

## Chapter 3 – Strategic Analysis :Internal Environment

### Overview

- Introduction to Internal Environment
- Understanding Key Stakeholders
  - Who are Stakeholders and how do we identify them?
  - Mendelow's Matrix
- Assessing the Current Performance of the Business – Strategic Drivers
  - Industry and Markets
    - Analyzing Industry and Markets
  - Customers
  - Product/Services
    - Marketing strategies to reach out to customers
  - Channels
- Role of Resources and Capabilities: Building Core Competency
- Combining External and Internal Analysis (SWOT Analysis)
- Competitive Advantage: Using Michael Porter's Generic Strategies
  - Michael Porter's Generic Strategies
    - Cost Leadership
    - Differentiation Strategy
    - Focus
    - Best-Cost Provider Strategy

### Internal Environment – Introduction

- Understanding the internal environment is essential for strategic analysis.
- Internal Environment includes:
  - People – individuals, groups, stakeholders.
  - Processes – input-throughput-output.
  - Physical Infrastructure – space, equipment, work conditions.
  - Administration– authority, power, responsibility, accountability.
  - Organizational Culture – relationships, philosophy, values, ethics.
- It is unique to each organization, shaped by structure and business model.

### Understanding key stakeholders

#### Stakeholders

- **Stakeholders** – individuals/entities with a stake in a firm's success (employees, shareholders, investors, suppliers, customers, regulators).
- *Antivirus – In the word "stakeholder," the term "stake" refers to an interest, claim, or involvement in something, particularly in a business, organization, or project. A stakeholder is someone who has a vested interest or is affected by the outcomes of a particular decision or activity)*
- **Types of Stakeholders** – Internal (management, employees, shareholders) and External (customers, vendors, government, unions, local groups).
- **Stakeholder impact**
  - Can impact strategy and performance
  - impact varies based on Interest and Power
  - Objectives are different of every stakeholder
- **Clash of Objectives** – can harm strategy and outcomes. This needs to be managed

#### Example: OTT Platform Stakeholders & Requirements– ICAI Example

- Shareholders – Innovation, ROI, CSR, market ranking, market share.
- CEO & Board – Prestige, market share, revenue, profit, rankings.
- Vendors – Growth, stable orders, stable margins.
- Consumers – New content, better deals, value for money.
- Employees – Wages, job stability, pride in the organization.

#### Mendelow's matrix

- Also called Stakeholder Analysis Matrix or Power-Interest Matrix
- Simple framework to help manage key stakeholders
- Analysis of stakeholders is **based on Power and Interest**
  - Power – the ability to influence organisation strategy or resources
  - Interest – how interested they are in the success of the organisation.
- Different power and interest
  - Some stakeholders will hold more power than others
  - Some stakeholders will have more interest than others
  - For example

- A big shareholder is likely to have high power and high interest in the organisation
- A big competitor would have high power to impact strategy but potentially less interest in the success of the rival organisation

### Categorisation of Stakeholders into Four Groups by Mendelow

#### KEEP SATISFIED Stakeholders

- High power, less interested people
- Put in enough work with these people to keep them satisfied with their intended information on a regular basis.
- Examples: Banks, Government, Customers, etc. Big competitors.

#### KEY PLAYERS Stakeholders

- High power, highly interested people
- Fully engage this group of stakeholders, making the greatest efforts to satisfy them.
- Take their advice, build actions, and keep them informed with all information on a regular basis.
- Examples: Shareholders, CEO, Board of Directors, etc.

#### LOW PRIORITY Stakeholders

- Low power, less interested people
- Only monitor them with no actions to satisfy their expectations.
- Minimal efforts, keep an eye to check if their levels of interest or power change.
- Examples: Business magazines, Media houses, etc.

#### KEEP INFORMED Stakeholders

- Low power, highly interested people
- Adequately inform this group of people and communicate with them to ensure that no major issues arise.
- This audience can also help with real-time feedback and areas of improvement for an organization.
- Examples: Employees, Vendors, Suppliers, Legal experts, etc.



#### Other Points

- Stakeholders can move between quadrants
- The environment is highly dynamic and can cause stakeholders to suddenly move between quadrants.
- **For example:** Regulatory breaches, like GST non-compliance, shift stakeholder positions.
- Changes in the environment necessitate re-analyzing Mendelow's grid to adapt stakeholder management and communication strategies

#### How to use this matrix

- **Identify Stakeholders**
  - List all individuals, groups, or organizations impacted by or impacting your project.
- **Assess Power and Interest**
  - Evaluate each stakeholder's **power** (authority, resources, expertise) and **interest** (involvement, expectations, risks).
- **Plot Stakeholders on the Grid**
  - Create a **Power vs. Interest** grid.
  - Categorize stakeholders into:
    - **Key Players** (High Power, High Interest)
    - **Keep Satisfied** (High Power, Low Interest)
    - **Keep Informed** (Low Power, High Interest)
    - **Low Priority** (Low Power, Low Interest)
- **Develop Strategies for Each Quadrant**
  - **Key Players:** Engage, seek input, prioritize their needs.
  - **Keep Satisfied:** Provide updates, address concerns to avoid negativity.
  - **Keep Informed:** Share updates to maintain support and gather insights.
  - **Low Priority:** Monitor for changes, allocate minimal resources.

- **Monitor and Adapt**
  - Continuously reassess stakeholder positions and adjust strategies.
- Using **Mendelow's Matrix**, stakeholder management becomes structured and effective, improving project success.

*Question – Managing stakeholders is critical to the success of a project" Explain how Mendelow's Matrix helps in managing stakeholders and categorizing the stakeholders into groups. (SA, Jan 2025, 5 marks)*

*Question-How can Mendelow's Matrix be used to analyze and manage the stakeholders effectively? (MTP1, May 2024, 5 Marks) (RTP, Sep 2024, NA)(Model Test Paper 1, May 2025, 5 marks) (Model test paper 8, May 2025, 5 marks) (MTP1, May 2025, 5 Marks)*

*Question-Chic Threads, a boutique fashion brand renowned for its commitment to sustainability and ethical practices, has recently launched a new line of eco-friendly clothing made from recycled materials. The brand recognizes the growing influence of environmentally conscious consumers who actively shape industry standards through their advocacy and purchasing decisions. These consumers align with Chic Threads' values and have a significant impact on its market position and reputation. How should Chic Threads effectively manage its relationship with environmentally conscious consumers, considering their high power and high interest in shaping the brand's success?-(MTP1, Jan 2025, 5 Marks) (Model test paper 6, May 2025, 5 marks)*

*MCQ – Quntik operates in the software industry and enjoys a strong position in the market. They have identified an opportunity to acquire a smaller company to expand their product offerings. Which quadrant of Medelow's Matrix would the CEO of a smaller company fall into?*

- (a) Keep Satisfied
  - (b) Key Player
  - (c) Low Priority
  - (d) Keep Informed
- (RTP, May 2024, NA)*

### Core competency

- **C.K. Prahalad** and **Gary Hamel** have advocated the concept of core competency
- It involves **coordinating diverse skills & integrating multiple technologies**. (managerially efficient, and technology sound)
- Competency = skills + techniques, not just individual skills.

- Core competency = Collective learning in an organization.

**Antivirus – Amazon's core competency in logistics combining skilled staff, advanced software, and warehouse automation. Toyota's ability to continuously improve manufacturing processes (Kaizen) through team learning.**

Three major core competency areas:

- Competitor differentiation
- Customer value
- Application to other markets

*This section explains the three essential conditions that must be present for a company's capability to qualify as a core competency (3 Conditions of Core Competency To identify whether a capability is a core competency)*

### Competitor differentiation

- Competitor differentiation is a **key core competence condition**.
- This can provide a company with an **edge** compared to competitors.
- The company has to **keep on improving these skills** in order to sustain its competitive position
- **Helps deliver better** products/services without fear of copying.
- Core competence can exist **even** if **others have similar skills**/resources.

### Customer value

- Customer value is the **second core competence** condition.
- A product/service must deliver a **fundamental benefit** to the customer.
- Includes all **skills** needed **to provide** this **benefit**.
- **Real impact** on customers **drives** their purchasing decision.
- If **there's no impact**, it's not a core competence and won't affect market position.
- Key point – Customers must value the differentiation.

### Application to other markets

- Application to other markets is the third core competence condition.
- Must apply to the whole organization, not just one skill or area.

- Helps open new markets and expand opportunities. Technological core competencies are valuable corporate assets that:
- Provide access to various markets
- Should be difficult for competitors to imitate for competitive advantage

### How To Build Core Competencies

4 criteria of sustainable competitive advantage used to determine those capabilities that are core competencies. (These 4 criteria must be present in your core competency only then it will give you a long-term sustainable competitive advantage.)

4 Tests of Sustainable Competitive Advantage – To test if that competency can give sustainable CA – Next Step After Identifying a core competency. Check whether a resource/capability can become a sustainable competitive advantage. Before/while building a sustainable CA. "Can this give us lasting edge?"

#### 1. Valuable

Should create value for customers. Allows to exploit opportunities in its external environment.  
Example: Human capital is important in creating value for customers.

#### 2. Rare

Very rare capabilities. Capabilities possessed by many rivals are unlikely to be sources of competitive advantage. If they are not able to use them and perform better.

#### 3. Costly to Imitate

Competing firms are unable to develop easily.  
Example: – Intel – rare fast R&D cycle time capability – brought microprocessors to market well ahead of the competitor. Product could be imitated, but difficult to imitate the R&D cycle time capability.

#### 4. Non-Substitutable

Capabilities that do not have strategic equivalents.

**Antivirus** – (Explanation: Apple's ecosystem (iPhone, Mac, iCloud, AirPods, Watch, etc.) is deeply integrated and offers a seamless user experience that can't be easily replaced by any single competitor or mix of products.)

**Question**–There are four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are known as core competencies. Explain.–(SA, May 2022, 5 Marks) (RTP, May 2024, NA)(SA, Sep 2024, 5 Marks)

(Model test paper 3, May 2025, 5 marks) (MTP 1, May 2025, 5 marks)

### Combining External and Internal Analysis (SWOT Analysis)

The analysis of a business's strengths, weaknesses, opportunities, and threats.

- Primary Objective
  - Helps organizations develop a full awareness of all the factors (external as well as internal) involved in making a business decision.
- Should Precede
  - Should precede all company actions, including exploring new initiatives.
- Recommendations and Strategies
  - Used to discover recommendations and strategies.
- Assess Current Operations
  - Helps to assess current operations and identify both strengths and areas needing improvement.
- Identifies the Complex Issues
  - Identifies the complex issues for an organization and puts them into a simple framework.
- Critique
  - Lack of evaluation in a competitive context for strengths, weaknesses, opportunities, and threats. (Cannot anticipate the reaction of competitors)

**Question**–EasyLife Corporation, a leading manufacturer of consumer electronics, is considering launching a new line of smart home devices. As a strategic manager, conduct a SWOT analysis for EasyLife Corporation to assess the feasibility and potential success of this new venture. Consider both internal and external factors that could impact the success of the new product line.–(MTP 2, May 2024, 5 Marks)(ICAI Study material) (RTP, Jan 2025, NA) (Model Test Paper 2, May 2025, 5 Marks)

**Question**–GreenGardens, a small but growing organic farm, is assessing its business environment to strategically plan for future growth. The farm boasts high-quality, pesticide-free crops, but faces challenges with its limited distribution channels. As the demand for organic products continues to rise, GreenGardens recognizes the potential to broaden its market reach. However, unpredictable weather conditions and competition from larger farms present significant obstacles. To effectively navigate these challenges and opportunities, GreenGardens needs to conduct a comprehensive evaluation. Identify the type of analysis GreenGardens should conduct to strategically plan for its future growth and outline the grid.–(MTP 1, Sep 2024, 5 Marks) (Model test paper 4, May 2025, 5 marks)

## Competitive advantage

### Meaning

- Competitive advantage means a **company's strategies** lead to **superior performance**.
- Gives a firm an **edge over rivals**.
- How we get CA – You are Performing better / superior or features that are considered Significant by Target Market
- Exists when a firm's **profitability exceeds** the industry average.
- Achieved when a **value creation strategy** is successfully implemented and **hard to imitate**.

*Read the following question before – Sustainability of Competitive Advantage Question–In order to get better performance and sustainable competitive advantages, a company has to focus on the characteristics of its resources and capabilities. In view of this, explain the major characteristics of resources and capabilities. –(SA, May 2025, 5 Marks)*

### Sustainability of Competitive Advantage

The sustainability of competitive advantage depends on four major characteristics of resources and capabilities: (your resources and capability must have these four characteristics so that your competitive advantages sustainable)

1. Durability
2. Transferability
3. Imitability
4. Appropriability

*4 Factors Deciding Sustainability – Will it (CA) last? Can it leak or be stolen? How long CA will last depends on 4 factors. check how long that competitive advantage will last and whether it can be protected or lost. After getting the CA – to see how long it'll last. "Will this edge survive time, copying, or employee loss?"*

#### 1. Durability (More durable the resources and capabilities, more the sustainable competitive advantage)

- Durability refers to how long a firm's resources and capabilities can provide a sustainable competitive advantage before they deteriorate or become obsolete
- If the rate of **product innovation** is fast, product patents are quite likely to become **obsolete**. (e.g., **Pharma patents**)
- Capabilities which are the result of the **management expertise** of the CEO are also **vulnerable** to retirement or departure. (e.g., **Steve Jobs, Apple**).

- Consumer brand names have a highly durable appeal. (e.g., **Coca-Cola, Nike**).

### 2. Transferability

Transferability refers to how easily a firm's valuable resources and capabilities (technology, skilled employees) can be acquired by competitors. The more transferable these resources are, the weaker the firm's competitive advantage becomes over time.

### 3. Imitability

True test of imitability – How easily and quickly can competitors build the resources and capabilities on which a firm's competitive advantage is based?

- In financial services, innovations lack legal protection and are easily copied.
- The complexity of many organizational capabilities can provide a degree of competitive defense.
- Where capabilities require networks of organizational routines, whose effectiveness depends on corporate culture, imitation is difficult.

*Example – Example: Apple's design and innovation culture is not just about hiring great designers; it is about the deeply embedded collaboration and creative mindset across the company.*

### 4. Appropriability

**Appropriability** refers to a firm's ability to **capture and retain** the financial benefits from its valuable resources and capabilities (a.k.a Competitive advantage)

It's not just about having valuable resources (Competitive advantage), but also about the firm's ability to benefit financially from them.

Examples

- A company's patented groundbreaking technology ensures high appropriability, barring competitors' access.
- A firm relying on skilled workforce for competitive edge has lower appropriability; expertise loss risks if employees leave.

## Michael Porter's Generic Strategies

### Introduction

- Porter's Generic Strategies help gain competitive advantage through:
  - Cost leadership
  - Differentiation
  - Focus
- Called **generic** as they apply to any **business** or **non-profit**.
- Cost leadership** - Producing **standardized products** at **low cost** for price-sensitive consumers.
- Differentiation** - Creating **unique products** for **price-insensitive** consumers.
- Focus** - Catering to **small consumer groups** with specific needs.

### Cost Leadership Strategy

#### Introduction

- Low-cost strategy** targeting a **broad mass market** by reducing costs in procurement, production, storage, distribution, and overheads.
- Lower costs** → **Lower prices** than competitors while maintaining profits.
- Goal: Undercut competitors**, gain **market share**, and **eliminate weaker rivals**.
- Examples:** McDonald's, Decathlon.

#### Key Factors

- Integration strategies** (forward, backward, horizontal) help gain **cost leadership**.
- Must **align** with **differentiation** for long-term success..

#### When is Cost Leadership Effective?

- Many **price-sensitive buyers**.
- Limited** product **differentiation** options.
- Buyers **don't** care about **brand differences**.
- Buyers have **strong bargaining power** or

#### Achieving Cost Leadership Strategy

To achieve cost leadership, following are the actions that could be taken:

- Forecast** the demand of a product or service promptly.
- Optimum utilization** of the resources to get cost advantages.

- Achieving **economies of scale** leads to lower per unit cost of product/service.
- Standardisation of products** for mass production to yield lower cost per unit.
- Invest in **cost saving technologies** and try using advanced technology for smart working.
- Resistance to differentiation** till it becomes essential.

#### Advantages of Cost Leadership Strategy

- Rivalry** - Competitors are likely to avoid a price war, since the low cost firm will continue to earn profits after competitors compete away their profits.
- Buyers** - ° Powerful buyers/customers would not be able to exploit the cost leader firm and will continue to buy its product.
- Suppliers** - Cost leaders are able to absorb greater price increases before it must raise price to customers.
- Entrants** - Low cost leaders create barriers to market entry through its continuous focus on efficiency and reducing costs.
- Substitutes** - Low cost leaders are more likely to lower costs to induce customers to stay with their product, invest to develop substitutes, and purchase patents.

#### Disadvantages of Cost Leadership Strategy

- Cost advantage **may not be remaining for long** as competitors may also follow cost reduction techniques.
- Cost leadership can succeed only if the firm can achieve **higher sales volume**.
- Cost leaders tend to keep their costs low by minimizing advertising, market research, and research and development, but this approach can prove to be **expensive in the long run**.
- Technology changes** are a great threat to the cost leader.

### Differentiation Strategy

- Targets a **broad mass market** by creating a **unique product** or service.
- Uniqueness **factors** - Product **design**, brand **image**, **features**, **technology**, dealer **network**, customer **service**.
- Higher differentiation - Higher price (**premium pricing**).
- Example: Domino's 30-minute delivery guarantee, Amazon Prime 2-hour delivery.

## Key Considerations

- **Not always a competitive advantage** if:
  - **Standard** products meet **customer needs**.
  - Competitors **imitate quickly**.
- **Durable uniqueness** (hard to copy) is crucial for success.

## Basis of Differentiation

### 1. Product Differentiation

- **Innovative products** that meet customer needs create an advantage.
- **High R&D**, production, and marketing costs, but high customer demand for new products.
- **Example:** Apple iPhone invests heavily in R&D, attracting early adopters.

### 2. Pricing Differentiation

- Based on **supply, demand, and perceived value**.
- Companies either offer **lowest** prices or charge **premium** prices for superiority.
- **Example:** **Apple** iPhone dominates the market with **premium pricing**.

*Antivirus – Xiaomi offers affordable smartphones but does not strictly follow a cost leadership strategy like brands such as IteL or Realme. Instead, it follows a price-based differentiation strategy, which means it sets low prices while adding unique features to create perceived value.*

### 3. Organizational Differentiation

- Uses brand power, location, and customer loyalty for competitive advantage.
- **Example:** Apple builds strong customer loyalty, creating a fanbase of "Apple Fanboys/Fangirls".

## Achieving Differentiation Strategy

To achieve differentiation, following are the measures that could be adopted by an organization to incorporate:

1. Offer utility for the customers and match the products with their tastes and preferences.
2. Elevate the performance of the product.
3. Offer the promise of high quality product/service for buyer satisfaction.
4. Rapid product innovation.
5. Taking steps for enhancing image and its brand value.
6. Fixing product prices based on the unique features of the product and buying capacity of the customer.

## Advantages of Differentiation Strategy

A differentiation strategy may help to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

1. **Rivalry** – Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.
2. **Buyers** – They do not negotiate for price as they get special features and also they have fewer options in the market.
3. **Suppliers** Because differentiators charge a premium price, they can afford to absorb higher costs of supplies and customers are willing to pay extra too.
4. **Entrants** – Innovative features are an expensive offer. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.
5. **Substitutes** – Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

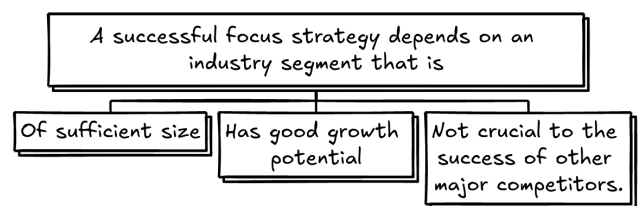
## Disadvantages of Differentiation Strategy

1. In the long term, uniqueness is difficult to sustain.
2. Charging too high a price for differentiated features may cause the customer to switch-off to another alternative.
3. Differentiation fails to work if its basis is something that is not valued by the customers.

**Question-Explain differentiation strategy as one of the generic strategies by Michael Porter. What are the major bases of differentiation? Also outline the strategies which can help achieve the differentiation strategy.-(SA,May 2025,1+2+2 Marks)**

## Focus Strategy

### Meaning and Basics



*Camping essentials, 4x4 modifications, Pick up trucks, 4x4 cars. Budget airlines like AirAsia or low-cost mobile brands like JioPhone.*

### Market penetration and market development

Strategies such as market penetration and market development offer substantial focusing advantages.

### In conjunction with differentiation or cost leadership

Midsize and large firms can effectively pursue focus-based strategies only in conjunction with differentiation or cost leadership-based strategies.

Antivirus – (Bullet – Focus + Differentiation)

IKEA focuses on cost-conscious customers wanting ready-to-assemble furniture.

### Distinctive preferences

Focus strategies are most effective when consumers have distinctive preferences or requirements.

### Risk – Copy, Consumer Preference

Risks of pursuing a focus strategy include:

- Possibility that numerous competitors recognize the successful focus strategy and copy it
- Consumer preferences may shift toward product attributes desired by the market as a whole

### Luxury Watch Brand Implementing a Focus Strategy

#### Meaning and Basics

- *"Eterna Timepieces" targets high-net-worth individuals and watch collectors.*
- *Sufficient size – Wealthy consumers willing to pay a premium.*
- *Growth potential – Rising demand for exclusive, handcrafted watches.*
- *Not crucial to competitors – Mass-market brands like Titan or Casio focus on affordability.*

#### Market Penetration & Development

- *Penetration – Boosts market share through limited-edition collections & loyalty programs.*
- *Development – Expands into luxury markets like Dubai, Switzerland, and Singapore.*

#### With Differentiation or Cost Leadership

- *Differentiation – Uses Swiss movements, rare materials (sapphire glass, platinum), and engravings.*
- *Cost Leadership Challenge – High craftsmanship costs make cost leadership unfeasible.*
- *Distinctive Preferences*
- *Affluent buyers value exclusivity, heritage, and craftsmanship.*
- *Features like custom dials, in-house movements, and concierge services cater to this taste.*

#### Risks – Copying & Changing Preferences

- *Copying – Brands like Rolex, Omega may introduce similar handcrafted collections.*

- *Consumer Shift – Rising preference for smartwatches (Apple Watch Ultra) may impact demand.*
- *Conclusion*
- *Eterna succeeds by focusing on a niche, differentiation, and expansion.*
- *Must innovate continuously to prevent imitation and adapt to market changes.*

### Types of Focus Strategies

#### Focused Cost Leadership

- Competing based on price to target a narrow market
- Does not necessarily charge the lowest prices in the industry
- Instead, charges low prices relative to other firms that compete within the target market

#### Focused Differentiation

- Offering unique features that fulfill the demands of a narrow market
- Some firms concentrate their efforts in particular sales channels (e.g., selling only through the internet)
- Others target particular demographic groups
- Example: Rolls-Royce sells a limited number of high-end, custom-built cars

### Achieving Focused Strategy

#### 1. Selecting Niches

- Selecting specific niches which are not covered by cost leaders and differentiators.

#### 2. Superior Skills

- Creating superior skills for catering to such niche markets.

#### 3. High Efficiencies

- Generating high efficiencies for serving niche markets.

#### 4. Innovative

- Developing innovative ways in managing the value chain.

### Advantages of Focused Strategy

1. Premium prices can be charged by the organization for their focused product/services.
2. Rivals and new entrants may find it difficult to compete.

### Disadvantages of Focused Strategy

- Lacking in distinctive competencies

- Firms lacking distinctive competencies may not be able to pursue focus strategy.
- **Costs may be high**
  - Due to the limited demand of products/services, costs are high, which can cause problems.
- **Long-run risks**
  - The niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

*Question-Market for baby care,readymade garments for new born,toys and strollers meant for babies are there.M/s Maa ki Pasand is desirous to introduce new products for existing customers as well as new customers.products for existing customers and new customers as well. The market for such products is narrow. On one side there are customers who are price conscious and on the other side there are customers who are ready to pay premium charges for an upscale product. The company wants to charge low price, relative to other firms that compete within the target market for customers who are price sensitive and also wants to charge a premium based on uniqueness for the rest of its products.*

*Which of the strategies is being considered by the company, out of strategies as suggested by Michael Porter at business level. Also outline the advantages and disadvantages using such a strategy. -(SA Sep 2024,5 Marks)*

*Question-EcoTrend, a growing e-commerce company, competes with industry giants by offering premium, eco-friendly products at high prices, targeting environmentally conscious consumers. Meanwhile, its competitor, BudgetBazaar, focuses on providing the lowest prices by optimizing costs and streamlining operations. Another player, Vogue Vista, differentiates itself through exclusive, fashionforward designs that attract trend-savvy customers. Identify the generic strategies used by EcoTrend, BudgetBazaar, and Vogue Vista based on Michael Porter's Generic Strategies framework. Explain how each company gains a competitive advantage.-(MTP2, May 2025,5 Marks)*

## Best-Cost Provider Strategy

### Meaning

- Further development of three generic strategies.
- Giving **customers more value** for **money** by emphasizing both **low cost** and **upscale differences**.
- The objective is to keep costs and prices lower than those of other sellers of comparable products.

Hyundai (affordable luxury cars).

### It can be done through:

#### 1. **Low price, comparable quality**

- Offering products at a lower price than what is being offered by rivals for products with comparable quality and features.

#### 2. **Same price, higher quality**

- Charging similar prices as rivals for products with much higher features.

### Example:

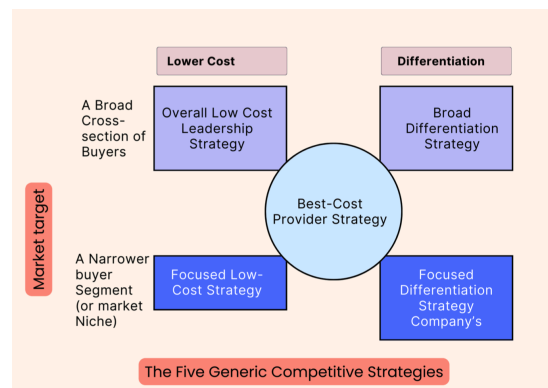
- Android flagship phones from OnePlus, Xiaomi, Oppo, Vivo, etc.
  - They are offering high value quality at lowest prices to attract customers.
  - They are following the best-cost provider strategy to penetrate the market.

### Antivirus - Best-Cost Provider Strategy in the Cycling Industry

- Velon targets high-spending customers with cycles priced ₹15,000-₹1,00,000.
- Cycling demand has risen by 150%, including accessories like helmets and apps.
- Mr. Arjun plans to offer affordable alternatives to premium cycles.
- The Best-Cost Provider Strategy helps him provide quality cycles at lower prices.

### Key Sub-Strategies:

- **Lower Prices for Similar Quality:** Reduce costs via efficient production and supply chain.
- **Same Price, Better Quality:** Improve durability, features, and service.
- Mr. Arjun should focus on the first strategy to become a Best-Cost Provider.



*Explanation of the Figure: The Five Generic Competitive Strategies - The diagram represents Michael Porter's Five Generic Competitive Strategies, which businesses use to gain a competitive advantage based on two key factors:*

1. *Cost vs. Differentiation* – Whether a company competes by being the lowest-cost provider or by differentiating itself through unique offerings.
2. *Market Target* – Whether the company targets a broad audience or focuses on a niche market.

#### Antivirus – Breakdown of the Five Strategies:

1. **Overall Low-Cost Leadership Strategy**
  - Objective: Achieve the lowest production and operational costs in the industry.
  - Target Market: Broad customer base (mass-market).
  - Example: Walmart, Tata Nano (affordable cars).
2. **Broad Differentiation Strategy**
  - Objective: Offer unique products/services that stand out in the market.
  - Target Market: Broad customer base willing to pay more for uniqueness.
  - Example: Apple, Nike, BMW.
3. **Focused Low-Cost Strategy**
  - Objective: Be the lowest-cost provider in a specific market niche.
  - Target Market: Narrow segment (specific group of customers).
  - Example: Budget airlines like AirAsia or low-cost mobile brands like JioPhone.
4. **Focused Differentiation Strategy**
  - Objective: Provide highly specialized, unique products/services for a specific market segment.
  - Target Market: Narrow audience (premium buyers in a niche).
  - Example: Rolls-Royce (luxury cars), Rolex (luxury watches).
5. **Best-Cost Provider Strategy (Middle Ground Approach)**
  - Objective: Offer higher quality than low-cost rivals but at a lower price than differentiators.
  - Target Market: Customers who want better value for money – a mix of affordability and quality.
  - Example: OnePlus (premium features at mid-range pricing), Hyundai (affordable luxury cars).

### Strategic Drivers

Strategic drivers are the key factors that **differentiate** an organisation from its competitors and **influence** its current performance.

#### Key Strategic Drivers

1. **Industry & Markets** – **Current position** in industry and market, **competition**, and market **trends**.
2. **Customers** – Target **audience**, customer **needs**, and **preferences**.
3. **Products/Services** – Offerings that **differentiate** the business.

4. **Channels** – **Methods** of **delivering products**/services (e.g., online, retail, direct sales).

#### Purpose

- Strategic Drivers helps in **internal analysis** which includes **assessing** the **current performance** of the business.
- Guide **decision-making** to align with long-term objectives.
- **Adapt** to changing business environments efficiently.
- Interconnected drivers shape strategy and **long-term** success.

### Industry and Markets

#### Industry

- **Similar companies** are **grouped together** into industries.
- Grouping is **based** on the **primary product** that a company makes or sells.
- **Example** – Maruti, Mahindra, Tata Motors are all selling automobiles as their primary product and thus categorized into the Automotive Industry.

#### Market

Refer Chapter 2 Only

#### Analysing Industry and Markets

##### What is Strategic Group Mapping?

- A **tool** used for **Analysing Industry** and **Markets** is called Strategic Group Mapping.
- **Industry & Competitive Analysis Technique**
  - Strategic group mapping is a technique used for industry & competitive analysis.
- **Identifying Strongest/Weakest Positions**
  - Helps in identifying companies that are in strongest/weakest positions.
- **Comparing Market Position**
  - A useful analytical tool for comparing the market positions of each firm separately.
  - It can also be used group-wise when an industry has many competitors, making individual analysis impractical.

##### What is a Strategic Group?

- A strategic group consists of **rival firms** with:
  - **Similar competitive approaches** and **positions** in the market.

- They **resemble** each other in several ways (product, price, etc.).

### Procedure (I-PAD) for Constructing a Strategic Group Map

#### 1. **Identify**

- The **competitive characteristics** that differentiate firms in the industry.
- Typical variables: price/quality range (high, medium, low).

#### 2. **Plot**

- The firms on a **two-variable map** using 2 of these differentiating characteristics.

#### 3. **Assign**

- Firms that **fall** in the same **strategy space** to the same **strategic group**.

#### 4. **Draw**

- **Circles** around each strategic group, making the circles **proportional** to the **size** of the **group's respective share** of total industry sales revenues.

*Question—A manufacturing company is in direct competition with fifteen companies at national level. The head of the marketing department of this company wishes to study the market position of rival companies by grouping them into like positions. Name the tool that may be used by him/her. Explain the procedure that may be used to implement the techniques.—(SA, July 2021, 5 Marks) (MTP2, Sep 2024, 5 Marks) (Model test paper 5, May 2025, 5 marks)*

## Channels and Distribution Systems

### Definition

Channels are distribution systems by which an organization distributes its product or services.

### Examples of Channels:

- Brand Retail Stores
- Intermediary Stores (like Nykaa, Westside)
- E-commerce Platforms
- Quick Commerce Platforms
- Retail Shops Across the Nation

### Importance of Distribution Channels:

- **Wider** and **stronger** channels help a business to fight and win over competition.
- **Robust business distribution** channels help keep **new players** away from entering the industry and act as a barrier to entry.

### Three Channels to be Considered:

1. Sales Channel
2. Product Channel
3. Service Channel

#### 1. Sales Channel

- **Intermediaries** involved in the **selling process** that help deliver a product or service to the end consumer.
- These intermediaries can be **wholesalers, retailers**, or online platforms.
- Example: A **fashion designer** uses **agencies** to sell their product to retail stores so that consumers can get access to them.

#### 2. Product Channel

- Intermediaries who **physically handle** the product from the manufacturer to the final buyer.
- Example: **Australia Post, delivering eBay orders**.

#### 3. Service Channel

- Entities that provide **necessary services** to support the product **before or after it is sold**.
- Important for products that are **complex** in terms of **installation** and **usage**.
- Example: **Bosch dishwasher** is sold through **retail stores** or online stores. Once sold, it needs to be installed properly and is installed by a Bosch-contracted plumber.

### Other Points

- Channel analysis is **crucial** in **expanding** beyond current markets.
- Businesses must **develop** or **leverage channels** to reach new customers.
- Example 1: **Healthcare** brands targeting elderly customers should focus on **offline channels** (agents visiting physically) as elderly are less active on smartphones.
- Example 2: A **new drink brand** should use **multiple channels** (stores, shops, online campaigns) to maximize reach and awareness.
- Strong distribution channels ensure products like bottled water **reach even remote locations**.
- Brands excelling in channels: Coca-Cola, HUL, Patanjali, Asian Paints, Ola.

**Question-What are channels? Why is channel analysis important? Explain the different types of channels?-(SA, May 2024, 5 Marks) (RTP, Jan 2025, NA) (Model test paper 8, May 2025, 5 marks)**  
OR

**Question-What are distribution channels, and why is analyzing them crucial for business expansion? Describe the three main types of channels explaining their roles in ensuring products reach customers efficiently and with the necessary support.-(MTP2, Sep 2024, 5 Marks) (Model test paper 5, May 2025, 5 marks)**

## Customers

Refer Chapter 2 only

## Product/Services

Refer Chapter 2 only

**Question-Write a short note on the key strategic drivers of an organisation.-(SA, Jan 2025, 5 Marks) (RTP, Sep 2025, NA)**

## Marketing strategies To reach out to customers

Products and services need heavy investment in reaching out to customers. Over the years, a number of marketing strategies have been evolved, which are given to handle marketing strategically and fight the competition in the market.

## Social Marketing

It refers to the design, implementation, and control of programs seeking to increase the acceptability of a social idea, cause, or practice among a target group to bring in a social change. For instance, the publicity campaign for prohibition of smoking in Delhi explained the place where one can and can't smoke and also indicates that smoking is injurious to health.

## Augmented Marketing

This type of marketing includes additional customer services and benefits that a product can offer besides the core and actual product that is being offered. It can be in the form of introduction of hi-tech services like movies on demand, online computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.

## Direct Marketing:

- Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response.
- Direct marketing includes catalogue selling, e-mail, telecomputing, electronic marketing, shopping, and TV shopping.

## Relationship Marketing:

- The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholders.
- For example, airlines offer special lounges at major airports for frequent flyers. Thus, providing special benefits to select customers to strengthen bonds. It can go a long way in building relationships.

## Services Marketing:

- It is applying the concepts, tools, and techniques of marketing to services.
- Services is any activity or benefit that one party can offer to another that is essentially intangible.
- This marketing requires different marketing strategies since it has peculiar characteristics of its own such as inseparability, variability etc.

## Person Marketing:

- People can also be marketed. Person marketing consists of activities undertaken to create, maintain or change attitudes and behaviour towards a particular person.
- For example, politicians, sports stars, film stars, etc. i.e., market themselves to get votes, or to promote their careers.

## Organization Marketing:

- It consists of activities undertaken to create, maintain, or change attitudes and behaviour of target audiences towards an organization.
- Both profit and non-profit organizations practice organization marketing.

## Place Marketing:

- Place marketing involves activities undertaken to create, maintain, or change attitudes and behaviour towards particular places, say, marketing of business sites, tourism marketing.

**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 customer-oriented marketing, innovative marketing, value marketing, sense-of-mission marketing, and societal marketing.

**Differential Marketing:**

- It is a market-coverage strategy in which a firm decides to target several market segments and designs separate offers for each.
- For example, Hindustan Unilever Limited has Lifebuoy, Lux and Rexona in the popular segment and Dove and Pears in the premium segment.

**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.
- For example, products such as movie tickets can be sold at lower price over weekdays to generate demand.

**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.

**Demarketing:**

- It includes 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.
- For example, buses are overloaded in the morning and evening, roads are busy for most of the time, zoological parks are over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.