CA INTER NEW SYLLABUS

STRATEGIC MANAGEMENT

Brahmastra

SUMMARY OF IMPORTANT POINTS

CA Mohnish Vora (MVSIR)

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Chapter 1

Introduction to SM

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CHAPTER 1 – INTRODUCTION TO STRATEGIC MANAGEMENT

Management

1) Key group → in-charge of its affairs

- **Chief Organ** → make organization a purposeful & productive entity, by bringing together & integrating disorganised resources → combined into a functioning whole.
- Survival & success of org. depends on competence & character of its management.

2) Set of **inter-related functions** & processes

Planning, Organising, Directing, Staffing & Control.

MT: Control MAD Goals

They range from–

- installation of control system
- mobilisation & acquisition of resources,
- allocation of tasks & resources
- design of organization &
- determination of the goals.

Strategy

Game plan that mgt. uses to– MT: C^2OMA

- conduct its operations,
- compete successfully,
- achieve organizational objectives
- take market position, &
- attract and satisfy customers.

It is also long-range blueprint of an organization's MT: 3 D

- desired image (what it wants to be)
- Direction (what it wants to do & how it wants to do things)
- Destination (where it wants to go).

Scheme of corporate intent & action– MT: Utilise M^2DH

- to mobilise resources,
- to direct human effort and behaviour,
- to handle events and problems,
- to perceive and utilise opportunities, and
- to meet challenges and threats for corporate survival and success.

Integrated framework for top mgt.– MT: SWOT

- to use resources & strengths,
- to offset corporate weaknesses.
- to search, evaluate & exploit beneficial opportunities,
- to perceive & meet threats & crisis,

Strategy is no substitute for sound & alert management

- Strategy can never be perfect, flawless and optimal.
- It is the very **nature** of strategy → flexible & pragmatic to take care of sudden emergencies & avoid failures
- Sound strategy → allowances are made for miscalculations & unanticipated event

Strategy is partly proactive and partly reactive

- Strategy is a **blend** of:
  - ✓ **Proactive actions** → managers to improve company's market position & financial performance
  - ✓ **Reactions** to unanticipated developments & fresh market conditions in dynamic business environment. Adapting to environment.

Strategic Management

Strategic management is made up of several distinct activities:

- developing vision & mission;
- strategic analysis;
- developing objectives;
- creating, choosing, & implementing strategies; and
- measuring & evaluating performance
- Taking corrective adjustments wherever required

CHAPTER 1 – INTRODUCTION TO STRATEGIC MANAGEMENT

Strategic Management

Importance/Benefits of Strategic Management

MT: Facebook pe Frame wali DP C²yu Lagate hai ?

1) SM **prepares organisation to face the future** → act as pathfinder to various opportunities.

2) SM **provides frameworks for all major decisions** → on products, businesses, markets, etc. (PBM)

3) SM gives a direction → to move ahead. Helps **define goals & mission.** Defining objectives → in line with vision

4) SM helps org. to be **proactive instead of reactive**. → analyse & take actions → take control their own destiny

5) SM serves as a **corporate defence mechanism** against mistakes & pitfalls. → avoid costly mistakes

6) SM helps org. to **develop core competencies** & **competitive advantages** → fight for survival and growth

7) SM helps to **enhance the longevity** of business. It helps org to take a clear stand → not just surviving on luck. Actions over expectations is what SM ensures.

Limitations of Strategic Management

MT: Costly ETC

1) SM is a **costly process**. Expert strategic planners, efforts for analysis of environments, devise & implement strategies.

2) It is **difficult to clearly estimate the competitive responses**. Difficult to know strategies of competitors → taken within closed doors. For eg, Apple removing 3.5mm audio jack from iPhones.

3) SM is a **time-consuming process**. Org spend lot of time in→ preparing & communicating the strategies → may impede daily operations

4) Environment is **highly complex & turbulent** difficult to understand environment. The org. estimate about future may go wrong. For eg, Two-Wheeler Electric Vehicles → incidents of battery catching fire.

Objectives of Strategic Management

1) To create competitive advantage → to outperform the competitors.

2) To guide company through all changes in environment → React in right manner

Strategic Intent

- Refers to **purposes** of what 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
- It is the philosophical base of SM.
- Answers the question- what organisation strives or stands for?

Elements of Strategic Intent

Strategic intent could be in form of

- vision & mission statements at **corporate level**
- business definition & business model at **business level**
- goals & objectives at **Functional (Operational) level**

Vision

Meaning

- Vision is the **blueprint of the company's future position**
  - ✓ It shows management's aspirations for business,
  - ✓ Provides a panoramic view of "where we want to go" &
  - ✓ a rationale for why this makes good business sense.
- Vision thus points out-
  - ✓ a particular direction,
  - ✓ charts a strategic path
  - ✓ moulding organisational identity

Essentials of a Strategic Vision

MT: CEED

1) Challenge → think creatively about how to prepare a co. for future.
2) Forming vision → exercise in intelligent entrepreneurship.
3) Well-articulated vision creates enthusiasm among members of org.
4) It illuminates direction in which org. is headed

Mission

Meaning

- A mission is an answer to the basic question-
  - ✓ what business are we in? ; &
  - ✓ what we do?
- It describe an organisations present-
  - ✓ activities,
  - ✓ business makeup,
  - ✓ capability & customer focus

MT: ABC

Components of a good mission statement

1) Mission statement should give org its own-
   - ✓ special identity,
   - ✓ business emphasis &
   - ✓ path for devp. – one that sets it apart.
2) Mission should specify-
   - ✓ what needs org is trying to satisfy,
   - ✓ which customer groups it is targeting &
   - ✓ technologies & competencies it uses &
   - ✓ activities it performs
3) Unique to the org.
4) Not be to make profit

Why should an org. have a mission?

MT: PUT BMW in Focus

1) To specify organisational purposes & translation of purposes into goals.
2) To ensure unanimity of purpose
3) To establish a general tone or organisational climate
4) To develop a basis for allocating resources.
5) To provide a basis for motivating the use of resources.
6) To facilitate translation of objective & goals into a work structure involving assignment of tasks.
7) To serve as a focal point → who can identify with org's purpose & direction.

Peter Drucker & Theodore Levitt → org should answer these questions before starting its business

MT: PUB⁴G MSN²

1) What is our ultimate purpose?
2) Do we understand our business correctly?
3) What do we want to become?
4) What business are we in?
5) In what business would we like to be in future?
6) What brings us to this particular business?
7) What kind of growth do we seek?
8) What is our mission?
9) Whom do we intend to serve?
10) What human need do we intend to serve through our offer?
11) What would be nature of business in future?

Goals & Objectives

Goals

Goals are open-ended attributes that denote the future states or outcomes.

Objectives

- Objectives are close-ended attributes → precise & expressed in specific terms.
- They transalate goals to → short-term & long-term perspective
- They are performance targets –results org wants to achieve.
- They function as yardsticks (benchmark) for tracking an org's performance.

Characteristics of Objectives

MT: S²MART & Challenging Performance

1) Concrete & specific.
2) Provide basis for strategic decision-making.
3) Measurable and controllable.
4) Facilitative towards achievement of mission & purpose.
5) Should define organisation's relationship with its environment.
6) Related to a time frame.
7) Challenging.
8) Provide standards for performance appraisal.
9) Should correlate with each other.
10) Set within constraints of organisational resources & external environment.

LTO are established in 7 areas OR Key areas in which the strategic planner should concentrate his mind to achieve desired results.

MT: 3P 2E CT

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

Intent vs Values – Which is broader concept?

- **Intent** is the purpose of doing business
- **Values** are principles that guide decision making of business.
- They both go hand in hand, while the intent is driven by values.
- So values more or so is wider than Intent

Values

- Values are deep-rooted principles which guides decisions & actions.
- As per Collins & Porras **core values** → inherent & sacrosanct
- Values sets tone for how people will think & behave, in dilemma.
- Creates a sense of shared purpose → build strong foundation and focus on longevity.
- **Employees** → work with employers whose values resonate with them
- **Consumers** → buy products from cos. that have a purpose that reflects their own value & belief system.
- Hence, values have both internal as well as external implications.
- For eg- HP Way, etc

Strategic Levels of Org.

Corporate Level Managers

- CLM consists of CEO & other senior executives, BOD, & corporate staff.
- Participate in strategic decision making & oversee devp of strategies

MT: Formulating & Implementing MBA Leadership

- Role of CLM includes-

1) formulating & impl. strategies that span individual businesses,
2) defining mission & goals
3) determining what businesses it should be in,
4) allocating resources
5) providing leadership

Business Level Managers (BLM)

- Development of strategies for competing in individual business areas, (like FMCG, hotel, financial services etc) → responsibility of BLM
- The principal general manager at business level, or BLM, is the head of the division (SBU).
- BLM's strategic role is to translate general statements of direction & intent that come from the corporate level into concrete strategies for individual businesses.

Functional Level Managers (FLM)

- FLMs → responsible for specific business functions (HR, sales, etc)→ develop functional strategies
- FLM's sphere of responsibility is confined to one organizational activity, whereas general managers (BLM) oversee operation of whole company/division.
- FLM provide information → helps BLM & CLM to formulate realistic & attainable strategies.
- They are closer to the customers, suppliers & operations than general manager is.
- FLM themselves may generate important ideas that may become major strategies
- Also responsible for → strategy implementation, i.e. execution of CLM & BLM plans.

3 major types of networks of relationship

1) Functional & Divisional Relationship

- Independent relationship, where each function or a division is run independently headed by the function/division head, who is a BLM, reporting to business head, who is CLM.

2) Horizontal Relationship (Flat Structure) → More suitable for startups

- All positions, from top mgt to employees, are in same hierarchical position.
- This leads to - openness & transparency & more idea sharing & innovation.

3) Matrix Relationship

- Grid-like structure of levels in an org., with teams formed with people from various departments that are built for temporary task-based projects.
- Helps to manage huge conglomerates (large org.)→ impossible to track every single team independently.
- More than one BLMs for each functional teams. (Dual-reporting)

Top Down Approach or Bottom-Up Approach?

- **Top-down approach** to decision making → decision made solely by leadership at top (CLM),
- **Bottom-up approach** → gives all teams across the levels a voice in decision making

Benefit of proactive strategy over reactive strategy

MT: BCCE

1) Allows for better risk management by identifying potential challenges in advance, enabling organizations to develop contingency plans.
2) Result in cost savings as preventive measures can be more efficient than addressing crises retroactively.
3) Organizations can maintain a competitive edge by staying ahead of industry trends and changes.
4) It enhances organizational strength and responsiveness in navigating uncertainties.

Mission Vs Vision

1) **Mission statement** tells fundamental purpose & concentrates on present. It defines customer & critical processes & informs you of desired level of performance. On the other hand, a **vision statement** outlines what the organization wants to be. It concentrates on the future. It is a source of inspiration. It provides clear decision - making criteria.

2) The **vision** describes a future identity while the **mission** serves as an on-going and time-independent guide.

3) The **vision** statement can galvanize the people to achieve defined objectives. A **mission** statement provides a path to realize the vision in line with its values.

4) A **vision** statement defines the purpose or broader goal for being in existence & can remain the same for decades, while a **mission** statement is more specific in terms of both future state & time frame. Mission describes what will be achieved if the organization is successful.

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Chapter 2

Strategic Analysis- External Environment

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CHAPTER 2 - STRATEGIC ANALYSIS: EXTERNAL ENVRIONMENT

- The process of **strategic formulation** begins with a strategic analysis.

- Its **objective** is to compile information about internal & external environments → to assess possibilities while formulating strategic objectives & contemplating strategic activities.

- Strategy formulation cannot be done just by intuition, instincts, or creative thinking. **Judgments about what strategies to pursue** need to flow directly from
- analysis of a firm's external environment and
- its internal resources and capabilities.

❖ **Environmental scanning** is a natural & continuous activity for every business
- ✓ **Informal structure**- learn about changes in tax or laws through T.V. news
- ✓ **Formal structure**- learn about changes in tax or laws through a well-established reading material from experts.

- Using just informal techniques can lead to missed opportunities.

- Thus, a **systematic approach** to environmental assessment is essential for managing risk and uncertainty.

Strategic analysis is a component of business planning that-
- has a methodical approach,
- makes the right resource investments, &
- may assist business in achieving its objective.
- forces to think about rivals & aids in staying ahead of competition.

The **two important situational considerations** regarding strategic analysis are:
1) industry and competitive conditions, and
2) an organisation's own capabilities, resources, internal strengths, weaknesses, and market position.

Accurate diagnosis of business situation is necessary to-
1) Decide on sound long-term direction,
2) Setting appropriate objectives, and
3) crafting a winning strategy.

Without strategic analysis, managers will finalize a strategic game plan that
1) doesn't fit the situation well,
2) that holds little prospect for building competitive advantage, &
3) is unlikely to boost co. performance.

Two major limitations of strategic analysis-

1) It gives a lot of innovative options but doesn't tell which one to pick. The options can be overlapping, confusing or difficult to implement.
2) It can be time-consuming at times, hurting overall organisational functioning & also strain other innovations such as developing new product.

Issues to consider for Strategic Analysis

1) Strategy evolves over a period of time:
- A current strategy is result of several little choices taken over a long period of time.
- Strategy is influenced by experience, & is to be updated when results become clear.

2) Balance of external and internal factors:
- Strat. analysis requires balance between challenges
- There are factors
- ✓ **driving a decision**, like entering a new market.
- ✓ **limit the option**, like presence of large opponent.
- While some of these aspects are under our control, while some are not.

3) Risk:
- Complexity & intermingling of variables in the environment reduces strategic balance in org.
- Competitive markets, globalization, booms, tech advancements etc affect business & pose risk.
- It is important to identify potential imbalances or risks and assess their consequences.

CHAPTER 2 – STRATEGIC ANALYSIS: EXTERNAL ENVRIONMENT

- **External risk** – inconsistencies between strategies & forces in the environment.
- **Internal risk** – Occurs on account of forces that are either within the organization or are directly interacting with the organization on a routine basis.

Strategic Risk	Time: Short Time	Time: Long Time
External	Errors in interpreting the environment cause strategic failure	Changes in the environment lead to obsolescence of strategy.
Internal	Organizational capacity is unable to cope up with strategic demands.	Inconsistencies with strategy are developed on account of changes in internal capacities & preferences

Business Environment refers to all external factors, influences, or situations that in some way affect business decisions, plans, and operations. It is highly dynamic and continuously evolving.

Importance of Business Environment
MT: COLD Image

1) Meeting Competition
- Analyse competitors' strategies & formulate own strategies accordingly.
- Thus helping business to flourish & **beat competition**

2) Determine opportunities and threats
- It helps to find new wants of consumers, changes in laws, changes in social behaviours, and tells what new products competitors are bringing.

3) Continuous Learning
- The managers are motivated to continuously update their knowledge, understanding and skills to meet changes in environment.

4) Give direction for growth
- It helps to identify areas for growth & expansion.

4) Image Building
- Helps organizations to improve their image by showing their sensitivity to the environment.
- **For eg**, in view of shortage of power, many companies have set up captive power plants within their factories to meet their own requirement of power as well as extend surplus capacities .
- Understanding needs of environment → showcase that organization is aware & responsive to needs of people & it creates a positive image & win over competitors.

- To flourish, a business must be aware of, assess, & respond to opportunities & threats in its environment & also be able to handle and adapt to them.
- Two crucial aspects for success include–
  1) function of top management, &
  2) method of formulating strategic decisions.

- **Business Environment** can be classified as–
  I. External Environment
  II. Internal Environment (Will discuss in Chp 3)

- Classification of environment into components helps an organization to–
  - ✓ cope with its complexity,
  - ✓ comprehend the different influences operating, &
  - ✓ relating the environmental changes to its strategic management process.

CHAPTER 2 - STRATEGIC ANALYSIS: EXTERNAL ENVRIONMENT

❖ The **external environment** can be categorised in **two major types** as follows:
1) Micro environment
2) Macro environment

Micro Environment

- Related to **small area** or **immediate periphery** of an organization.
- It consists of consumers, market, intermediaries, competitors, suppliers, etc. These are specific to the business & affect its working on a direct & regular basis.
- Within micro or immediate or task environment→ we need to **address the following issues**: MT: Competitors supply LEEF

✓ The direct competition and their comparative performance.
✓ Who are suppliers & how are the links between the two being developed?
✓ The local community within which the firm operates.
✓ The employees, 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.
✓ The factors in micro environment relate an organization to the macro issues influencing the way a firm reacts in the market place.

Macro Environment

It is the portion of environment that affects how organisation operates & is beyond its direct control and influence. It has broader dimensions as it consists of economic, socio-cultural, technological, political and legal factors.

Element of Macro Env.	Important Points
Political-Legal	➢ It consists elements like- ✓ general level of political development, ✓ degree to which business & economic issues have been politicised, ✓ degree of political morality, ✓ state of law and order, ✓ political stability & ideology etc ➢ It is partly general to all similar enterprises & partly specific to an individual enterprise. ➢ A business has to consider changes in regulatory framework & their impact on business. Taxes and duties are also critical areas ➢ Businesses prefer a country with sound legal system. They must have a good working knowledge & understand the major relevant laws. ➢ **Nationalism supports measures** aimed at enhancing the position of a country in International business. Eg- Make in India and Aatmanirbhar Bharat.

CHAPTER 2 - STRATEGIC ANALYSIS: EXTERNAL ENVRIONMENT

Element of Macro Env.	Important Points
Economic	➢ **Economic environment** refers to the overall economic situation around the business. ➢ It determines strength and size of the market. ➢ The purchasing power in an economy depends on current income, prices, savings, credit availability etc. ➢ Here we find out effect of economic prospect, growth and inflation on operations of business. ➢ Higher interest rates are detrimental for businesses. In real estate market, they reduce ability of buyers to avail loan, thus lower the demand. ➢ The economic conditions of a nation refer to a set of economic factors that influence business. These include GDP, per capita income, markets, availability of capital, forex reserve, interest rates, disposable income, unemployment, inflation, etc.
Demographic	➢ Demographics are **characteristics of a population** in an area like- age, gender, income etc. ➢ It includes factors such as race, age, income, education, possession of assets, house ownership, etc. ➢ Marketers divide up populations based on their demographic makeup. Like- India has relatively younger population ➢ Org. need to address following issues related to demographic env: ✓ What demographic trends will affect market size? ✓ What demographic trends represent opp or threats?
Socio-Cultural	➢ It includes factors such as social traditions, values and beliefs, level and standards of literacy, ethical standards & state of society, the extent of social stratification etc. ➢ It differs from demographics → it is not characteristics of population, but it behaviour & belief system of population. ➢ Socio-cultural environment consists of factors related to human relationships & impact of social attitudes and cultural values affecting operations of the organization. ➢ The core beliefs of a particular society tend to be persistent, which are difficult to change. Thus org. have to adjust to social norms and beliefs to operate successfully.
Technological	➢ Technology has changed the way people communicate, do things & ways of how businesses operate now. ➢ Technology and business are inter-linked and inter-dependent on one another. ➢ **Technology has impacted on how businesses are conducted.** ✓ reduce paperwork, ✓ schedule payments more efficiently, ✓ are able to coordinate inventories efficiently and effectively. ➢ This helps to reduce costs & shrink time and distance. ➢ The technological advancements require a business to drastically alter its operational, prod & marketing strategy ➢ Technology leads to new business opportunities & makes most of the existing business obsolete. ➢ Technology can act as opportunity→ when business is able to adopt technological innovations ➢ Technology can also act as a threat→ when business is not able to adopt new tech.

CHAPTER 2 - STRATEGIC ANALYSIS: EXTERNAL ENVRIONMENT

PESTLE Analysis

- Used for analysis of **macro** environmental factors.
- Advantage - encourages management into **proactive & structured thinking** in its decision making.

- PESTLE stands for-
- **P- Political** → (how & to what extent government intervenes in economy & activities of business firms.)
- **E- Economic** → (**interest rates, exchange rate, money supply, inflation, etc** have a bearing on business decisions)
- **S- Social** → (affect **demand** of products & **how company operates**)
- **T- Technological** → (can determine **barriers to entry, minimum efficient production level** and influence **outsourcing decisions**. It also includes **Intellectual property rights & copyrights**)
- **L- Legal** → (affect **how a company operates**, its **costs**, and the **demand** for its products, **ease of business**)
- **E- Environmental** → (affects industries such as **tourism, farming & insurance.** Growing awareness to **climate change** affects how org. operate - it is **creating new markets** & **destroying existing ones**)

Internationalization of Business

- Act of designing goods/services in a way **that facilitates expansion into international market**.
- It enables a business to **enter new markets** for **greater earnings** & **cheap resources**.
- Also, expanding internationally enables a business to **achieve greater economies of scale** and **extend the lifespan** of its products.

Characteristics of a global business

MT: ORS

1) **Conglomerate** of multiple units → **all linked by common ownership**.
2) Multiple units draw on a **common pool of resources**.
3) The units respond to some **common strategy**. Besides, its **managers** and **shareholders** are also based in **different nations**.

❖ **The steps in international strategic planning are as follows-**

MT: Reverse DOSE

1) **Evaluate global opp. & threats→rate them** with internal capabilities.
2) Describe the **scope** of the firm's global commercial operations.
3) Create firm's global business **objectives**.
4) Develop **distinct corporate strategies** for global business & whole org

❖ **Why do businesses go global?**

MT: DR ne CA SE GST ka Cost pucha

1) When **domestic markets are no longer adequate**.
2) **Need for reliable or cheaper source of raw-materials.**
3) The **collapse of international trade barriers** redefines the roles of state & industry→ **increased privatization** & **less govt interference**.
4) Globalization has made cos. in different countries to **form strategic alliances** to **ward off** economic & technological **threats**.
5) The **rise of services to constitute largest single sector** in world.
6) When **exporting organisations** find foreign markets to **open up** → they open **overseas plants & branches** for **higher sales** & **cash flow**.
7) The **need to grow** is basic need of every org. **Finding opportunities** in **other parts of globe**.
8) There is rapid **shrinking of time & distance** across globe, because of **faster communication**, **speedier transportation** etc
9) Companies set up overseas plants to **reduce high transportation costs**→ cheaper to produce near market.

International Environment

- An assessment of the external environment is the **first step** toward internationalisation. It allows org. to discover opportunities in the global market and evaluate its feasibility.

- Assessments of international envir. can be done at **three levels**:

1) Multinational environmental analysis
- It involves identifying, anticipating, & monitoring significant components of the global environment on a large scale.
- Governments may have free or interventionist tendencies.

2) Country environmental analysis
- Study of economic, legal, political, & cultural dimensions
- The analysis must be customized for each country to develop effective market entrance strategies.

3) Regional environmental analysis
- It emphasizes on discovering market opportunities for goods, or services in chosen location (specific geographical area).

Understanding Product & Industry

Business products have certain **characteristics** as follows:

MT: P²UT Features

1) Product has a price
- ✓ Org. determine cost of their products & charge a price for them.
- ✓ Demand & supply and influence market price.
- ✓ The market price is the price at which quantity provided equals quantity desired.
- ✓ Price is determined by market, quality, marketing etc.

2) Product is pivotal for business.
- ✓ Product → centre of business around which all activities revolve.
- ✓ Product enables production, quality, sales, & other processes.
- ✓ Product → driving force behind business activities.

3) A product has a useful life.
- ✓ Every product has a usable life after which it must be replaced, & a life cycle after which it is to be reinvented or may cease to exist.
- ✓ Eg- fixed line telephone instruments → replaced by mobile phones.

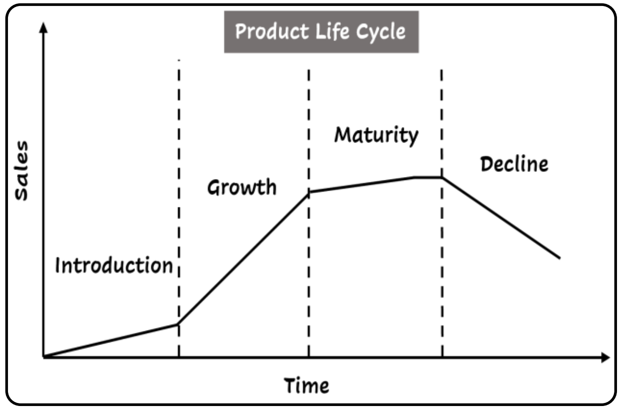
4) Products are either tangible or intangible.
- ✓ Tangible product → handled, seen, & physically felt→ car, book etc.
- ✓ Intangible product → not a physical good→ telecom service, banking, insurance etc

5) Products have certain features that deliver satisfaction.
- ✓ A product feature is a component of a product that satisfies a consumer need.
- ✓ Features determine product pricing, and businesses alter features during development process to optimise the user experience.
- ✓ Products should provide value satisfaction to customers.
- ✓ Features of the product will distinguish it in terms of its function, design, quality and experience.
- ✓ A customer's cumulative experience from purchase to end is imp.

CHAPTER 2 - STRATEGIC ANALYSIS: EXTERNAL ENVRIONMENT

Product Life Cycle (PLC)

PLC is an **S-shaped curve** → shows **relationship** of **sales** with respect of **time**. A product passes through **four successive stages.**



1st Phase	2nd Phase	3rd Phase	4th Phase
Introduction Stage (slow sales growth)	Growth Stage (rapid market acceptance)	Maturity Stage (slowdown in growth rate)	Decline Stage (sharp downward drift in sales)
➢ competition → negligible, ➢ prices → high, and ➢ markets → limited. ➢ Growth in sales → lower rate because of lack of awareness of customers.	➢ demand expands rapidly, ➢ prices fall, ➢ competition increases, ➢ market expands. ➢ Customer has knowledge about the product and shows interest in purchasing it.	➢ the competition gets tough, ➢ market gets stablised. ➢ Profit comes down because of stiff competition. ➢ Organisations have to work for maintaining stability	➢ Sales & profits fall down sharply due to some new product replaces existing product. ➢ Combination of strategies can be implemented to stay in market either by diversification or retrenchment.

❑ The **main advantage of PLC approach** → used to **diagnose a portfolio of products/businesses** → to **establish stage** at which each of them exists.

For eg-

✓ **Expansion** → for businesses in the **introductory & growth** stages.

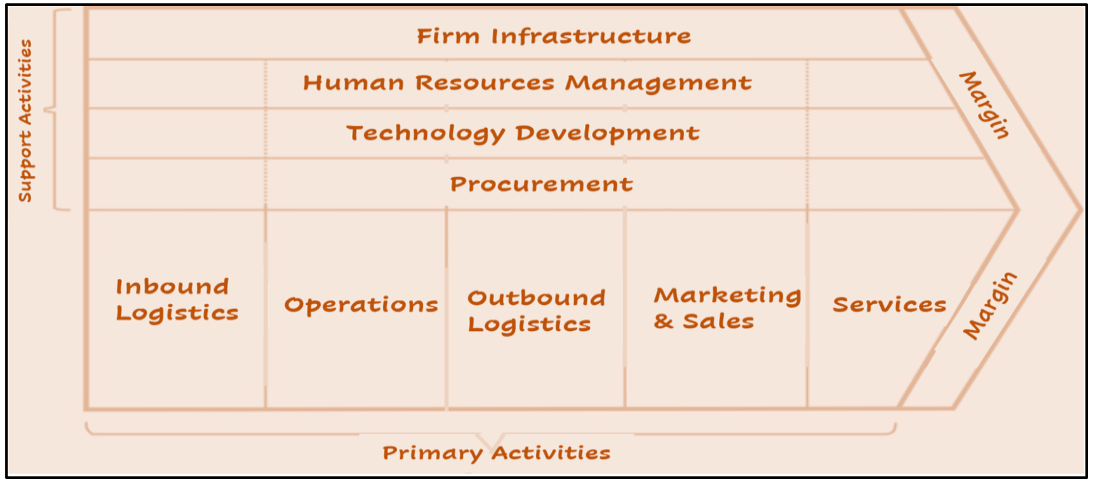
✓ **Mature businesses** → **used as sources of cash for invt** in other businesses

✓ A **combination** of strategies like **selective harvesting**, **retrenchment**, etc. may be adopted for **declining** businesses.

❖ Value Chain Analysis (Given by Michael Porter)

➢ **Value chain analysis** is a method of **examining each activity** in value chain of a business in order to **identify areas** for **improvements**.

➢ When you do a value chain analysis, you must analyse how each stage in the process **adds or subtracts value** from the end product or service.



CHAPTER 2 – STRATEGIC ANALYSIS: EXTERNAL ENVRIONMENT

- **Value chain analysis** is used to improve the sequence of operations, enhancing efficiency and create a competitive advantage.
- Originally introduced as an accounting analysis
- The **two basic steps** of–
  - identifying separate activities, and
  - assessing the value added from each

  were linked to an analysis of an org.'s competitive advantage.

Primary Activities				
Inbound logistics	**Operations**	**Outbound logistics**	**Marketing and sales**	**Services**
These are the activities concerned with • receiving, • storing and • distributing the inputs to product/service This includes materials handling, stock control, transport etc. Like, transportation and warehousing.	Operations transform these inputs into the final product– • machining, • packaging, • assembly, • testing, etc. Convert raw materials in finished goods.	It involves– • collecting, • storing & • distributing the product to customers. For **tangible products**→ • warehousing, • materials • handling, • transport, etc. For **services** → arrangements for bringing customers to service, if it is a fixed location (eg- sports event)	It provides the means whereby consumers are made aware of the product & are able to purchase it. This would include • sales administration, • advertising, • selling etc. In **public services**, communication networks which help users' access a particular service are often important.	Services are all those activities, which • enhance or • maintain the value of a product, Such as– • installation, • repair, • training • spares.

Support Activities			
Procurement	**Technology development**	**Human resource management**	**Infrastructure**
Refers to processes for acquiring the various resource inputs to primary activities. As such, it occurs in many parts of the organization.	All value activities have a 'technology', even if it is simply know-how. The key technologies are concerned with– • product (R&D product design) • processes (process development) • particular resource (raw materials improvements)	It is an area which transcends all primary activities. It involves activities like • recruiting, • managing, • training, • developing • rewarding people	The systems of • planning, • finance, • quality control, • information mgt are important to an org's performance in its primary activities. It also consists of structures & routines of org. which sustain its culture.

Industry Environment Analysis

Porter's Five Forces Model

- It is a way for-
  - ✓ determining **key sources of competition**.
  - ✓ diagnosing **competitive pressures** & **assess strength & importance**.
- Understanding the variables that affect industry helps to **adapt strategy**, **boost profitability**, and **stay ahead of competition**

- The model holds that the **state of competition** in an industry is a **composite** of competitive pressures operating in **five areas**-

Competitive pressures associated with-
1) market manoeuvring & jockeying for buyers → **among rival sellers.**
2) **threat of new entrants** into the market.
3) attempts of companies in other industries to win buyers over to their own **substitute products**.
4) **supplier bargaining power** & **supplier-seller collaboration**.
5) **buyer bargaining power** & **seller-buyer Collaboration**

- Steps to determine what how competition is like, using 5 forces:

✓ **Step 1**: Identify **specific competitive pressures** associated with each of five forces.
✓ **Step 2**: Evaluate **how strong the pressures are** (fierce, strong, moderate to normal, or weak).
✓ **Step 3**: Determine whether the **collective strength** of 5 forces is **conducive to earning attractive profits**.

I. The Threat of New Entrants

- **New entrants** can **reduce industry profitability** because they **add new production capacity** leading to an **increase supply** even at a **lower price** and can erode existing firm's market share position & profitability.
- **Bigger the new entrant**, the **more severe the competitive effect**.

❑ **To discourage new entrants**, **existing firms** can try to **raise barriers to entry**. **Common barriers to entry include-**

MT: BAD SPEC

1) Brand Identity
- New entrants often find difficulties in building up brand identity→ **require substantial resources over a long period**.

2) Access to distribution channels
- The **unavailability of distribution channels** → **entry barrier**.
- Existing firms have **influence over their distribution channels** & can **impede their use by new firms**.

3) Product differentiation
- **Physical** or **perceptual differences**, that makes a **product unique** in eyes of customers. Entry barriers as **cost** of creating **genuine differences** may be **too high**.

4) Switching costs
- To succeed→ new entrant must **persuade existing customers** of other companies to **switch to its products**.
- To make a switch, buyers may need to-
  - ✓ **Test, negotiate, train personnel, modify facilities.**
- Buyers incur **substantial** financial & psychological **costs**.
- When **switching costs** are **high**→ **buyers reluctant** to **change**.

5) Possibility of aggressive retaliation by existing players

- Sometimes mere threat of retaliation→ deter entry of new entrants. Incumbents firms may reduce product prices & increase their advertising budgets.

6) Economies of scale

- Large firm enjoys economies of scale can produce high volumes at lower costs→ discouraging new entrant.

7) Capital requirements

- When a large amount of capital is required to enter an industry, new firms lacking funds are barred from entering.

II. Bargaining Power of Buyers

- This force becomes heavier → if buyers form groups.
- Users of industrial products come together & exert pressure on producer
- **The bargaining power of the buyers** influences–
  - ✓ the prices that producer can charge &
  - ✓ costs & investments of producer
- This force is particularly evident when:

a) Buyers have full knowledge of sources of products & their substitutes.

b) They spend a lot of money → they are big buyers.

c) The industry's product is not perceived as critical to the buyer's needs & buyers are more concentrated than sellers. They can easily switch to the substitutes available.

III. Bargaining Power of Suppliers

MT: FINE PG

- The more specialised the offering from supplier, greater is his clout.
- This force determines the cost of raw materials and other inputs & thus, the industry's attractiveness and profitability.

❑ Suppliers can command bargaining power over a firm when:

a) Their products are crucial to buyer & substitutes are not available.

b) They can erect high switching costs.

c) They are more concentrated than their buyers.

IV. The Nature of Rivalry in the Industry (Existing Competitors)

- This force affects industry's attractiveness and profitability.
- It influences costs of suppliers, distribution, attracting customers & profitability.
- The more intensive the rivalry, the less attractive is industry.

❑ **Rivalry** tends to be cutthroat & industry profitability low when:

1) **Fixed Costs:** When rivals operate with high fixed costs, they feel strong motivation to utilize their capacity and thus cut prices when they have excess capacity.

2) **Industry Leader**: can discourage price wars by disciplining initiators.

3) **Number of Competitors:** Ability to exert pricing discipline diminishes with increased number of rivals

4) **Exit Barriers:** Rivalry declines if some competitors leave industry. Profitability is higher in industries with few exit barriers. Assets of a firm considering exit may be highly specialized & of little value to others→ thus find no buyer for its assets. This discourages exit.

3) **Product Differentiation**: Firms sometimes insulate themselves from price wars by differentiating their products. Profitability is lower in industries involving undifferentiated products.

4) **Slow Growth**: As industry growth slows, rivals fight harder to grow or keep existing market share → leading to reducing profitability for all.

V. Threat of Substitutes

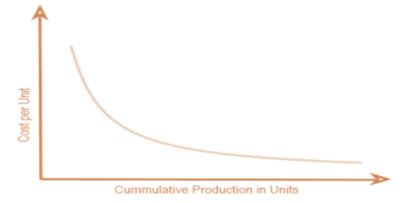
- Substitute products are a latent source of competition.
- Substitute products offering a price advantage or performance improvement can drastically increase competition.
- For eg– coir suffered at the hands of synthetic fibre.
- Wherever substantial investment in R&D is taking place, threats from substitute products can be expected.
- Substitutes, usually limit the prices & profits.
- To predict profit pressure from this source, firms must search for products that perform the same function as their existing products.
- For eg– Real estate, insurance, bonds & bank deposits are substitutes for common stocks→ alternate ways to invest funds.

Attractiveness of Industry

- If an industry's overall profit prospects are above average, the industry can be considered attractive & vice-versa.
- However, attractiveness is relative, not absolute.
  - ✓ Industry is unattractive to weak competitors, &
  - ✓ may be attractive to strong competitors.

Experience Curve (EC)

- Experience curve is similar to learning curve which explains the efficiency gained by workers through repetitive productive work.
- EC is based on phenomenon that unit costs decline as firm accumulates experience in terms of 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.



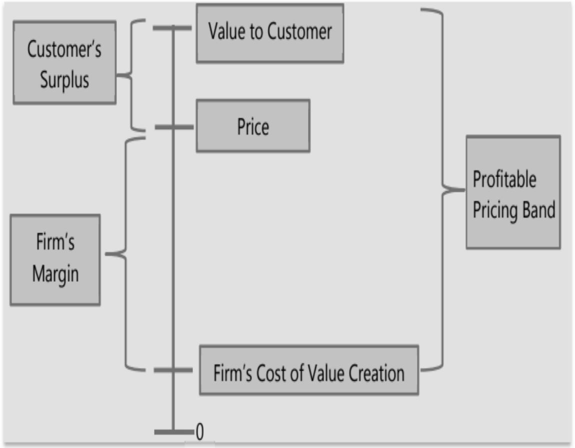
- Experience curve has following **features**:
  - ✓ As business organisation grow, they gain experience.
  - ✓ Experience provides advantage over competition.
  - ✓ Experience is a key barrier to entry.
  - ✓ Large & successful org. possess stronger "experience effect".

Value Creation

- Value creation is an activity or performance by which a firm tries to create value that increases the worth of goods & services
- Value is measured by a product's features, quality, availability, durability, performance & services for which customers are willing to pay.

- Many businesses focus on value creation both in the context of-
1) creating better value for customers, &
2) for stakeholders→ want their investment to appreciate in value.

- Thus, value consumer wants to pay, over & above price that business wants to charge. This excess amount is value creation.



Business Orientation

- The orientation of product marketing has evolved and acquired different dimensions Businesses that have-
1) **Product orientation** → buyers will choose those products that have the best quality, performance, design, or features.
2) **Production oriented** businesses → believe that customers choose low price products.
3) **Sales-oriented** businesses → believe that if they spend enough money on advertisement, sales and promotion, customers can be persuaded to make a purchase.
4) In a **customer** or **market-oriented** approach strategists prioritise efforts on their customers. A customer-centric business is one that continuously learn from its customers' needs and market dynamics.

Customer

- **Customers** are the people who actually pay money to buy products. Customers may or may not be a consumer.
- **Consumer** is the one who ultimately consumes or uses the product. Eg- A father buys a chocolate (as a customer) for his daughter who will be a consumer.

❖ Consumer behaviour may be influenced by a number of things. These elements are in following **three conceptual domains**:

1) <u>External Influences</u>: Like advertisement, peer recommendations have direct impact on psychological & internal processes. These aspects are divided into two groups –
   ✓ the company's marketing efforts and
   ✓ the numerous environmental elements.
2) <u>Internal Influences</u>: Psychological factors internal to customer.
3) <u>Decision Making</u>: A rational consumer takes in the following way.
   ✓ 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

- The above mostly applies during significant purchases → like when product has a significant influence on their health or self-image. Eg car, television or refrigerator in contrast to purchase of ice creams or soft drinks.

CHAPTER 2 - STRATEGIC ANALYSIS: EXTERNAL ENVRIONMENT

Post-decision Processes

- After making a decision & purchasing a product→ final phase in decision-making process is evaluating the outcome.
- The consumer's reaction may vary depending upon the satisfaction.
- A happy customer may make repeat purchase & recommend to others, while
- A customer with dissonance will neither purchase product again nor recommend to others

Competitive Landscape

- Competitive landscape is about-
  - ✓ identifying & understanding the competitors and
  - ✓ it involves understanding of their vision, mission, values, strengths & weaknesses.
- Understanding of competitive landscape requires an application of "competitive intelligence"

Steps to understand the competitive landscape

1) Identify the competitor
& have actual data about their respective market share.

2) 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

3) Determine the strengths of the competitors
What is the strength 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?

4) Determine the weaknesses of the competitors
Weaknesses (and strengths) can be identified by going through consumer reports and reviews appearing in various media.
Consumers are often willing to give their opinions, when the products are either great or very poor.

5) Put all of the information together
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 areas which need to be strengthen.

Key Success Factors (KSFs)

- **An industry's KSFs → things** that most affect industry members' ability to prosper in the market-place.
- KSFs include, cost structure, technology, distribution system etc.
- KSFs help to shape whether co. will be financially & competitively successful.

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

1) On what basis do customers choose between competing brands? What attributes are crucial?
2) What resources & competitive capabilities does a seller need to have?
3) What does it take yo achieve a sustainable competitive advantage?

- KSF vary from industry to industry and even from time to time

Clear CA Foundation & then study Paper 6 – FM & SM of CA Inter
on online mode (live/recorded) from MVSIR on "Ultimate CA" platform.

CA Inter New Syllabus

SM Brahmastra

Chapter 3

Strategic Analysis- Internal Environment

CA Mohnish Vora (MVSIR)

Internal environment

- It refers to the sum total of-

1) people
2) processes
3) physical infrastructure
4) administrative apparatus
5) organizational culture

- It is specific to each organization & is based on its structure & business model

Notes

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Understanding Key Stakeholders

- All those individuals/entities who have
  - ✓ a stake (interest) in org.'s success and/or
  - ✓ have power to influence strategy or performance of organization

are stakeholders

- It is important to identify the key stakeholders.

Mendelow's Matrix (aka. Stakeholder Analysis matrix or Power-Interest matrix)

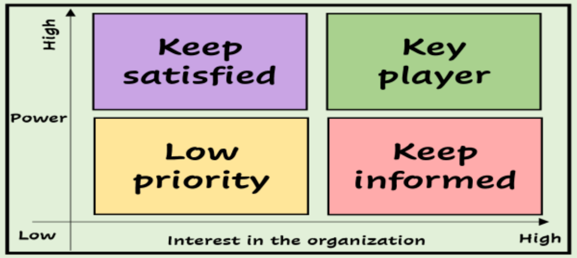
Aka. **Stakeholder Analysis matrix** or **Power-Interest matrix**→ framework to help manage key stakeholders.

Steps to make Mendelow's Matrix

1. **Identify Stakeholders:** Begin by identifying all relevant stakeholders. Eg- individuals or groups that may be impacted by or have an impact on your activities.

2. **Assess Power and Interest:** For each stakeholder-
   - ✓ Power can be assessed on- authority, resources, & expertise
   - ✓ Interest can be assessed on- level of involvement, expectations & potential benefits/risks

3. **Plot Stakeholders on the Grid:** Create a grid with
   4. Interest on X axis & Power on Y axis
   Plot each stakeholder on grid based on your assessment.



4. **Develop Strategies for each Quadrant:** Based on the placement of stakeholders in the grid, develop strategies for each quadrant:
   - Key Players: Fully engage with them, seek their input, and keep them informed.
   - Keep Satisfied: Provide them regular updates & address their concerns to prevent them from becoming detractors.
   - Keep Informed: Keep them informed to ensure they remain supportive & to leverage their insights and feedback.
   - Low Priority: Monitor them for any changes but allocate minimal resources to managing their expectations.

5. **Monitor and Adapt:** Continuously monitor power & interest of stakeholders and adjust strategies accordingly. Stakeholders may move between quadrants based on changing circumstances, so it's important to remain flexible and responsive

Strategic Drivers

- In assessing current performance of business, **strategic drivers** consider what differentiates an organisation from its competitors.

- In general, the **key strategic drivers** of an organisation include:

I. **Industry and markets**
II. **Products/services** MT: IPCC
III. **Customers**
IV. **Channels**

I) Industry and Markets

- Group of companies in similar type of business are grouped together into **industries**.
- A **market** is defined as the sum total of all the buyers and sellers in the area or region under consideration.
  - Value, cost and price → determined using supply & demand in a market.
  - It may be physical or virtual.
  - It may be local or global.

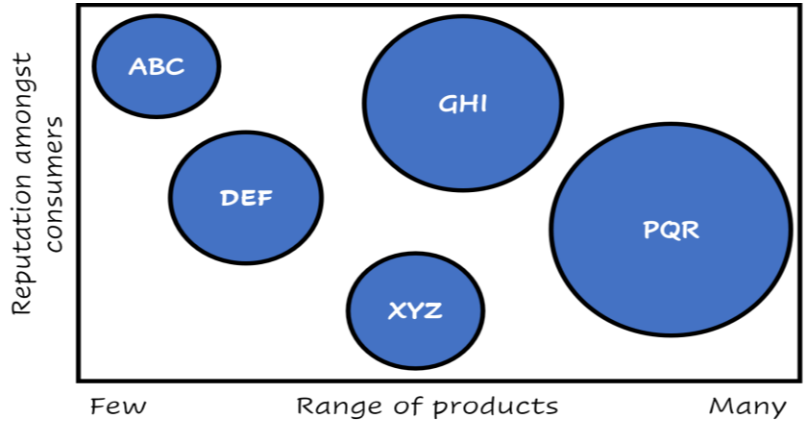
❖ **Is market the same for all businesses?**
- No, each business has its own set of customers i.e. market & each product within a business has its own market.

Strategic Group Mapping

- A **strategic group** consists of those rival firms which have similar competitive approaches and positions in the market.
- A tool to study the market positions of rival companies by grouping them into like positions is **strategic group mapping**.

Procedure for constructing a **SGM** -

1) Identify competitive characteristics that differentiate firms in industry. Variables are -
   ✓ price/quality range (high, medium, low);
   ✓ geographic coverage (local, region, national, global)
   ✓ degree of vertical integration (none, partial, full);
   ✓ product-line breadth (wide, narrow) etc.
2) Plot the firms on a two-variable map using pairs of these differentiating characteristics.
3) Assign firms that fall in same strategy, space to the same strategic group.
4) Draw circles around each strategic group, making circles proportional to size of group's respective share of total industry sales revenues.



Explanation of Diagram (Strategic Group Mapping)

II) **Product/Services**

For a **new product**, pricing strategies for entering a market need to be designed & at least **three objectives** must be kept in mind:

- ✓ Have customer-centric approach while making a product.
- ✓ Produce sufficient returns through a reasonable margin over cost.
- ✓ Increasing market share.

Marketing is considered to be the activities related to identifying the needs of customers and taking such actions to satisfy them in return of some consideration. The term marketing constitutes different processes, functions, exchanges and activities that create perceived value by satisfying needs of individuals.

Marketing Strategies		Meaning	Example
1	Social Marketing	Design, implementation, & control of programs → increase acceptability of social idea or practice among a target group to bring in a social change.	Campaign for prohibition of smoking in Delhi.
2	Augmented Marketing	Additional customer services & benefits→ besides core product. Such innovative offerings → elevate customer service	Hi-tech services like movies on demand, online computer repair services etc.
3	Direct Marketing	Marketing through various media to interact directly with consumers, → calling for direct response.	Catalogue selling, e-mail, telecomputing, electronic marketing, TV shopping etc.
4	Relationship Marketing	Creating, maintaining, & enhancing strong, value-laden relationships with customers & other stakeholders. Providing special benefits to select customers to strengthen bonds & build relationships.	Airlines offer special lounges at major airports for frequent flyers
5	Services Marketing	Applying concepts of marketing to services. Services → peculiar characteristics like intangible, inseparability, variability	Hotel- offering free nights to first time guests.
6	Person Marketing	It consists of activities → create, maintain or change attitudes and behaviour towards particular person.	politicians, sports stars, film stars, etc. i.e., market to get votes, or promote careers.

Marketing Strategies		Meaning	Example
7	Organisation Marketing	It consists of activities → create, maintain or change attitudes and behaviour towards an organization.	Patanjali- chemical free, swadeshi brand Fevicol- The Ultimate Bond
8	Place Marketing	It consists of activities → create, maintain or change attitudes and behaviour towards particular places say, marketing of business sites, tourism marketing.	Rajasthan- Padharo Maare Des Gujarat Tourism- Amitabh Bacchan Ads
9	Enlightened Marketing	It is a marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system that is beyond the prevailing mindset	Its five principles include- 1) value marketing, 2) innovative mkting, 3) customer-oriented marketing, 4) sense-of-mission marketing, 5) societal marketing.
10	Differential Marketing	It is a market-coverage strategy in which a firm decides to target several market segments & designs separate offer for each.	HUL has Lifebuoy & Lux in popular segment and Dove & Pears in premium segment
11	Synchro-marketing	When the demand for a product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or overworked capacities, synchro-marketing can be used to find ways to alter the pattern of demand through flexible pricing, promotion, and other incentives.	Movie tickets can be sold at lower price over weekdays to generate demand Happy Hours- McDonald
12	Concentrated Marketing	It is a market-coverage strategy in which a firm goes after a large share of one or few sub-markets. It can also take the form of Niche marketing.	Tesla, Rolls Royce
13	Demarketing (Reverse Marketing)	Marketing strategies to reduce demand temporarily or permanently. The aim is not to destroy demand, but only to reduce or shift it. This happens when there is overfull demand.	Buses are overloaded in the morning and evening, roads are busy for most of times, Zoological parks are over-crowded on Saturdays, Sundays and holidays. Here demarketing → applied to regulate demand.

III. Customers

- Different customers may have different needs and require different sales models or distribution channels.
- As customers are often responsible for generation of profits obtained by an organisation, it is important to be able to collect and display data in order to show customer trends & profitability.
- **Customer** is the one who buys a product/service (imp from pricing perspective)
- **Consumer** is the one who finally uses/consumes it. (imp from value creation & design/usability)

IV. Channels

- Channels are distribution system by which an org. distributes its products/services.
- The wider and stronger the channel the better position a business has to fight and win over competition. There are typically **three channels**

1) The sales channel
- ✓ The intermediaries involved in selling product through each channel & ultimately to the end user.

2) The product channel
- ✓ It focuses on the series of intermediaries who physically handle the product on its path from its producer to the end user.

3) The service channel
- ✓ It refers to entities that provide necessary services to support the product, as it moves through the sales channel and after purchase by the end user.
- ✓ Important for complex products → installation or customer assistance.

Role of Resources & Capabilities: Building Core Competency

Core competence
- ✓ unique strength of org. which may not be shared by others.
- ✓ They are capabilities → critical for achieving comp. adv.
- ✓ The competency should differentiate business from other similar businesses.

- As per, **C.K. Prahalad** & **Gary Hamel**,
- ✓ Core competency → collective learning in org→ coordinating diverse production skills & integrating multiple streams of technologies.
- **Competency**→ combination of skills & techniques
- Core competencies cannot be built on one capability → it has to be integration of many resources→ sum of 5- 15 areas of expertise.

As per Prahalad & Hamel, major core competencies are in 3 areas

1) Competitor differentiation   MT: CCM
- A co. has core competence if competence is unique and it is difficult for competitors to imitate.
- It provides co. an edge compared to competitors.
- Co. has to keep on improving these skills in order to sustain
- Although all cos. may have equal skills→ but if one co. can perform this significantly better→ co. has core competence.
- **For eg**, difficult to imitate patented innovation→ Tesla electric vehicles.

2) Customer Value

- When purchasing a product → has to deliver a fundamental benefit to end customer.
- It includes all skills needed to provide fundamental benefits. The product has to have real impact on customer as reason to choose to purchase them.
- Consumer should value the differentiation offered.

3) Application of Competencies to other markets

- Core competence must be applicable to whole org.; it cannot be only one particular skill or specified area of expertise.
- Hence, a core competence is a unique set of skills & expertise, which will be used throughout org. to open up potential markets to be exploited.

Other Imp Points - Core Competency

A core competency is **whatever a firm does best**

- ✓ For eg: WalMart focuses on lowering its operating costs. Thus able to price goods lower than most competitors. Core competency here is co.'s ability to generate large sales volume

Criteria for building a Core Competencies (CC)? MT: VRCN

4 specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies.

1	**Valuable**	Valuable capabilities → allow firms to exploit opportunities or avert threats. A firm creates value by effectively using capabilities to exploit opportunities. Finance companies → placing the right people in the right jobs.
2	**Rare**	Core competencies→ rare capabilities → few of competitors possess this. Comp. adv.→ only when firms develop capabilities that differ from others.
3	**Costly to Imitate**	Such capabilities that other firms → unable to develop easily. For eg, Intel has first-mover advantage → rare fast R&D cycle time.
4	**Non substitutable**	Capabilities that do not have strategic equivalents are called non-substitutable capabilities. The strategic value of capabilities increases as they become more difficult to substitute. Eg- Tata's low-cost strategy → most were unable to duplicate.

Sustainability of Competitive Advantage

- Competitive advantage is the position of a firm to maintain & sustain a **favorable market position** when compared to competitors.
- Comp. adv.→ if profitability is **higher than average profitability** in industry.
- Sustainability of competitive advantage & firm's ability to earn profits from its competitive adv. depends upon **4 characteristics of resources & capabilities:** MT: DATI

1	**Durability**	➤ The period over which a competitive advantage is sustained depends on the rate at which a firm's resources and capabilities deteriorate. ➤ If rate of product innovation is fast→ product patents become obsolete. ➤ Capabilities depending on expertise of CEO→ vulnerable to his departure.

CHAPTER 3 – STRATEGIC ANALYSIS: INTERNAL ENVRIONMENT

2	Appropriability	➢ Ability of firm's owners to appropriate returns on its resource base. ➢ This means, that rewards are directed to – from where funds were invested.
3	Transferability	➢ Ability of rival to gain access to necessary res & capabl (R&C) ➢ The easier it is to transfer R & C between cos→ the less sustainable will be competitive advantage.
4	Imitability	➢ If R&C cannot be purchased → then must built from scratch. ➢ How easily & quickly can competitors build R&C? ➢ This is the true test of imitability. ➢ For eg, in financial services, innovations lack legal protection and are easily copied.

SWOT ANALYSIS	Helpful to achieving the objective	Harmful to achieving the objective
Internal origin (attributes to Organisation)	Strength→ inherent capability → use to gain strategic advantage.	Weakness→ inherent limitation → creates strategic disadvantage to it.
External origin (attributes to Enviroment)	Opportunity→ favourable condition in external env. → strengthen its position	Threat→ unfavourable condition in external env→ causes risk or damage to org.'s position

SWOT analysis

➢ **Benefit**- identifies complex issues & uses a simple framework.
➢ **Criticism**- Does not provide for evaluation of SWOT

➢ **Purpose**→ enable mgt. to create firm-specific business model that will best align with org. R&C to demands of environment.

➢ **Key reasons for SWOT analyses are:** MT: LIC
1) It provides a logical framework.
2) It guides the strategist in strategy identification.
3) It presents a comparative account.

Michael Porter's Generic Strategies (Business Level Strategies)

1) **Cost Leadership**- standardized products at low cost for price-sensitive consumers.
2) **Differentiation**- unique products for price-insensitive consumers.
3) **Focus**- Products that fulfil needs of small groups of consumers with very specific taste.

➢ These are termed **generic**→ can be pursued by any type/size of business & even by NPOs.

✓ **Larger firms** with greater resources → use cost leadership &/or diff.
✓ **Smaller firms** compete on a focus basis.

COMPETITIVE SCOPE			
	Broad Target	Cost Leadership	Differentiation
	Narrow Target	Focussed Cost Leadership	Focussed Differentiation
		Low-Cost products/services	Differentiated products/services
		COMPETITIVE ADVANTAGE	

CHAPTER 3 - STRATEGIC ANALYSIS: INTERNAL ENVRIONMENT

I. COST LEADERSHIP STRATEGY

Striving to be a low-cost producer in an industry can especially be **effective**, when

MT: Large PDF

1) Large number of buyers with significant bargaining power.
2) market has many price-sensitive buyers,
3) buyers do not care much about differences from brand to brand
4) Few ways to achieve product differentiation.

The basic idea → underprice competitors & gain market share driving competitors out of market.

Achieving Cost Leadership Strategy

MT: ROSE FC

1) Resistance to differentiation till it becomes essential.
2) Optimum utilization of resources.
3) Standardization of products for mass production to yield lower cost per unit.
4) Achieving economies of scale→ lower per unit cost of product.
5) Prompt forecasting of demand of a product
6) Invest in cost saving technologies & using advance technology for efficient working.

Risks of pursuing cost leadership

MT: BIT

1) buyer interests may swing to other differentiating features besides price.
2) competitors may imitate strategy→ overall industry profits down;
3) technological break throughs in industry→ make strategy ineffective

Advantages of Cost Leadership

1) **Rivalry**: Competitors avoid price war→ low-cost firm will earn profit even after lower price.
2) **Buyers**: Powerful buyers would not be able to exploit cost leader & will continue to buy.
3) **Suppliers**: Cost leaders are able to absorb greater price increases from suppliers
4) **Entrants**: Cost leaders create barriers to entry through continuous focus on efficiency.
5) **Substitutes**: Low-cost leaders are likely to lower costs to induce existing customers to stay with their products, invest in developing substitutes, and purchase patents.

Disadvantages of Cost Leadership

MT: LEST

1) Cost advantage may not last long when competitors imitate cost reduction techniques.
2) Cost leaders keep costs low by minimizing cost of advertising, market research, R&D → but this can be expensive in long run.
3) Cost leadership can succeed only if → firm achieve higher sales volume.
4) Technological advancement are a great threat to cost leaders.

Notes

CHAPTER 3 – STRATEGIC ANALYSIS: INTERNAL ENVRIONMENT

II. DIFFERENTIATION STRATEGY

- It is aimed at **broad mass market** & involves **creation of a product** that is **perceived** by customers as **unique**.
- It allows firm to **charge higher price** & **gain customer loyalty**→ consumers become **strongly attached**
- **Pursued only after careful study of buyers' needs** to determine **feasibility**

Differentiation **does not guarantee competitive advantage**, if–
- ✓ **standard products** sufficiently **meet customer needs** or
- ✓ if **rapid imitation** by competitors is possible.

Basis of Differentiation

MT: POP

1) Product

Innovative products lead to competitive advantage. But, it can be **costly – R&D, production & marketing costs**

But can have big **payoff**→ if customer's flock to **first to have new product**.

For eg, Apple iPhone→ invested huge money in R&D, & customers' value that.

2) Organisation

- **Maximizing power of a brand** or
- Using **specific advantages**–
  - ✓ **Location adv., name recognition, customer loyalty**

can provide additional ways for differentiation

For eg, Apple→ building customer loyalty & has a fanbase→ "**Apple Fanboys/Fangirls**".

3) Pricing

It **fluctuates** based on **supply** & **demand;** & also influenced by customer's **ideal value** of product. Cos. that differentiate based on price can either–
- ✓ **offer lowest price** or
- ✓ **establish superiority** through higher prices.

For eg, Apple dominates smart phone segment by charging **higher prices** for its products.

Risks associated with pursuing a differentiation strategy

1) Unique product **may not be valued high enough** to **justify high price**.
2) **Competitors** may **copy** differentiating features quickly. Firms must find **durable sources of uniqueness.**

Achieving Differentiation Strategy

MT: EQUIP²

1) Taking steps for **enhancing brand image & value**.
2) Offer **high-quality** product.
3) Offer **utility** to customers & **match products with tastes**.
4) **Improve performance.**
5) **Fixing prices** based on **unique features** & **buying capacity**.
6) **Rapid product innovation** to keep up with dynamic env.

Disadvantages of Differentiation

1) In long term, **uniqueness** is **difficult to sustain**.
2) Charging too high price → customer may **switch**.
3) Differentiation fails to work if its basis is something that is **not valued** by customers.

Advantages of Differentiation

1) **Rivalry** – **Brand loyalty** acts as a **safeguard** against competitors→ customers will be **less sensitive to price increase**.
2) **Buyers** – They **do not negotiate for price** → get **special features** & have **fewer options**.
3) **Supplier**– Differentiators charge a premium price→ **can absorb higher costs of supplies**.
4) **Entrants** – Innovative features are an **expensive** offer. So, **new entrants generally avoid these**
5) **Substitutes**– Substitute products **can't replace differentiated products** which have **high brand value** and enjoy **customer loyalty**.

III. FOCUSSED STRATEGY

Successful focus strategy depends on industry segment that-
- ✓ is of **sufficient size**,
- ✓ has good **growth potential**, and
- ✓ is **not crucial to success** of **other major competitors**.

Focused cost leadership

- Competing based on **price** to **target a narrow market.**
- Here, a firm **does not charge lowest prices**→ Instead, it charges **low prices relative to other firms.**

Focused differentiation

- Compete based on **uniqueness- target narrow market.**
- Some firms focus on **particular sales channel,** like **selling over internet only**. Others may target particular **demographic group**.
- **For eg,** Rolls-Royce→ limited high-end, custom-built cars.

Risks of pursuing Focus

1) Possibility of **competitors recognizing** successful focus strategy & **imitating it**,
2) Consumer **preferences may drift** towards attributes **desired by market** as a whole.

Achieving Focused Strategy

MT: NEWS

1) **Selecting specific niches** which are not covered by cost leaders and differentiators.
2) **Generating high efficiencies** for serving such niche markets.
3) **Developing innovative ways** in managing the **value chain.**
4) **Creating superior skills** for catering such niche markets.

Advantages of Focused Strategy

1) **Premium prices** can be charged
2) Due to tremendous expertise → **rivals** & new **entrants** may find it **difficult to compete.**

Disadvantages of Focused Strategy

MT: 3D

1) Firms **lacking distinctive competencies** may **not** be able to pursue this.
2) Due to **limited demand** of product, **costs are high**→ can cause problems.
3) In **long run**→ **niche could disappear** or be **taken over** by larger competitors

Best-Cost Provider (BCP) Strategy (further development of above 3 generic strategies)

- BCP involves providing customers **more value for money** by emphasizing on
  - ✓ **lower cost** &
  - ✓ **better-quality differences.**
- BCP strategy can be done through 2 **sub-strategies-**

1) offering products at **lower price** than rivals having products with **comparable quality** and features (**low price → same quality**) or
2) charging **similar price** as by the rivals for products with **much higher quality** and better features (**same price → high quality**)

For eg, android flagship phones from **OnePlus, Xiaomi, Oppo, Vivo**, etc, are all rooting for giving **better quality at lowest prices** to the customers.

They are following BCP strategy to penetrate market.

CA Inter New Syllabus

SM Brahmastra

Chapter 4

Strategic Choices

CA Mohnish Vora (MVSIR)

CHAPTER 4 – STRATEGIC CHOICES

Stability Strategy (Corporate Level Strategy)

- Strategy where a firm **stays with–**
  - its **current businesses** & product markets;
  - **maintains existing level** of effort; &
  - satisfied with **incremental growth**.

Stabilization may be opted to

MT: Consolidate ROPES

1) to **consolidate** commanding position already reached,
2) to **optimise returns** on resources committed in business.
3) to **pursue** well established & tested **objectives**,
4) to **continue** in the chosen business **path**,
5) to maintain **operational efficiency** on a sustained basis,
6) **safeguard** its existing **interests & strengths**

Whether stability is a 'do nothing' strategy ?

- This strategy is for firms whose product reached **maturity stage** or those who **have a sufficient market share** & need to retain it.
- Have to **remain updated** & have to **pace with dynamic & volatile business world** to preserve their market share.

Hence→ stability is **not** a 'do nothing' strategy.

Major Reasons for Stability Strategy

MT: Rapid MSN

1) **After rapid expansion**, a firm might want to **stabilize** & **consolidate itself**.
2) **Product** has **reached maturity** stage, staff feels **comfortable with status quo**
3) Firm's **environment** is relatively **stable**.
4) Where it is **not advisable to expand** as it may be perceived as **threatening (risky)**.

Characteristics of Stability Strategy

MT: R^2EC SMS

1) It does **not** involve a **redefinition** of business
2) The **risk** involved is **less**.
3) Endeavour is to **enhance functional efficiencies** in **incremental way**, through **better utilization of resources**.
4) Firms **concentrate on its resources** & existing bness→ leading to **building of core competencies**.
5) Firm stays with **same business**, **same product** & maintaining **same level of effort**
6) Firms with **modest growth objective** choose this strategy.
7) It is a **safe strategy** that **maintains status quo**. It does **not** require **fresh investments**.

Why don't Startups aim for stability?

Startup→ **early stages of ideation & development**. For it, important factors are **speed & agility**→ being in **nascent stage**.

Whereas, **Stability** strategy applied when **size** of operations is **expanded to full capacity** & business is at a **mature stage**.

Notes

Growth/Expansion Strategy (Corporate Level Strategy)

Characteristics of Growth Strategy

MT: VIGOuR²

1) Highly versatile strategy→ offers many combinations for growth.
2) Process of renewal of firm through fresh investments and new businesses.
3) A firm with mammoth growth ambition can meet its objective only through expansion.
4) It is opposite of stability strategy → in expansion rewards are very high since risk is high.
5) It involves a redefinition of business.
6) Further divided in two major strategy routes: Intensification & Diversification.

Major Reasons for Growth Strategy

MT: CAPS

1) Expansion may lead to greater control over the market.
2) Advantages from experience curve & scale of operations may accrue.
3) It may become imperative when environment demands increase in pace of activity.
4) Strategists may feel more satisfied→ chief executives may take pride.

Types of Growth/ Expansion Strategy

- A. Internal growth strategies
  - Expansion through Intensification
    - Market Penetration
    - Product Development
    - Market Development
  - Expansion through Diversification
    - Concentric Diversification
      - Vertically Integrated Diversification
      - Horizontal Integrated Diversification
    - Conglomerate Diversification
    - Innovation
- B. External growth strategies
  - Expansion through Mergers & Acquisitions
    - Horizontal Merger
    - Vertical Merger
    - Co-generic Merger
    - Conglomer-ate Merger
  - Expansion through Strategic Alliance
    - Advantages of Strategic Alliance
      - Organizational
      - Strategic
      - Economic
      - Political
    - Disadvantages of Strategic Alliance

- **Diversification** → entry into new products or markets, involving different skills, technology & knowledge.

- **Why diversification?**

1) Means of utilising existing facility & capability in more effective & efficient manner → utlise **excess capacity**, funds, marketing channels, R&D
2) It gives synergistic advantage → improve sales of existing products by adding related or new products.

Summary of concepts

Related Diversification

Vertical Integration

When firms start businesses that are related to existing business of firm, while remaining vertically within the same product-process chain → moves forward or backward in chain-

Forward Integration

- Moving forward in value chain & entering business lines that use existing products.
- May also involve entering → business of distribution channels.
- But, risk of lack of continued focus on original business.

- For eg, A coffee bean manufacture starts its own coffee cafe.

Backward Integration

- When a firm enters into business of input providers.
- It leads to -
  - ✓ expanding profits and
  - ✓ greater control over production/supply,
  - ✓ Incr. own supply capability
  - ✓ lessen its cost of production.

- For eg, A supermarket chain → purchase farms that provide fresh produce.

Horizontal Integration

A firm gets horizontally diversified by integrating through ~~acquisition of one or more~~ **entering into** similar businesses operating at same stage of production-marketing chain.

They can also ~~integrate with firms~~ start producing complementary product or by-product.

Concentric Diversification

- It takes place when products are **related**.
- New business that a firm diversifies into is linked to existing businesses through process, technology or marketing (PTM).
- New product is a spin-off from existing facilities & products.
- Here there are benefits of synergy
- New product is connected in a loop-like manner at one or more points in the firm's existing PTM.

Unrelated Diversification

Conglomerate Diversification

- Established firm launches new product → with little or no affinity (relation) with its present product line & is for new class of customers.
- No linkages in PTM
- New businesses are disjointed.
- No common thread.

Is it really worth expanding in unrelated products?

MT: Easy FAN

1) It eases management of losses → profits in one can be used to keep loss making business afloat.
2) Despite its complexity → it financially makes lot of sense.
3) It allows access to markets & cross-selling → increases revenue.
4) It creates access to new pool of customers → expanding customer base.

Summary of Questions Asked by ICAI

Related Diversification

Vertical Integration

Forward Integration

1) Siddhartha is the owner of a cloth manufacturing → desires to start another unit to produce readymade garments (Q 45)
2) Acquisition of another organisation that was using your product in their manufacturing (RTP Nov 19 – MCQ)
3) A tea farm owners plan to open tea cafes in tourist spots and to sell their own premium tea to build a brand (RTP May 22 – MCQ)
4) Stylish Fabric Ltd., a clothes manufacturer is buying up a chain of retail outlets to differentiate its clothes from those of its competitors through branding.

Backward Integration

1) If suppliers are unreliable or too costly, then this strategy is applied. (RTP May 21, MTP Oct 19 – MCQ)
2) An organization acquires its supplier (RTP May 19 – MCQ)
3) Beta Company, a car manufacturer is buying up a supplier so that it gets a dedicated supplier with both guaranteed quality and price. (MTP Mar 21 –MCQ)
4) Organo is a large supermarket chain. It purchases a number of farms that provides fresh produce (RTP May 20)

Horizontal Integration

1) Horizontal integration is concerned with "Production" – (MCQ)
2) Strategy of seeking ownership of taking over competitor's product
3) A company that produces and sells athletic shoes may acquire or merge with another athletic shoe manufacturer in order to increase their market share and reduce competition (MTP Apr 23 – MCQ)

Concentric Diversification

1) Hupo a honey brand decided to start a new brand for making honey ginger candies to meet the rising demand. (RTP Nov 22 – MCQ)
2) A rubber manufacturer starts making shoe soles and gum (MTP Oct 21)
3) Leatherite Ltd., a manufacturer of leather footwear. To expand they decided to manufacture leather bags for males and females (MTP Aug 18, Nov 24, RTP Nov 18, Nov 21)
4) FlyBee is a notebook and diary brand → to take up competition with Gecko in pens segment and thereby launched, Fly Pens (MTP Mar 22)

Unrelated Diversification

Conglomerate Diversification

1) Gautam is the owner of a cloth manufacturing → later acquires another industrial unit manufacturing stationery items
2) Jynklo Ltd. is an online gaming company → they start a premium sports drink named JynX for athletes (MTP Sep 22, RTP Nov 23)

Co-generic Merger

TechNova, a leading software development firm known for its cutting-edge operating systems, is developing a groundbreaking new platform. ElectroWave, an emerging player in the electronics and hardware industry, specializes in manufacturing advanced devices. TechNova and ElectroWave have decided to join forces to design innovative laptops and smartphones, aiming to tap into new markets and broaden their business horizons. (MTP Aug 24)

CHAPTER 4 - STRATEGIC CHOICES

RELATED DIVERSIFICATION	UNRELATED DIVERSIFICATION
➢ Exchange or share assets or competencies by exploiting. ➢ Brand name. ➢ Marketing skills. ➢ Sales & distribution capacity ➢ Manufacturing skills. ➢ R&D and new product capability. ➢ Economies of scale.	➢ Investment in new product portfolios. ➢ Employ new technology ➢ Focus on multiple products. ➢ Reduce risk by operating in multiple product markets. ➢ Defend against takeover bids. ➢ Provide executive interest.

Notes

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Innovation

➢ Innovation drives upgradation of existing product lines or processes→ increased market share, revenues, profitability & customer satisfaction.

➢ For business to grow long term, **innovation offers the following benefits-**

MT: CPC

1) **Helps to solve complex problems**
✓ By developing customer centric sustainable solutions.

2) **Increases productivity**
✓ By automating repetitive tasks, & simplifying the long chain of processes.

3) **Gives Competitive Advantage**
✓ The faster a business innovates, the farther it goes from its competitor's reach.
✓ Innovative products need less marketing & helps retain existing customers & acquire new ones

External growth strategies

When organization diversifies by making alliances with external org.

MERGER	ACQUISITION
➢ When two or more companies come together to expand their business operations. ➢ Deal gets finalized on friendly terms & both org. share profits in the newly created entity. ➢ Here, two organizations combine to increase their strength & financial gains along with breaking trade barriers.	➢ When one org. takes over the other org. & controls all its business operations. ➢ Here, one financially strong org. overpowers weaker one. ➢ Combined operations then run under name of powerful entity. ➢ Acquisitions often happen during recession or declining profit margins. ➢ Here, deal is done in an unfriendly manner→ kind of a forced association where powerful organization acquires operations of co. in a weaker position & is forced to sell its entity.

Types of Merger

Horizontal Merger

- Combination of firms in same industry.
- Merger with direct competitor. (Eg Lipton India & Brook Bond)
- Objective here is to achieve economies of scale in production by–
  - ✓ shedding duplication of functions,
  - ✓ widening line of products,
  - ✓ decrease in working capital and fixed assets investment,
  - ✓ getting rid of competition
- For eg, formation of Brook Bond Lipton India Ltd. through the.

Vertical Merger

- Merger of cos. operating in same industry but at different stages of production or distribution system. (leading to increased synergies)
- If an org. takes over its supplier/producers of RM→ backward intg.
- If an org. takes over its buyer organizations or distribution channels→ forward integration
- Vertical mergers help to create an advantageous position by–
  - ✓ restricting supply of inputs to other players, or
  - ✓ by providing inputs at higher cost.

Conglomerate Merger

- Combination of org. that are unrelated to each other.
- There are no linkages with respect to customer groups, customer functions and technologies being used.
- There are no important common factors.

Co-generic Merger

- When 2 or more org. are associated in some way or related to– (PTM)
  - ✓ production processes, business markets, or basic required technologies.
- Such merger includes–
  - ✓ extension of product line, or
  - ✓ acquiring components required in daily operations.
- For eg, org. in white goods category like refrigerators can merge with another org. in kitchen appliances.

Expansion through Strategic Alliance

- **Strategic alliance→** relationship between 2 or more org that enables each to achieve certain strategic objectives which neither would be able to achieve on its own. (formed between cos. based in different regions)
- The strategic partners maintain their status as independent and separate entities, share the benefits & control & contribute to alliance until it is terminated.

Advantages of Strategic Alliance

Political	Organizational	Strategic	Economic
Formed with a local foreign business to gain entry into a foreign market either because of local prejudices or legal barriers to entry.	It helps to learn necessary skills & obtain certain capabilities from strategic partners. Well-known & respected partner-add legitimacy & credibility.	Rivals can join together to cooperate instead of competing with each other.	Reduction in costs & risks. Greater economies of scale → take advantage of co-specialization.

CHAPTER 4 - STRATEGIC CHOICES

Disadvantages of Strategic Alliance (SA)

- **Sharing**- SA require sharing of resources, profits, knowledge & skills that otherwise org. may not like to share.
- Sharing → problematic→ if involve trade secrets.
- Agreements can be executed to protect trade secrets, but they are only as good as willingness of parties to abide by it.

Strategic Exits

Strategic Exits are followed when an organization substantially reduces scope of its activity. This is done by-

- ✓ finding the problem areas &
- ✓ diagnosing causes of problems.
- ✓ Next, steps are taken to solve the problems.

- These steps lead to various **retrenchment strategies**-

1) **Turnaround strategy**- Focus on ways & means to reverse process of decline.
2) **Divestment (or Divestiture) strategy**- If it cuts off loss-making units, curtails its product line, or reduces functions.
3) If none of above actions work→ then abandon activities totally, resulting in a **liquidation strategy**.

Turnaround Strategy

Need for Turnaround strategy (Reasons to adopt turnaround)

- Needed when co.'s performance deteriorates→ needs radical change of direction in strategy, structure & culture.
- Effort to return an organization to profitability & incr. positive cash flows.
- Used when both threats & weaknesses adversely affect health of co.→ so much that its basic survival is difficult.

- **Overall goal** → return an underperforming co. to normalcy.

MT: R^2OAR

- **To achieve its objectives, turnaround strategy must-**
  - ✓ **r**everse causes of distress,
  - ✓ **r**esolve the financial crisis,
  - ✓ **o**vercome internal constraints and unfavourable industry characteristics.
  - ✓ **a**chieve a rapid improvement in financial performance,
  - ✓ **r**egain stakeholder support.

Indicators which point out that a turnaround is needed (danger signals requiring turnaround):

MT: MUD^2TOP

- ✓ **M**ismanagement
- ✓ **U**ncompetitive products or services
- ✓ **D**eclining market share
- ✓ **D**eterioration in physical facilities
- ✓ high **t**urnover of employees- low morale
- ✓ **O**ver-staffing,
- ✓ **P**ersistent negative cash flow

Workable action plan for turnaround

- ❑ **Stage 1 – Assessment of current prob.**: Get to root causes & extent of damage.
- ❑ **Stage 2 – Analyze the situation and develop a strategic plan**: Determine- chances of business's survival, Identify appropriate strategies, & develop a preliminary action plan.
- ❑ **Stage 3 – Implementing an emergency action plan**: If org. is in **critical stage**, develop action plan to stop the bleeding & enable org to survive.
- ❑ **Stage 4 – Restructuring the business**: If core business is irreparably damaged→ then future is bleak. Efforts to position org for rapid improvement.
- ❑ **Stage Five – Returning to normal**: Org. should show signs of profitability, ROI etc. Take strategic efforts carefully adding new products, improving customer service, creating alliances with other organizations, increasing the market share, etc.

CHAPTER 4 - STRATEGIC CHOICES

Important elements of turnaround strategy

MT: Neutralising C4RAQ

1) Neutralising external pressures
2) Change in top management
3) Initial credibility-building actions
4) Quick cost reductions
5) Better internal coordination
6) Revenue generation
7) Asset liquidation for generating cash
8) Identifying quick pay-off activities

Is Turnaround strategy only relevant to loss making business?

When co. is experiencing period of poor performance→ does not always mean losses, it may mean-
- ✓ lower than expected growth,
- ✓ no future clarity, or
- ✓ lesser than target profits.

Major Reasons for Retrenchment Strategy

MT: Persian CAT is NOt Most Viable

1) Persistent negative cash flows→ create financial problems for whole company.
2) Severity of competition & inability to cope with it.
3) A better alternative may be available for investment.
4) Technological upgradation is required for survival, but not possible for firm to invest in it.
5) Mgt. no longer wishes to remain in business due to continuous losses & unviability.
6) Business that had been acquired proves to be a mismatch & cannot be integrated within co.
7) Mgt. feels→ business could be made viable by divesting some of activities.

(Points 1, 2, 3, 4 & 6- Reasons to adopt Divestment)

Turnaround

- Internal Retrenchment
- Transform firm into a leaner structure
- Focus on ways to reverse the process of decline
- Try to- Reduce cost, generate revenue, improve co-ordination, better control etc.
- Danger Signals- MUD²TOP
- Applied when co. experiencing problems due to internal factors

Divestment

- External Retrenchment
- Sale/Liquidation of a portion of business
- It is integral part of strategy without any stigma attached.
- Applied when-
  1) Turnaround attempted but was unsuccessful, or
  2) Turnaround was not possible, or
  3) Losses or business become unviable because of external factors

Liquidation

- Most extreme & unattractive
- Closing down a firm and selling its assets. turnaround or divestment are not seen as solution or have been attempted but failed
- When dead business is worth more than alive
- Last Resort- serious consequences
  - termination of future opp.
  - loss of employment &
  - stigma of failure

Notes

Strategic Options

Strategic Options

- I) Ansoff's Product Market Growth Matrix
- II) ADL Matrix
- III) BCG Growth-Share Matrix
- IV) General Electric Matrix

I) Ansoff's Product Market Growth Matrix

- Given by **Igor Ansoff-** It is a useful tool that helps businesses **decide** their **product & market growth strategy**.
- The product/market growth matrix is a **portfolio-planning tool** for **identifying growth opportunities** for the company

	Existing Products	New Products
Existing Markets	**Market Penetration** ➤ Selling existing products into existing markets. ➤ Making more sales to present customers **without changing products** in any major way. ➤ Require **advertising or personal selling**. on **increasing usage by existing customers**.	**Product Development** ➤ Introduce new products into existing markets. ➤ It requires- ✓ **development of new competencies** & ✓ **develop modified products** which can appeal to existing markets.
New Markets	**Market Development** ➤ Sell its existing products into new markets. ➤ Achieved through- ✓ **new geographical markets**, ✓ new product **packaging**, ✓ new **distribution channels** or ✓ **different pricing** policies	**Diversification** ➤ When a business markets new products in new markets. ➤ Starting up or acquiring cos. **outside co.'s current products & markets** (**little/no experience**) ➤ It is **risky**→ does not rely on co.'s existing product or market.

Strategy	Questions asked by ICAI
Market Penetration	1) A leading producer of toothpaste, advises its customers to brush teeth twice a day to keep breath fresh. 2) Advertisement says, 'Have Romanza with milk and lassi too'
Product Development	1) A women's clothing brand introduced a new clothing line, received positive feedback from initial trials, and grew through strategic partnerships and targeted advertising. 2) A renowned auto manufacturing company launches ungeared scooters in the market.
Market Development	1) Fresh Delight, renowned for its organic fruit juices- launches targeted marketing campaigns and partners with local distributors to introduce its juices to new regions. 2) One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets. It refers to a growth strategy where the business seeks to sell its existing products into new markets 3) Spark Pvt. Ltd., an automobile seat manufacturing company has superior growth compared to competitors due to emphasis on quality of production. To expand the existing business, CEO will be travelling to south-east Asia & Africa for identifying new geographical places and new product dimensions and will try to establish new distribution channels to attract new customers abroad.

II. ADL Matrix (by Arthur D. Little)

Portfolio analysis method based on product life cycle.
2 dimensional matrix based on
✓ stage of industry maturity &
✓ firm's competitive position.

➢ The role of ADL matrix is to assess the competitive position of a firm based on following criteria:

1) **Dominant:** Rare position→ attributable either to a monopoly or strong & protected technological leadership.

2) **Strong:** Firm has considerable degree of freedom over its choice of strategies & is able to act without its market position being unduly threatened by its competitors.

3) **Favorable:** This happens when industry is fragmented & no one competitor stand out clearly, results in the market leaders a reasonable degree of freedom.

4) **Tenable:** Although firms here are able to perform satisfactorily & can justify staying, but they are vulnerable in face of increased competition from stronger and more proactive cos.

5) **Weak:** The performance of firms in this category is unsatisfactory although opportunities for improvement do exist.

Boston Consulting Group (BCG) Growth-Share Matrix

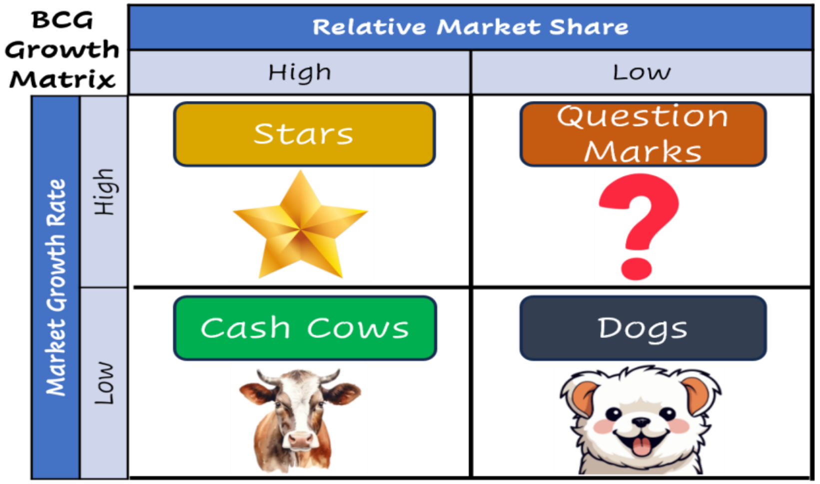
➢ Developed in early 1970s by BCG,
➢ Also known for its **cow & dog metaphors**
➢ Co. classifies businesses on 2-dimensional growth-share matrix.
➢ In the matrix:
   ✓ **Vertical axis** → Market growth rate→ measure of market attractiveness.
   ✓ **Horizontal axis** → Market share → measure of company strength

1) **Stars→** products growing rapidly. Also need heavy investment to maintain their position. Represent best opportunities for expansion.

2) **Cash Cows** are low-growth, high market share products. They generate cash and have low costs. They are established, successful, & need less investment to maintain their market share. In long run when growth rate slows down, stars become cash cows.

3) **Question Marks** (aka. **problem children** or **wildcats**)→ low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash. Question marks **if left unattended** can become cash traps. Since growth rate is high, increasing it should be relatively easier. It is for business org. to turn them into stars & then to cash cows when the growth rate reduces.

4) **Dogs** are low-growth, low-share businesses. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimised by means of divestment or liquidation.



4 Post Identification strategies of BCG

a) **Build** with the aim for long-term growth and strong future. (Stars)
b) **Hold** or preserve the existing market share. (Question Mark)
c) **Harvest** or maximize short-term cash flows. (Cash Cow)
d) **Divest**, **sell/liquidate** and ensure better utilization of resources elsewhere. (Dogs)

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Is BCG Matrix really helpful?

Problems/Limitations of BCG Matrix-

1) Difficult, time-consuming, & costly to implement.

2) Difficult to define SBUs & measure market share & growth.

3) It focuses on classifying current businesses but provide little advice for future planning.

4) It may lead to placing too much emphasis on market-share growth or growth through entry into attractive new markets. This can cause unwise expansion into hot, new, risky ventures or divesting established units too quickly.

III. General Electric Matrix ["Stop-Light" Strategy Model]

- This model was used by **General Electric Company** (developed by GE with assistance of McKinsey and Co.).
- Aka. **Business Planning Matrix**, **GE Nine-Cell Matrix**, **GE Model**.
- Inspired from traffic control lights.
- The lights that are used at crossings to manage traffic are: green for go, amber or yellow for caution, and red for stop.

- This model uses two factors while taking strategic decisions-
  - ✓ Business Strength (Horizontal Axis)
  - ✓ Market Attractiveness (Vertical Axis)

Business strength

Market attractiveness	STRONG	AVERAGE	WEAK
HIGH	Invest/Expand	Invest/Expand	Select/Earn
MEDIUM	Invest/Expand	Select/Earn	Harvest/Divest
LOW	Select/Earn	Harvest/Divest	Harvest/Divest

If a product falls in the-

- **Green zone:** business is at advantageous position. To reap benefits, strategic decision can be to expand, invest & grow.

- **Amber or Yellow zone:** it needs caution and managerial discretion is called for making the strategic choices.

- **Red zone:** it will eventually lead to losses that would make things difficult for organisations. In such cases, appropriate strategy should be retrenchment, divestment or liquidation.

Clear CA Foundation & then study Paper 6 – FM & SM of CA Inter on online mode (live/recorded) from MVSIR on "Ultimate CA" platform.