentiating its offerings from those of competitors.

## 2. How does the PESTLE framework assist in analyzing the macro environment?

Answer: The PESTLE framework assists in analyzing the macro-environment by systematically evaluating six external factors that impact an organization's operations and strategy.

- Political Factors

- These include the **stability of the government**, **government policies** on foreign investment, **trade agreements** and **regulatory frameworks**.
- Understanding these factors helps organizations anticipate **regulatory changes** and **government interventions** that could affect their business environment.

- Economic Factors

- This involves assessing **economic conditions** such as interest rates, inflation, exchange rates, and economic growth.
- These factors influence **business costs**, **consumer purchasing power** and **overall market conditions**.
- Understanding these factors helps organizations **understand the economic environment** of the **new market** and its **potential impact** on business operations.

- Social Factors

- Social Factors such as cultural norms, demographic trends, lifestyle changes and consumer attitudes can influence **consumer preferences** and **societal trends**.
- Understanding these factors helps organizations tailor its **marketing strategies** to the **new market**.

- Technological Factors

- This includes **technological advancements**, **innovation rates** and **technological infrastructure**.
- These factors impact **production processes**, **product development** and **competitive positioning**.
- By assessing these factors, the company can determine the **technological requirements** for entering **the new market**.

- Legal Factors

- This includes business laws, employment regulations, health and safety standards and compliance requirements.
- Legal factors are crucial for ensuring regulatory compliance and avoiding legal risks.
- By assessing these factors, the company can ensure compliance with legal requirements in the new market.

- Environmental Factors

- This includes ecological issues, environmental regulations and sustainability practices.
- Awareness of environmental factors helps businesses adapt to climate change and meet sustainability goals.
- By assessing these factors, the company can assess the environmental risks and opportunities in the new market.

3. ABC Corp, a multinational consumer electronics company, is planning to expand its operations into a new country. The company's senior management is evaluating the potential risks and opportunities of entering this new market. As part of their analysis, they decide to use the PESTLE framework to assess the external factors that could impact their decision. How can the PESTLE framework help ABC Corp assess the external factors affecting its decision to expand into a new country?

Answer: The PESTLE framework can help ABC Corp assess the external factors affecting its decision to expand into a new country by considering the following aspects:

- Political Factors

- These include the stability of the government, government policies on foreign investment, trade agreements and regulatory frameworks.
- By analyzing these factors, ABC Corp can assess the political risks associated with entering the new market.

- Economic Factors

- These include assessing **economic conditions** such as interest rates, inflation, exchange rates, and economic growth.
- By analyzing these factors, ABC Corp can understand the **economic environment** of the new market and its **potential impact** on business operations.

- Social Factors

- Social Factors such as cultural norms, demographic trends, lifestyle changes and consumer attitudes can influence **consumer preferences** and **societal trends**.
- Understanding these factors can help ABC Corp tailor its **marketing strategies** to the **new market**.

- Technological Factors

- This includes **technological advancements**, **innovation rates** and **technological infrastructure**.
- By assessing these factors, ABC Corp can determine the **technological requirements** for entering **the new market**.

- Legal Factors

- This includes **business laws**, **employment regulations**, **health and safety standards** and **compliance requirements**.
- By assessing these factors, the company can ensure **compliance** with **legal requirements** in the **new market**.

- Environmental Factors

- This includes **ecological issues**, **environmental regulations** and **sustainability practices**.
- By assessing these factors, the company can assess the **environmental risks** and **opportunities** in the **new market**.

4. "International development is expensive and challenging". In the context of the statement, explain the internationalization of business and the steps involved in such strategic planning.

Answer:

- Internationalization has become a pivotal trend for businesses aiming to **enhance profitability** and **access cheaper resources**.
- It allows companies to explore **new markets**, achieve **economies of scale** and prolong **product lifecycles**.
- However, the process of internationalization is **complex** due to additional variables and linkages that differ from domestic operations.
- To navigate complexity of process of internationalization, businesses should adopt a structured approach to international strategic planning.
- The steps involved include:
  - **Evaluate Global Opportunities and Threats:** Businesses must assess potential global markets, identifying opportunities and threats while aligning them with their internal capabilities.
  - **Describe the Scope of Operations:** Clearly defining the extent of the firm's international commercial activities is crucial for focused strategy development.
  - **Create Global Business Objectives:** Establishing clear objectives helps guide the organization's international efforts and aligns with its overall mission.
  - **Develop Distinct Corporate Strategies:** Formulating specific strategies tailored for global operations ensures that the organization can effectively compete in diverse markets.
- These steps facilitate the identification of market opportunities and the formulation of effective global strategies, enabling businesses to thrive in the international arena despite the inherent challenges and costs associated with such expansion.

5. Why companies should go global? Mention any five reasons.

Answer: There are several reasons why companies go global. These are explained as follows:

- Globalization is important for organizations to **grow**.
- **Domestic Markets are no longer adequate**. The competition may not exist in international markets.
- There can be varied other reasons such as need for **reliable** or **cheaper** source of **raw materials**, **cheap labor**, etc.
- Companies often set up overseas plants to **reduce high transportation costs** because it may be cheaper to produce near the market to reduce time and costs involved.
- 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.

6. Reshuffle Corp is a company that manufactures and sells office furniture. They offer a range of products, from desks and chairs to cabinets and shelves. Recently, the company has been facing increased competition from online retailers offering similar products at lower prices. Analyzing the characteristics of products in the furniture industry, discuss how Reshuffle Corp can differentiate its products to maintain a competitive edge in the market.

Answer: To maintain a competitive edge in the face of increased competition, Reshuffle Corp can differentiate its products in several ways:

a) Products are either tangible or intangible

- Reshuffle Corp can focus on the **tangible aspects** of its products, such as using high-quality materials and innovative designs.
- Additionally, they can emphasize the **intangible aspects** of their products, such as excellent customer service and a strong brand reputation for reliability and durability.

b) Product has a price

- While **market prices** are often dictated by competition, Reshuffle Corp can work on **cost optimization** to maintain profitability.
- They can also consider offering value-added services, such as free installation or extended warranties.

c) Products have certain features that deliver satisfaction

- By continually optimizing their product features based on **customer feedback** and **market trends**, Reshuffle Corp can ensure that their **products deliver maximum satisfaction** to their **target customers**.
- This may include features that enhance functionality, design, quality, and overall user experience.

d) Product is pivotal for business

Reshuffle Corp should keep their products at the **center of their strategic activities**, ensuring that all business processes, from production to sales and marketing, are aligned to meet customer needs and expectations.

e) A product has a useful life

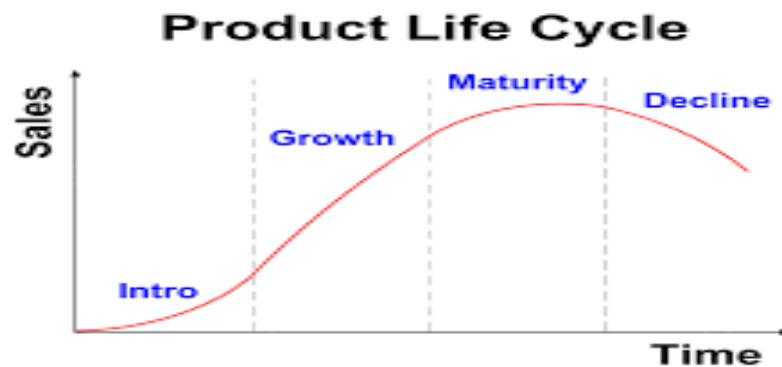
- Reshuffle Corp should be aware of the **life cycle** of their products and plan for reinvention or replacement accordingly.
- They can introduce new product lines or upgrade existing ones to keep up with changing customer preferences and market trends.



7. Write short note on "Phases and significance of Product Life Cycle".

Answer:

- Product Life Cycle (PLC) is a useful concept for guiding **strategic choice**.
- PLC is **S - shaped curve** which exhibits the **relationship of sales with respect of time** for a product that passes through the four successive stages of introduction (slow sales growth), growth (rapid market acceptance) maturity (slowdown in growth rate) and decline (sharp downward drift).
- Following is the diagram of PLC:



- Introduction Stage
  - The first stage of PLC is the **introduction stage** in which the company faced slow sales growth, 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 knowledge on the part of customers.
- Growth Stage
  - The second stage of PLC is **growth stage** in which the demand expands rapidly, prices fall, competition increases, and market expands.
  - The product gains market acceptance and customer has knowledge about the product and shows interest in purchasing it.

- Maturity Stage

- The third stage of PLC is **maturity stage** in which the competition gets tough and market gets stabilized.
- Profit comes down because of stiff competition.
- At this stage organizations may work for maintaining stability.

- Decline Stage

- The fourth stage of PLC is **declining stage** in which 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 or Significance of PLC

- The main advantage of PLC 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.

8. 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.

Answer: The company went through the following stages of the product life cycle (PLC):

- Introduction Stage

- The first stage of PLC is the **introduction stage** in which the company faced slow sales growth, 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 knowledge on the part of customers.

- Growth Stage

- The second stage of PLC is **growth stage** in which the demand expands rapidly, prices fall, competition increases, and market expands.
- The product gains market acceptance and customer has knowledge about the product and shows interest in purchasing it.

9. 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.

Answer:

- Product Life Cycle (PLC) is a useful concept for guiding **strategic choice**.
- PLC is **S - shaped curve** which exhibits the **relationship of sales with respect of time** for a product that passes through the four successive stages of introduction (slow sales growth), growth (rapid market acceptance) maturity (slowdown in growth rate) and decline (sharp downward drift).
- The product 'Fresh Breath' of ABC Ltd. falls under **Maturity stage** of product life cycle.
- In this stage, the **competition gets tough** and **market gets stabilized**. **Profit comes down** because of **stiff competition**.
- At this stage, ABC Ltd. have to work for maintaining stability by cutting the prices to be in line with its major rivals with a hope to maintain the market share and by launching a promotional campaign to highlight the benefits of the 'Fresh Breath' against its rival products.

10. Value Chain Analysis consist two activities: Primary activities and Support activities. As per Michael Porter both the activities are intertwined. Do you agree with the statement? Also delineate the main areas in which primary activities of any organization are grouped.

Answer: Yes, I agree with the statement that Value Chain Analysis consist of two activities: Primary activities and Support activities.

- As per Michael Porter, Value Chain Analysis is a tool used to examine the activities that create value in an organization, helping to enhance efficiency and build competitive advantage.
- It breaks down a business's operations to identify areas for improvement in value creation.
- The primary activities of an organization are categorized into five areas:

➤ Inbound Activities

Activities related to receiving, storing and distributing inputs (e.g., materials handling, stock control, and transport).

➤ Operations

Transforming inputs into final products or services (e.g., machining, packaging, assembly).

➤ Outbound Logistics

Collecting, storing and delivering products to customers (e.g., warehousing, transport).

➤ Marketing and Sales

Promoting and selling the product or service, including advertising and sales administration.

➤ Service

Enhancing or maintaining product value (e.g., installation, repair, training).

11. Competitive pressures operate as a composite in five areas of the overall market. Elaborate.

Answer:

- All organizations have competition and its benefits are enjoyed by the markets.
- The customers are able to get better products at lower costs and better value for their money because of competition.
- A popular and effective tool for examining the main competitive challenges in a market is Porter's five forces model.
- This model suggests that the competition in any industry is made up of five key areas that affect how business competes in the overall market.

➤ Rivalry among current players

Competitive pressures come from the ongoing efforts of rival sellers in the industry as they try to attract buyers and win their loyalty.

➤ Threat of new entrants

Competitive pressures associated with the threat of new entrants into the market.

➤ Threats from substitutes

Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products.

➤ Bargaining power of suppliers

Competitive pressures stemming from supplier bargaining power and supplier – seller collaboration.

➤ Bargaining power of customers

Competitive pressures stemming from buyer bargaining power and seller – buyer collaboration.

12. According to Michael Porter, what are the five competitive forces that exist within an industry?

Answer:

- Five forces model of Michael Porter is a widely utilized tool for systematically diagnosing the significant competitive pressures in the market and assessing their strength and importance within an industry.
- The model identifies five competitive forces that shape the overall competitive landscape:
  - Threat of New Entrants
    - ✓ New entrants **increase capacity** and product variety, intensifying competition and affecting prices.
    - ✓ The bigger the new entrant, the more severe is the competitive effect, placing constraints on prices and affecting **profitability** of existing players.
  - Bargaining Power of Customers
    - ✓ The bargaining power of the buyers influences not only the **prices** that the producer can charge but often leads to demand for better services, influencing **costs** and **investments** for producers.
    - ✓ This force will become heavier depending on the possibilities of the buyers forming **groups** or **cartels**, particularly in case of **industrial products**.
  - Bargaining Power of Suppliers
    - ✓ Suppliers with **specialized offerings** exert significant bargaining power, especially when limited in number.
    - ✓ Supplier bargaining power determines **raw material costs** and other inputs of the industry, affecting industry attractiveness and profitability.
  - Rivalry among current players
    - ✓ Existing players engage in **competition** influencing strategic decisions across various levels.
    - ✓ This rivalry is evident more at **functional level** in pricing, advertising, cost pressures and product strategies, impacting the overall competitive landscape.

➤ Threats from substitutes

- ✓ Substitute products are a **latent source** of competition in an industry.
- ✓ Substitute products can alter an industry's competitive dynamics, offering price advantages or performance improvements.
- ✓ Substitutes **limit prices and profits** and industries with substantial R&D investments are particularly susceptible to threats from substitute products.

13. 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.

Answer:

- **Yes**, Easy Access and its rivals get advantage by this move.
- The new bureaucratic process is making it more complicated for organizations to enter in Easy Access market, increasing barriers to entry and thereby reducing the threat of new entrants.
- New entrants can **reduce an industry's profitability**, because they add new production capacity, leading to increase in supply of the product, sometimes even at a lower price and can substantially erode existing firm's market share position.
- However, new entrants are always a **powerful source of competition**.
- The new capacity and product range they bring in throws up a **new competitive pressure**.
- The bigger the new entrant, the more severe the competitive effect.
- New entrants also place a **limit on prices** and affect the **profitability** of **existing players**, which is known as **Price War**.



14. GreenThrift Inc., a sustainable clothing retailer, is experiencing a surge in popularity due to the growing awareness of environmental issues among consumers. The company specializes in selling second-hand clothing and upcycled garments, offering an eco-friendly alternative to traditional fast fashion. A major concern for GreenThrift Inc. is the emergence of new sustainable fashion brands in the market. These brands focus on using organic and recycled materials, as well as ethical manufacturing practices, which align with the values of environmentally conscious consumers. Identify and explain that competition from new sustainable fashion brands falls under which category of Porter's Five Forces Model for Competitive Analysis?

Answer:

- Competition from new sustainable fashion brands falls under the "**Threat of New Entrants**" category of Porter's Five Forces Model for Competitive Analysis.
- These new entrants pose a threat to existing sustainable clothing retailers like GreenThrift Inc. by **increasing competition** and potentially **eroding market share**.
- The emergence of these brands, focusing on using organic and recycled materials along with ethical manufacturing practices, aligns with the values of environmentally conscious consumers, making them **strong competitors** in the sustainable fashion market.

15. In light of the five forces as propagated by Michael Porter, explain the common barriers which may cause restrain for the keenness of new entrepreneurs.

Answer:

- As per Michael Porter, new entrepreneurs often face significant barriers that restrain their keenness to enter an industry.
- These barriers increase the competitiveness of existing firms and discourage new entrants, impacting industry profitability.
- Common barriers that may restrain new entrepreneurs include:

a) 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.

b) Economies of Scale

- ✓ Many industries are characterized by economic activities driven by economies of scale.
- ✓ Economies of scale refer to the decline in the **per-unit cost** of production (or other activity) as volume grows.

c) Product Differentiation

Product differentiation refers to the physical or perceptual differences or enhancements that make a product **special** or **unique** in the eyes of customers.

d) Switching Costs

- ✓ To succeed in an industry, new entrant must be able to persuade existing customers of other companies to switch to its products.
- ✓ When such **switching costs are high**, buyers are often reluctant to change.

e) Brand Identity

- ✓ The **brand identity** of products or services offered by existing firms can serve as another entry barrier.
- ✓ Brand identity is particularly important for infrequently purchased products that carry a **high unit cost** to the buyer.

f) Access to Distribution Channels

- ✓ The **unavailability of distribution channels** for new entrants poses another significant entry barrier.
- ✓ Despite the growing power of the internet, many firms may continue to rely on their control of **physical distribution channels** to sustain a barrier to entry to rivals.

g) Possibility of Aggressive Retaliation

Sometimes the mere threat of **aggressive retaliation** by incumbents can deter entry by other firms into an existing industry.

16. 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.

Answer:

- Bargaining Power of Buyers is another force that influences the competitive condition of an industry.
- This force becomes heavier depending on the possibility of buyers forming groups or cartels.
- Mostly, this is a phenomenon seen in industrial products.
- Quite often, users of industrial products come together formally or even informally and exert pressure on the producer.
- 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 involve 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 source(s) of products and their substitutes.
  - They spend a lot of money on the industry's products i.e. they are big buyers.
  - The product is seen as non – essential with buyers more concentrated and able to easily switch to the substitutes available.

17. "The bargaining power of suppliers determines an industry's attractiveness and profitability." Discuss.

Answer:

- Quite often, suppliers too, exercise considerable bargaining power over purchasing companies.
- The **more specialized** the offering from the supplier, greater may be its clout.
- Further, when the suppliers are **limited** in number, they may openly exhibit their bargaining power.
- The bargaining power of suppliers determines the **cost of raw materials** and other inputs of the industry and therefore, an industry's **attractiveness** and **profitability**.
- 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 erect/ensure **high switching costs**.
  - They are **more concentrated** than their buyers. Less suppliers, more buyers

18. As per one of the five forces of competition, Michael Porter stated that the more intensive is the rivalry, the less attractive is the industry. In view of this, explain the conditions in which rivalry among competitors tends to be cut throat and industry profitability is low.

Answer: According to Michael Porter's Five Forces framework, rivalry among competitors significantly influences the attractiveness and profitability of an industry. When rivalry becomes cutthroat, several conditions contribute to low industry profitability:

➤ Industry Leader Presence

- ✓ While a **strong industry leader** can help maintain pricing discipline, the effectiveness diminishes as the number of competitor increases.
- ✓ Many rivals can engage in **aggressive pricing strategies**, leading to decreased profitability.

➤ Number of Competitors

- ✓ A higher **number of competitors** increase rivalry, making it difficult for any single firm to control pricing.
- ✓ This leads to **intensified price competition**, which adversely affects industry profitability.

➤ High Fixed Costs

- ✓ Industries with **high fixed costs** create pressure on firms to fully utilize their capacity.
- ✓ When firms face excess capacity, they often resort to **price cuts** to maintain sales volume, which diminishes profitability across the industry.

➤ Exit Barriers

- ✓ **High exit barriers** prevent firms from leaving the industry, keeping competition high.
- ✓ **Specialized assets** or other constraints can lead firms to remain in the market, maintaining competitive pressure and negatively impacting profitability for all players.

➤ Product Differentiation

- ✓ In industries lacking product **differentiation**, firms primarily compete on price.
- ✓ This leads to **price wars** and **lower profitability**.
- ✓ In contrast, firms that can **differentiate** their products tend to achieve higher profit margins and reduce competitive pressure.

➤ Slow Industry Growth

When industry **growth slows**, firms may adopt aggressive tactics to protect or gain market share, resulting in **intensified rivalry** and **diminished profitability** as they compete for a limited customer base.

19. 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 is Pulkit currently faced as a result of this situation?

Answer:

- Pulkit may be facing **exit barriers** due to his investment in the real estate spaces.
- **High exit barriers** prevent firms from leaving the industry, keeping competition high.
- In this case, Pulkit's investment in the real estate spaces may make it difficult for him to exit the cloud kitchen or switch to a different business model.
- If Pulkit is unable to find new spaces or make the necessary renovations, he may be forced to continue operating in the hideous localities which may **impact his brand image** and **customer experience**.
- This can create an exit barrier for Pulkit as it may be difficult for him to switch to a different business model or exit the industry entirely.
- Pulkit may have incurred **significant sunk costs** in the purchase and renovation of the real estate spaces, which can create a further exit barrier.
- Sunk cost refers to costs that have already been incurred and cannot be recovered.
- If Pulkit has invested a significant amount of money in the real estate spaces, he may be hesitant to exit the industry or switch to a different business model as it may mean that he has to write off the sunk costs.
- Therefore, Pulkit may be facing exit barriers due to his investment in the real estate spaces, which may make it difficult for him to adapt to the new requirements or exit the industry entirely.

20. 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?

Answer:

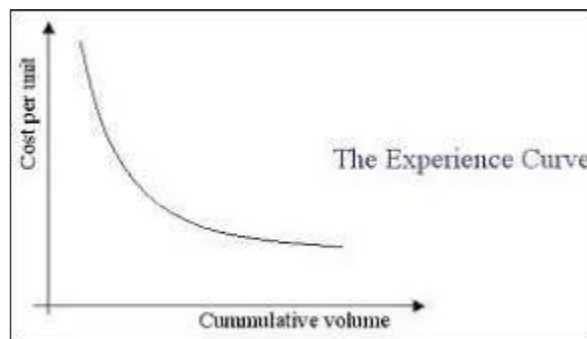
- Eco-carry bags Ltd. faces competition from paper bags and old cloth bags and falls under **Threat of Substitutes** force categories in Porter's Five Forces Model for Competitive Analysis.
- Paper and cloth bags are **substitutes of recyclable plastic bags** as they perform the same function as plastic bags.
- Substitute products are a **latent source** of competition in an industry.
- In many cases, they become a **major constituent of competition**.
- Substitutes offering **price advantage** or **performance improvements** can drastically change industry dynamics.



21. Explain the concept of Experience Curve and highlight its relevance in strategic management.

Answer:

- Experience curve akin to a learning curve which explains the **efficiency of workers increases** due to **repetitive productive work**.
- Experience curve is based on the commonly observed phenomenon that **cost per unit declines** as **cumulative volume of production increases**. 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 cost per unit** 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 organization **grows**, they **gain experience**.
  - Experience may provide an **advantage over the competition**. Experience is a key barrier to entry.
  - Large and successful organization possesses **stronger “experience effect”**.
- 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**.

22. You are a strategic manager for a tech company launching a new smartphone model. The company wants to target tech-savvy consumers who value innovation and cutting-edge technology. Using the concept of customer behavior, develop a marketing strategy to promote the new smartphone.

Answer:

- To target tech-savvy consumers for the new smartphone model, the tech company can develop a marketing strategy based on customer behavior.
- Consumer behavior may be influenced by a number of things.
- These elements can be categorized into the following conceptual domains:
  - External Influences
    - ✓ Utilize online platforms and tech forums to generate buzz around the new smartphone.
    - ✓ Partner with tech influencers and bloggers to review the product and create awareness among tech-savvy consumers.
  - Internal Influences
    - ✓ Appeal to the desire for innovation and advanced features among tech-savvy consumers.
    - ✓ Highlight the unique selling points of the new smartphone, such as its cutting-edge technology, performance, and design.
  - Decision Making
    - ✓ Recognize that tech-savvy consumers are early adopters who value functionality and performance.
    - ✓ Provide detailed specifications and comparisons with other smartphones to help them make an informed decision.
  - Post-decision Processes
    - ✓ Offer excellent customer service and support to address any technical issues or concerns.
    - ✓ Encourage customers to provide feedback and reviews to build credibility and trust among tech-savvy consumers.

23. Mr. Arun Kumar has built a successful business in the handmade ceramic products industry in Gujarat. His company, CeramiCrafts, is renowned for crafting distinctive, high-quality ceramic home décor items that have gained a strong foothold in the market. However, recent market shifts and rising competition have impacted sales. Seeking professional guidance, Mr. Kumar consults a strategic advisor who recommends an in-depth analysis of the competitive landscape. To comprehend the competitive landscape, what steps should Mr. Kumar follow?

Answer:

- Understanding the competitive landscape is crucial for Mr. Arun Kumar to navigate the handmade ceramic products industry in Gujarat successfully.
- Competitive landscape is a **business analysis** which identifies both **direct** and **indirect competitors** while gaining insights into their **vision, mission, core values, niche market, strengths** and **weaknesses**.
- Here are the structured steps Mr. Kumar should follow to comprehend the competitive landscape and bolster his strategic position:

➤ Identify the competitor

The first step to understanding the competitive landscape is to identify the competitors in the firm's industry and have actual data about their respective market share.

➤ Understand the competitors

Once the competitors have been identified, the strategist can **use market research report**, internet, newspapers, social media, industry reports, and various other sources to understand the products and services offered by them in different markets.

➤ Determine the strengths of the competitors

What are the **strengths of the competitors**? What do they do well? Do they offer great products? Do they utilize marketing in a way that comparatively reaches out to more consumers? Why do customers give them their business?

➤ Determine the weaknesses of the competitors

- ✓ **Weaknesses** (and strengths) can be identified by going through **consumer reports** and **reviews** appearing in various media.
- ✓ After all, **consumers** are often willing to give their **opinions**, especially when the products or services are either great or very poor.

➤ Put all of the information together

- ✓ At this stage, the strategist should **put together all information** about competitors and draw inference about what they are not offering and what the firm can do to fill in the gaps.
- ✓ The strategist can also know the **areas** which need to be **strengthened** by the firm.

24. Analyze the role of Key Success Factors (KSFs) in determining competitive success within an industry.

Answer:

- An industry's Key Success Factors (KSFs) are those things that most affect industry members' **ability to prosper** in the marketplace.
- This includes strategies, product features, resources, skills and outcomes that impact **profitability** and **competitiveness**.
- KSFs by their very nature are so important that all firms in the industry must pay **close attention** to them.
- They are the **prerequisites for industry success**.
- In other words, KSFs are the **rules** that shape whether a company will be **financially** and **competitively successful**.