

These notes plus our question bank is more than sufficient to score 85% to 95% Marks in Strategic Management.

- Please attend all the classes.
- Cover all questions from the question bank.
- Attempt mock tests provided with the classes.
- For additional mock tests visit [www.mocktestpapers.com](http://www.mocktestpapers.com)
- Revise properly.
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- Whenever time is given in class for reading, please read properly and wholeheartedly.
- Theory vs Reality in Strategic Management - Strategic management is practical, but ICAI study material may not always match real-life scenarios. Don't insist that theory must align with practice—differences are common and expected.
- I believe that ICAI study material has some structural issues, which I have addressed in my teaching. Our goal is to clear the exam, so adjust as needed to match the syllabus. Rest assured, none of this will affect your exam preparation.

## Chapter 1- Introduction to Strategic Management

### Meaning of Strategy

- Game plan
- Used by management for (MOCCA):
  - Marketing position
  - Operations
  - Customers
  - Competition
  - Achieving organisational objectives
- Long range blue print of:
  - Image
  - Direction
  - Destination
- Other points
  - Not perfect, flawless, optimal
  - Flexible & pragmatic
  - Not a substitute for sound, alert, responsible mgt.
  - Sound strategy

- Allowance for possible miscalculations
- Unanticipated events

### Strategy can never be perfect, flawless and optimal.

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

### Strategies are partly proactive and partly reactive

Strategy is partly proactive and partly reactive:

A company's strategy is a blend of:

- Proactive actions to improve market position and financial performance.
- Reactions to unanticipated developments and fresh market conditions.

Businesses uses blend of proactive and reactive strategies

Proactive strategy is planned, while reactive strategy is adaptive to changing circumstances.

A company's current strategy comes from:

- Proactive elements: past actions, know-how, strengths, ongoing and new initiatives.
- Reactive elements: adjustments to competition, weaknesses, and unexpected changes.

Thus, strategy is partly deliberate and proactive, based on analysis and strategic thinking, and partly reactive, developed in response to unforeseen developments in the business environment and within the firm.

Generally Proactive strategies are better.

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

*Question-Yummy Foods and Tasty Foods are successfully competing in the business of ready to eat snacks in Patna. Yummy has been a pioneer in introducing innovative products. These products will give them good sale. However, Tasty Foods will*

introduce similar products in reaction to the products introduced by the Yummy Foods taking away the advantage gained by the former.

Discuss the strategic approach of the two companies. Which is superior?—(RTP, Nov 2018, NA) (MTP1, Nov 2021, 5 Marks) (MTP2, May 2023, 5 Marks) (ICAI Study Material) (Model test paper 3, May 2025, 5 marks)

Question—Imagine you are a strategic consultant advising a retail company that is facing increasing competition from online retailers. The company is considering several strategic options to improve its market position. Using the concept that strategy is partly proactive and partly reactive, explain how the company can develop a strategic approach to address this challenge.—(MTP1, May 2024, 5 marks) (ICAI Study material) (Model Test Paper 1, May 2025, 5 marks)

Question—ABC retail chain regularly monitors consumer trends and supply chain flexibility. The retail chain tracks consumer trends to adjust its offerings, ensuring they meet customer needs. Simultaneously, it maintains a flexible supply chain to respond swiftly to demand fluctuations. This strategy enables the ABC retail chain to anticipate market shifts and adapt to them effectively, ensuring its competitiveness and customer satisfaction. Which type of strategy is the retail chain employing?—(MTP2, May 2024, 5 marks) (ICAI Study material) (Model Test Paper 2, May 2025, 5 Marks)

## Management

- Key group
  - make organization, productive, and purposeful
  - Brings resources together
    - men, money, material, technology
- Set of interrelated function and processes
  - carried by key group
  - To achieve objectives

## Strategic management

- Managerial process
- Activities
  - VISION
  - Objectives
  - Strategy
  - Implementation and evaluation of strategies
  - Adjustments - corrective adjustment whenever necessary

## Overall objectives of strategic management

- Create competitive advantage
  - out performing the competitors

- Guide through changes in environment
- Originally called business policy
  - Focused on SWOT analysis
  - Designing strategies for survival and growth.

## Importance of Strategic Management

The major benefits of STRATEGIC MANAGEMENT are:

- **Direction**
  - Direction to move ahead
  - define goals and mission
  - define realistic objective
- **Proactive**
  - Proactive instead of reactive
  - take action instead of spectator
  - Helps in controlling destiny
  - work within vagaries of environment
- **Framework for decisions**
  - Decisions on business products
  - Better guidance on crucial points
- **Face the future and act as pathfinder**
  - pathfinder for various opportunities
  - ways and means of how to reach opportunities
- **Corporate defense mechanism**
  - Against mistakes and pitfalls
  - Avoid costly mistakes in product or market choices
- **Longevity**
  - Enhance longevity
  - Taking clear stand, not just surviving on luck
- **Core competencies and competitive advantage**
  - Develop core competency and competitive advantage
  - Facilitate survival and growth

## Limitations of Strategic Management

Strategic Management Cannot counter all hindrances.

Limitations are as follows

- **Environment is difficult to understand**
  - The environment affects the organization.
  - complex *turbulent* cannot be exactly pinpointed how it will shape up in future
  - Estimate can go wrong
- **Time consuming**
  - Time consuming process
  - Impede *daily operations and routine business*.
- **costly**
  - Add expenses due to involvement of **experts**

- Efforts are required for environmental analysis and creating strategies and *implementing* them
- costly, particularly for small and medium organisations
- **Difficult to estimate response**
  - Difficult to clearly estimate competitive response to firm's strategy.

**Question-Define Strategic Management. Also discuss the Limitations of Strategic Management.**-(SA, May 2018, 5 Marks) (RTP, May 2021, NA) (RTP, Nov 2021, NA) (MTP1, Nov 2022, 5 Marks) (MTP2, Nov 2023, 5 Marks) (RTP, May 2024, NA) (MTP1, Jan 2025, 5 marks) (Model test paper 6, May 2025, 5 marks)

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

**Question-Ramesh Sharma has fifteen stores selling consumer durables in Delhi Region. Four of these stores were opened in the last three years. He believes in managing strategically and enjoyed significant sales of refrigerator, televisions, washing machines, air conditioners and the like till four years back. With the shift to the purchases to online stores, the sales of his stores came down to about seventy per cent in the last four years. Analyse the position of Ramesh Sharma in light of limitations of strategic management.**-(RTP, Nov 2019, NA) (RTP, Nov 2020, NA) (ICAI Study Material) (RTP, May 2025, NA) (MTP2, Sep 2024, 5 Marks) (MTP 2 Jan 2025, 5 marks) (Model test paper 5, May 2025, 5 marks) (Model test paper 7, May 2025, 5 marks)

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

- Strategic intent refers to the purposes the organisation strives for. Senior managers must define "what they want to do" and "why they want to do".
- "Why they want to do" represents the strategic intent of the firm.
- It is the philosophical base of strategic management and implies the purposes the organisation aims to achieve.
- Clarity in strategic intent is vital for future success and growth.
- At the corporate level, it may be expressed as vision and mission.
- At the business level, it may be expressed as business definition and business model.

- When stated precisely, it becomes operational as goals and objectives.

### Vision

- Blueprint of the company's future position. Roadmap of the future
- **Technology -customer-market-Product focus of the organisation**
- Mgmt. aspiration for business in future
- Describes - where we want to go.
- Helps the organisation and personnel at organisation to work in a particular Direction
- For Example - Henry Ford's vision inspired others, mobilized company resources, and guided strategic decisions.

### Essentials of a strategic vision

- The entrepreneurial challenge is to *think creatively* about preparing the company for the future.
- Forming a strategic vision requires *intelligent entrepreneurship*.
- A well-articulated strategic vision *builds enthusiasm* among organisation members.
- The best vision statement clearly shows the *direction* the organisation is heading.

### Mission

- Present Business Scope
- What Business are we in and what we do
- "Who we are"
- Present
  - Capability
  - Customer focus
  - Business Makeup
- Crucial for Strategic Planning

### Why should an organisation have a mission?

1. To ensure unanimity of purpose within the organisation.
2. To develop a standard for resource **allocation**.
3. To provide a basis for **motivating** resource use.
4. To establish a business like **general** tone / organisational climate.
5. To serve as a **focal** point for those aligned with the organisation's purpose and direction.
6. To specify **purposes** and translate them into **goals** with assessable cost, time, and performance.

7. To help convert **objectives** and **goals** into a work structure with assigned responsibilities.

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

Good Mission statement– precise, clear, feasible, distinctive and motivating Following points are useful while writing a mission of a company:

- A mission statement **must define an organization's unique** identity, business focus, and developmental path, distinguishing it from similar companies.
- It **defines the business by Needs** it is trying to satisfy, customers it's trying to serve, technology & competencies used
- Good mission statements are – **unique** to the organisation for which they are developed.

The mission must **not** be to **make profits**

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

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

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

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

For example

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

### Difference between vision and mission

#### Vision

- Future(galvanizes) – Vision can galvanize the people to achieve defined objectives, even if they are stretch objectives, provided the vision is specific, measurable, achievable, relevant and time bound.
- Outlines what the organisation wants to be
- Inspire to Achieve defined objectives
- Broad (ultimate aim)
- Vision statement is more specific in terms of both the future state and the time frame

#### Mission

- Present (on-going intent)
- Tells the fundamental purpose of the organisation
- Path to Achieve Vision
- Specific (current operations)
- A mission statement defines the purpose or broader goal for being in existence or in the business and can remain the same for decades

These statements have a direct bearing on the bottom line and success of the organization.

### Goals and Objectives

- Organisations **translate vision** and **mission** into goals and objectives.
- Goals are **open-ended attributes** that denote the future states or outcomes.
- Objectives are **close-ended attributes** which are precise and expressed in specific terms.
- However, this distinction is not made by several theorists on the subject. ICAI uses them interchangeably.
- Objectives are an **organisation's performance targets** – the results and outcomes it wants to achieve.

- They function as **yardsticks** for tracking an organisation's performance and progress.

### Characteristics of Objectives

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

1. **S – Specific** – They should be **concrete** and specific.
2. **M – Measurable** – They should be measurable and **controllable**.
3. **A – Achievable** – Objectives should be set within the **constraints** of organisational resources and external environment.
4. **R – Relevant** – Different objectives should **correlate** with each other.
5. **T – Time-Bound** – They should be related to a **time frame**.
6. **Decision** – They should provide the basis for strategic decision-making.
7. **Standard** – They should provide standards for performance appraisal.
8. **Mission & Purpose** – They should be facilitative towards achievement of mission and purpose.
9. **Challenging** – They should be challenging.

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

- Long-term objectives are the **results expected** from pursuing specific strategies.
- The time frame for **objectives** and **strategies** should align
- Short-range objectives can match long-range ones if current performance meets long-term targets.
- Example: A company with 15% yearly profit growth goal, already achieving it, has identical short and long-range objectives.
- When performance is below target, short-range objectives act as steps to reach the long-term goal.

**Long-term objective:** – Company ka 5 saal ka goal hai customer satisfaction score ko 90% tak le jaana.

**Current performance:** – Agar abhi bhi har saal customer satisfaction score already 90% hai, toh short-term objective bhi wahi hoga – maintain 90%. Kyunki target already meet ho raha hai, short-term aur long-term objective same ho sakte hain.

### Clearly established objectives offer many benefits.

They provide **direction**, allow **synergy**, aid in evaluation, establish **priorities**, reduce **uncertainty**, minimize **conflicts**,

stimulate exertion, and aid in both the **allocation** of resources and the **design** of jobs.

### Long-term objectives

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

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

### Values

- Values are the **deep-rooted principles** which guide an organisation's **decisions and actions**.
- A few common **examples** of values are – **Integrity, Trust, Accountability, Humility, Innovation, and Diversity**.
- They **can never be compromised**, either for convenience or short-term economic gain.
- Values often **reflect** the **values** of the company's founders.
- They are the **source** of a company's **distinctiveness**
- **Employees** often seek employers with relatable values, impacting their work and personal life.
- **Consumers** often choose companies whose purpose aligns with their values, showing values' internal and external impact.
- Values often **drive intent**, making them broader in scope than intent.

**Question–Distinguish between Vision and Mission–(RTP, May 2018, NA) (MTP2, Jan 2025, 5 Marks) (Model test paper 7, May 2025, 5 marks)(MTP2, May 2025, 5 Marks)**

**Question–What is a strategic vision, and what are the essential components that make it an effective tool for guiding an organization's future?–(MTP2, Sep 2024, 5 Marks) (Model test paper 5, May 2025, 5 marks)(MTP2, May 2025, 5 Marks)**

**Question–Mr Raj has been hired as a CEO by XYZ Ltd a FMCG company that has diversified into affordable cosmetics. The company intends to launch Feelgood brand of cosmetics. XYZ wishes to enrich the lives of people with its products that are good for skin and are produced in ecologically beneficial manner using herbal ingredients. Draft vision and mission statement that may**

be formulated by Raj.-(RTP, Nov 2019, NA) (RTP, Nov 2020, NA) (ICAI Study Material)

**Question-A company's mission statement is typically focused on its present business scope. Explain the significance of a mission statement.** -(SA, May 2024, 5 Marks) (RTP, Jan 2025, NA) (MTP 1, May 2025, 5 marks) (RTP, Sep 2025, NA)

### Strategic Levels in Organisations

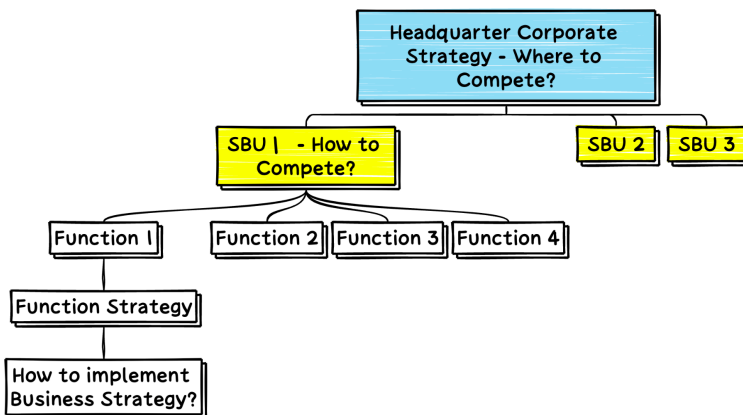
Generally, there are three main levels of management:

- Corporate level
- Business level
- Functional level

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

### SBU (Strategic business Unit)

- An organisation is divided into segments that work together to deliver a product or service.
- If multiple or different products/services are offered, the company creates self-contained divisions with their own functions.
- General managers of these divisions handle specific product lines.
- Their main focus is the healthy growth of their divisions.
- They decide how to build competitive advantage and improve profitability using available resources and capital.
- These divisions are called Strategic Business Units (SBUs).



### Corporate level of management

- Include **CEO**, senior executives, board of directors, and corporate staff.

- These individuals participate in **strategic decision making** within the organization.
- The role of **corporate-level managers (CEO)** is
  1. oversee the development of **strategies** for the whole organization;
  2. defining the **mission** and goals of the organization;
  3. determining what **businesses** it should be in;
  4. **allocating resources** among the different businesses;
  5. formulating, and implementing **strategies** that **span individual businesses**;
  6. providing **leadership** for the organization;
  7. ensuring that the corporate and business level strategies which company pursues are consistent with **maximizing shareholders wealth**, and
  8. managing the **divestment** and **acquisition** process.

Corporate-level managers provide a **link** between the people who oversee the strategic development of a firm and those who own it (the shareholders).

**Question-XYZ Enterprises operates in various sectors, including renewable energy solutions, organic skincare products, eco-friendly packaging, and smart home technologies. The organization is currently in the process of recruiting a Chief Executive Officer. In this scenario, imagine yourself as an HR consultant for XYZ Enterprises. Identify the strategic level that encompasses this role within XYZ Enterprises. Provide an overview of the key duties and responsibilities falling under the Chief Executive Officer's scope.**-(RTP, Jan 2025, NA)

### Business-level manager

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

### Functional-level managers

- Handle **specific functions** (HR, product development, customer service, etc.).
- Responsible for **functional strategies aligned** with business and corporate goals.
- Provide **critical information** for formulating realistic and attainable strategies

- Generate **key ideas** that might turn into major strategies, requiring general managers to listen to them
- Play **key role** in strategy implementation at operational level.

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

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

### Network of relationship between the three levels

- Corporate level sets what to achieve,
- Business level plans how to achieve,
- Functional level executes the plan.
- The network of relationships depends on the organisation's culture and aspirations.

### Functional and Divisional Relationship

- Independent setup; each function/division is run separately.
- Headed by business level managers, reporting to corporate level.
- Example: Functions like Finance, HR, Marketing; Divisions like kids toys, teen toys.

### Horizontal Relationship

- Flat structure; all roles (top to staff) are at the same level.
- Encourages openness, transparency, idea sharing, and innovation.
- Suited for startups needing fast communication.

### Matrix Relationship

- Grid-like structure; teams from various departments work on task-based projects.
- One functional team may report to multiple business level managers.
- Useful for large organisations; complex for small firms.

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

**Question–Dharam Singh, the procurement department head of Cyclix, a mountain biking equipment company, was recently**

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

**Question–Swati is the marketing manager at a software company. She is responsible for developing and implementing marketing strategies for the company's products. Swati leads a team of marketing professionals and works closely with the product development and sales teams to ensure that the company's products are effectively promoted in the market. She also analyzes market trends and customer feedback to refine the marketing strategies. Which level is she working at, discuss the roles and responsibilities of this level in organization?–(MTP1, May 2024, 5 Marks) (ICAI Study Material.) (Model Test Paper 1, May 2025, 5 marks)**

**Question–Elvis Global is a famous OTT platform facing fierce competition from its competitors amid changing consumer preferences. This has made it difficult to retain customers as the existing television channels are also launching their own platforms. The company has appointed Raghav to lead the company forward as the sales & marketing manager. Raghav needs to design creative and innovative advertising campaigns to gain a competitive edge, engage the public and capture the market.**

**Identify the strategic level that represents Raghav's role at Elvis Global. As a strategic advisor, highlight the various benefits of strategic management in overcoming different challenges to Raghav.–(SA, May 2024, 5 Marks)**

**Question–Tech Innovators Inc., a rapidly expanding technology company, aims to lead in artificial intelligence (AI) and machine learning (ML). With recent growth, the company is evaluating which organizational structure will best support its vision for innovation and leadership in AI technologies. They are considering three options: the Functional and Divisional Relationship for specialization, the Horizontal Relationship for flat, collaborative management, and the Matrix Relationship for crossfunctional teams.**

**Which of these relationships—Functional and Divisional, Horizontal, or Matrix—will most effectively achieve Tech Innovators Inc.'s strategic goals, and why?–(RTP, Sep 2024, NA) (ICAI Study material.) (Model test paper 8, May 2025, 5 marks)**

## Chapter 2 – Strategic Analysis: External Environment

### Strategic Analysis

#### Meaning

Analysis of a firm's external environment and its internal resources and capabilities

#### Why?

Helps in Strategy Formulation

- Otherwise (Without Strategic Analysis), Wrong Strategy
- No Competitive Advantage

#### Considerations to be kept in mind

- Industry & competitive conditions
- Company's own competitive capabilities, resources, internal strengths & weaknesses & market position

#### Issues to be considered for strategic analysis

##### Strategy evolves over a period of time

- Series of Decisions Over Time
- Influenced by Experience
  - Needs constant review and revision

#### Balance

- Matching Internal Potential with External Opportunities
- Workable Match Over Perfection
- Managers responsible for strategic decisions must balance opportunities, influences & constraints

#### Risk

- Identification of Potential Imbalances
- Assess their consequences
- Potential imbalances are created because of internal and external factors
- Example
  - Internal: R&D is strong, marketing is weak
  - External: Change in Consumer taste and preference.

#### Risk

##### External Risks

- Occur due to inconsistencies between strategies & forces in the environment
- Short-Time
  - Errors in interpreting the environment cause strategic failure

- For example, a temporary surge in demand may cause disruptions.

##### Long-Time

- Changes in the environment lead to obsolescence of strategy
- Example – Making ICE vehicles due to the increasing pollution and changing mindsets and govt. regulations.

#### Internal Risks

- Occur because of forces within the firm or are directly interacting with the organisation
- Short-Time
  - Organisational capacity is unable to cope up with strategic demands
  - Example – Skilled labour, Capital
- Long-Time
  - Inconsistencies with the strategy are developed on account of changes in internal capacities and preferences
  - Example – Change in culture

#### Types of Strategic Analysis

##### External Analysis

##### Customer Analysis

- Segments, motivations, unmet needs

##### Competitor Analysis:

- Strategic groups, performance, objectives, strategies, culture, cost structure

##### Market Analysis

- Size, growth, profitability, entry barriers

##### Environmental Analysis

- Technological, government, economic, cultural, demographic

##### Internal Analysis

##### Performance Analysis:

- Profitability, sales, customer satisfaction, product quality, relative cost, new products, human resources

##### Determinants Analysis:

- Strategies, problems, capabilities, constraints, resources, strengths, weaknesses

#### Strategic Analysis helps in strategy Identification & Selection

- Identify strategic alternatives



- Select strategy
- Implement the operating plan
- Review strategies

### Limitation of Strategic Analysis

- Offers many innovative options but doesn't guide which to pick—options may be overlapping, confusing, or hard to implement.
- Can be time-consuming, affecting organisational functioning and delaying new product or service innovations.

### Business Environment (BE)

- Refers to all external factors, influences, or situations
  - That in some way affects business decisions, plans, and operations.
- Dynamic and Continuously Evolving
- Success of an organisation
  - Determined by its business environment
  - And even more from its relationship with it

### Close and continuous interaction between organisation and BE helps in following ways

- Determine opportunities and threats**
  - Identify new consumer needs, emerging trends, change in law and social behaviour
  - Can guide development of new products, can help in anticipating and mitigating threats
- Give direction for growth**
  - Identify areas of expansion
  - Can help in scaling
- Continuous Learning**
  - Informed about industry trends
  - Will help in remaining competitive
- Image Building**
  - Building a positive image
  - Example, contributing to local initiatives and showing sensitivity to community
- Meeting Competition**
  - Analyse strategies of competitors
  - Understanding their strengths and weakness
  - Positioning yourself uniquely

*CBQ – Yash is planning to launch his new tech start-up. He is exploring different locations across the country to establish his company in the right business environment. One option is the city of Bengaluru, the silicon valley of India, with an engaging network*

*of entrepreneurs, investors, advisors and mentors. Coupled with various subsidies for new ventures and tax benefits, Bengaluru might be an ideal choice for Yash to establish his company and increase the chances of success. Define the term Business Environment with respect to the above scenario. Explain the different ways in which the interaction of a business with its environment can be helpful in developing a successful strategy. (SA, May 2024, 5 Marks) (RTP, May 2025, NA)*

### Micro & Macro Environment

The business environment includes both the macro environment and the micro environment.

- Micro environment: Forces close to the company affecting its routine functions. Includes company, suppliers, marketing intermediaries, customer markets, and competitors. Specific to the business and effects in the short term.
- Macro environment: Distant forces affecting the organization and micro environment. Includes demography, economy, natural forces, technology, politics, legal, and socio-cultural. General and affects all firms in an industry.

### Relationship

- The micro environment (customers, suppliers, competitors, intermediaries, public) directly impacts a firm's operations,
- But these factors are influenced by macro environment forces (economic, technological, political, social, legal).
- Businesses must adapt to macro trends to stay competitive.
- Example – If a tech company relies on Chinese suppliers (micro) and a global trade ban (macro) disrupts imports, the company must find alternative suppliers or adjust pricing strategies.

*DQ – Distinguish between Micro Environment and Macro Environment – (Model test paper 3, May 2025, 5 marks)*

### Demographic Environment

- Demographics are characteristics of a population classified by age, gender, income, race, education, assets, house ownership, job position, region, and geographic dispersion.
- This data is valuable to businesses, economists, marketers and social scientists who often divide populations by demographic makeup.

- India has a younger population, attracting multinationals due to its population size and ethnic mix.
- Businesses must study these factors, focusing on: What demographic trends affect market size? Which trends are opportunities or threats?
- Understanding their impact on strategic competitiveness is a key challenge.

### Socio-Cultural Environment

- A general factor affecting almost all enterprises.
- It includes social traditions, values, beliefs, literacy standards, ethical standards, social stratification, conflict, and cohesiveness.
- Unlike demographics, it reflects the behaviour and belief system of the population.
- Beliefs, values, and norms guide how individuals and organizations interact.
- Core beliefs are persistent and hard to change, so businesses must adjust to them to function successfully.
- It affects strategic management, especially mission, objective setting, and product-market decisions.

### Economic Environment

- Economic conditions directly impact business strategies.
- The economic environment includes regional, national, and global economic situations.
- It covers resource markets that affect inputs, outputs, their costs, and availability.
- It influences market strength, purchasing power, and depends on income, prices, savings, money circulation, debt, and credit availability.
- The income distribution pattern shapes business possibilities. Key factors are the effects of economic prospects, growth, and inflation on business operations.

### Political-Legal Environment

- includes the level of political development, politicisation of business issues, political morality, law and order, political stability, ideology of the ruling party, efficiency of governmental agencies, and the extent of governmental intervention in economy and industry.
- It is partly general and partly enterprise-specific.
- Business is highly influenced by government policies, and the type of government affects business operations.

- Firms must track regulatory changes and their impact. Taxes and duties are also critical business concerns.
- Businesses prefer countries with a strong legal system.
- They must understand key laws related to consumers, competition, organizations, companies, intellectual property, foreign exchange, and labour.

### Nationalism and Business Policies

- Supports enhancing a country's position in international business.
- In India, Make in India and Aatmanirbhar Bharat reflect this thrust.
- The Production Linked Incentives scheme rewards increased domestic production.
- It encourages foreign businesses to set up in India and incentivises domestic businesses to expand manufacturing, create jobs, and reduce import dependence.

### Technological Environment

- Technology is a key factor today, changing how people communicate, work, and how businesses operate.
- Technology and business are interdependent.
- Businesses leverage technology, using discoveries to adapt and serve society.
- It reduces paperwork, improves payment scheduling, and inventory coordination, lowering costs, and shrinking time and distance, giving competitive advantage.
- Technological changes affect operations, production, and marketing strategies.
- Technology creates new business opportunities and can make current products and services obsolete.
- Tools like artificial intelligence, machine learning, and robotic process automation can be both opportunities and threats to a business.

### PESTLE

#### Framework for analysis of macro environmental factors

- P - Political
- E - Economics
- S - Socio-Cultural
- T - Technological
- L - Legal
- E - Environmental
- (Past: PEST)

## Environmental factors

- Environmental factors affect industries like tourism, farming, and insurance.
- Rising awareness of climate change is changing how companies operate and the products they offer—creating new markets while diminishing or destroying existing ones.

## How PESTLE Helps

- Identify influence of: Political, Economic, Socio-Cultural, Technological, Legal, Environmental factors on an organisation
- Provides a way of scanning the environmental influences that have affected organisation
- Simple to understand
- Quick to implement
- Encourages management For proactive and structured thinking In its decision making

*DQ – Nuvanta Healthcare is planning to launch a nutrition supplement targeted at urban consumers in Tier-2 Indian cities. The product team analyzed local population data age groups, income levels, lifestyle patterns and health concerns before finalizing the formulation and pricing. They are also reviewing how changes in government policy and tech adoption may affect the rollout. What kind of external factor has Nuvanta considered for pricing the product? Briefly explain the major categories of such external influences that shape business strategy. (RTP, Sep 2025,NA)*

## Internationalization of Business

### Characteristics of a global business

#### Conglomerate of multiple units

- All linked by common ownership
- Example: A multinational corporation like Unilever, which owns and operates numerous brands and subsidiaries across different continents, all under one umbrella of ownership.

#### Draw on a common pool of resources

- Such as money, credit, information, patents, trade names and control systems
- Example: A global tech company might use its patents and technological know-how across different countries, thereby spreading the R&D costs and maximizing the benefits from its innovations.

#### Respond to some common strategy

- Despite operating in different regions, all units of a global business respond to a unified strategy

- Example: A global automobile manufacturer may have a strategy focused on sustainability.

## Developing Internationally

Internationalization is key for improving profitability and accessing cheaper resources. It helps businesses enter new markets, gain economies of scale, and extend product lifecycles. But it's complex due to new variables and linkages.

A structured international strategic planning approach includes:

1. Evaluate Global Opportunities and Threats – Assess global markets and align with internal capabilities.
2. Describe the Scope of Operations – Define the firm's international activities.
3. Create Global Business Objectives – Set objectives aligned with the firm's mission.
4. Develop Distinct Corporate Strategies – Formulate strategies for global competition.

These steps help identify market opportunities and build effective global strategies despite challenges.

## Why do businesses go global?

Technological developments and political views have driven the rise of multinational organisations. Improved communication and transportation have made internationalisation easier by linking corporate headquarters with abroad operations and increasing mobility of money, people, raw materials, and finished items.

## Other reasons

- Growth: The basic need to expand leads firms to explore opportunities globally.
- Shrinking time and distance: Faster communication, quicker transportation, growing financial flow, and technological changes.
- Domestic market limitations: Local competition may not exist abroad.
- Raw materials and labour: Need for cheaper or reliable sources and access to a large talent pool.
- Lower transportation cost: Producing near markets reduces costs and time.

- Higher sales and cash flow: Opening foreign markets may lead to overseas plants and sales branches.
- Rise of services sector and regional economic integration across developed and developing economies.
- Fall of trade barriers: Lower tariffs and custom duties, less government interference, and more reliance on value-added sectors.
- Strategic alliances: Firms collaborate globally to counter economic and technological threats and use comparative and competitive advantages.

### International Environment – Assessment

#### Multinational environmental analysis

Involves tracking global developments, economic and macro elements, and government tendencies (free or interventionist), considering both present and future impact.

#### Regional environmental analysis

Focuses on key factors in a specific geographical area, finding opportunities for goods, services, or innovations.

*Antivirus – A telecom company wants to expand in the African region, will have to study about infrastructure, existing competition, internet penetration etc.*

#### Country environmental analysis

Requires in-depth study of economic, legal, political, and cultural dimensions to plan market entry strategies. Must be customised for each country for developing effective market entrance strategies.

*Antivirus Example: Local labour laws, consumer preferences, industry specific laws etc.*

### Porter's Five Forces Model

#### Introduction

- Tool for understanding the competitive environment
- Helps in focusing on important things rather than bulk of information
- Basic structure – State of competition in an industry is a composite of competitive pressures:
  - Threat from New entrant
  - Bargaining power of Customer
  - Bargaining power of Supplier
  - Rivalry among Current players
  - Threat from Substitute

- Helps in
  - Diagnosing the competitive pressures
  - Assessing the strength and importance of each pressure

#### How to use it?

- Identify – Specific competitive pressures associated with each of the five forces
- Evaluate – Strength of Pressure (how strong the pressures are):
  - Fierce
  - Strong
  - Moderate
  - Weak
- Determine – Whether the collective strength of the five competitive forces is conducive to earn attractive profits.

#### Threat of new entrants

##### New entrants and Profitability

- New entrants can reduce industry profitability
  - New production capacity → Increase supply
  - Lower price
  - Reduce the market share of the existing firm
- Existing firms can try to raise barriers to entry
- Profitability tends to be higher
  - If other firms are blocked from entering the industry

#### Barriers to Entry and Industry Profitability

- Meaning – Economic forces that slow down or impede entry by other firms
- A firm's profitability is higher when new entrants are blocked.

#### Common barriers to entry:

- Capital requirements: Industries needing high capital investment exclude firms lacking funds, enhancing profitability of existing firms.
- Economies of scale: As volume increases, per-unit cost decreases. Large firms benefit from lower costs, discouraging entry.
- Product differentiation: Physical or perceptual differences make products unique. Industries like

personal care and cosmetics use this. High differentiation costs deter new firms.

- **Switching costs:** Customers may face financial and psychological costs in switching—like testing, contracts, training, or facility modifications—which discourages change.
- **Brand identity:** Strong brand identity in high-cost, infrequently purchased products creates barriers. Building brands needs substantial resources and time.
- **Access to distribution channels:** Existing firms often control distribution channels, limiting access for new firms. Even with the internet, physical channels remain vital.
- **Aggressive retaliation:** The threat of existing firms cutting prices or raising advertising can deter new entrants.

*Antivirus – Switching costs are the expenses or inconveniences that customers face when they change from one product or service to another. These costs can be financial such as fees to end a contract early or non-financial, like the time and effort needed to learn a new system or the emotional attachment to a familiar brand.*

### **Bargaining Power of Buyers**

- Affects suppliers pricing strategy
- **Influence on Costs and Investments** – More investment needed for better services
- **Pressure on Existing Firms**
  - Lower prices
  - Better services
- **Conditions Increasing Buyer Power**
  - Full knowledge of product sources and substitutes
  - Significant spending on industry's products (big buyers)
  - Product is not critical to buyer's needs
  - Buyers are more concentrated than suppliers
  - Ease of switching to substitutes

### **Bargaining Power of Suppliers**

- **Specialized offerings increase supplier's clout**
- **Influence on Profitability**
- **Conditions Increasing Supplier Power and Profitability**
  - Products crucial to the buyer and lack of substitutes
  - High switching costs

- Suppliers more concentrated than buyers

### **Nature of Rivalry (Competition)**

1. Important determinant of attractiveness
2. Influences decisions at different strategic levels
3. On functional levels, it impacts:
  - Pricing
  - Marketing, etc.
4. Directly influences:
  - Cost of raw materials, input services
  - Distribution cost
  - Marketing, ultimately impacts profitability/attractiveness of the industry cost
  - Therefore
5. More intense rivalry = Less attractive industry

### **Conditions Increasing Rivalry (Intensity of Rivalry)**

Rivalry among competitors greatly affects industry attractiveness and profitability. When rivalry becomes intense, several conditions reduce profits:

1. **Industry Leader Presence:** A strong leader may maintain pricing discipline, but with many competitors, aggressive pricing reduces profitability.
2. **Number of Competitors:** More competitors increase rivalry, making price control difficult and leading to price competition.
3. **High Fixed Costs:** Firms with high fixed costs cut prices to use capacity, hurting industry profitability.
4. **Exit Barriers:** High exit barriers (e.g., specialized assets) trap firms in the market, sustaining competition and reducing profits.
5. **Product Differentiation:** Without differentiation, firms compete on price, leading to price wars. Differentiated products earn higher margins and reduce rivalry.
6. **Slow Industry Growth:** Low growth forces firms to compete aggressively for market share, increasing rivalry and lowering profitability.

### **Threat of Substitutes**

#### **Identifying Substitutes**

- Look for products that serve the **same or similar function**.
- **Examples:** – **Investment substitutes:** Real estate, insurance, bonds, and bank deposits can replace common stocks.

## High-Tech Industries & Substitutes

- High-tech industries face strong substitute threats.
- Examples:
  - **Photography industry:** Digital filmless cameras replaced traditional film cameras.
  - **Mobile technology:** Smartphones replaced traditional cameras

## Attractiveness of Industry

Industry analysis ends with identifying issues and concluding whether the industry is attractive or unattractive, both near-term and long-term. Key factors to consider:

- Industry growth potential—Is it futuristically viable?
- Does competition allow adequate profitability, and will competitive forces strengthen or weaken?
- Will driving forces affect industry profitability favourably or unfavourably?
- What is the firm's competitive position? Is it likely to grow stronger or weaker? (A strong leader in a weak industry can still be profitable, while a weak player in a good industry may struggle.)
- Can the firm capitalize on weaker rivals' vulnerabilities?
- Can the firm defend against unattractive industry factors?
- What are the risk and uncertainty levels?
- What is the severity of industry-wide problems?
- Does being in this industry help the firm succeed in other industries?

If profit prospects are above average, the industry is attractive; if below average, it's unattractive. But attractiveness is relative—what's unattractive to weak competitors may be attractive to strong ones.

In attractive industries, firms invest in competitive positions, sales, and facilities. In unattractive industries, strong firms invest cautiously, while weak firms may merge or diversify.

## Experience Curve

### Meaning and concept

- The experience curve is similar to the learning curve and shows efficiency gained through repetitive work.

- It explains that unit costs decline as a firm gains experience from cumulative volume of production. Based on the idea: "we learn as we grow".
- Larger firms tend to have lower unit costs, gaining competitive cost advantage over smaller firms.
- This is due to learning effects, economies of scale, product redesign, and technological improvements.

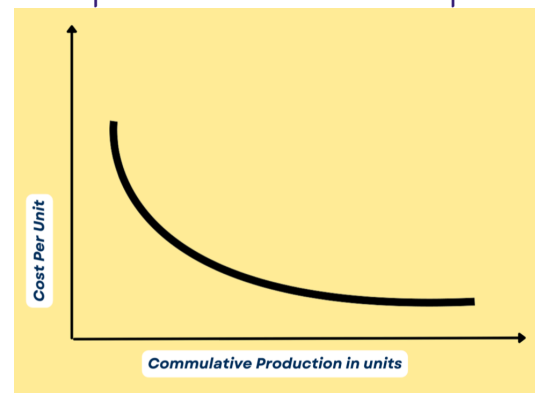
## Relevance in Strategic Management

- Experience curve is a barrier to entry for new firms.
- It helps build market share and discourage competition.

## Experience curve has the following features

- Growing firms gain experience.
- Experience provides advantage and is a key barrier to entry.
- Large firms have stronger experience effects.

A typical experience curve shows that as a business grows, it understands complexities and benefits from experience.



## Value Chain Analysis

Value chain analysis is a strategic tool used to examine each business activity to determine how it adds value, helping firms improve efficiency, identify cost-saving opportunities and gain competitive advantage through better coordination and performance of internal processes.

## Value Chain

- Chain of activities (All the steps involved)
- That a business undertakes from creating a product to customer satisfaction

## Activities

- Primary (5)
- Secondary (4) (Support)

### Primary activities

- Inbound logistics: Receiving, storing, and distributing inputs (materials handling, stock control, transport).
- Operations: Transforming inputs into final product/service (machining, packaging, assembly, testing).
- Outbound logistics: Delivering product to customers (warehousing, transport); for services, arranging customer access (e.g., sports events).
- Marketing and sales: Making users aware and enabling purchase (advertising, selling, sales admin, communication networks in public services).
- Service: Activities that maintain/enhance value (installation, repair, training, spares).

### Support Activities

- Procurement: Acquiring resource inputs for primary activities, focusing on sourcing methods across the organization.
- Technology Development: Includes R&D, product design, process improvement, and resource development to boost value activity performance.
- Human Resource Management: Covers recruiting, training, development, and rewarding employees to ensure effective activity performance.
- Infrastructure: Involves planning, finance, quality control, info management, and culture to support and coordinate all activities.

### Value Creation – usefulness – "worth"

Value creation means offering products/services with more worth, measured by features, quality, availability, durability, performance, and related services, and is the extra worth a consumer sees beyond the price, leading to a firm's margin.

Firms now focus on value for both customers and stakeholders, aiming for competitive advantage and above-average profits.

Customer value depends on:

1. Value perceived by customer (utility),
2. Price charged,
3. Cost of creating value.

Utility is the satisfaction customers derive from a product—based on its performance, design, quality, and service—and is different from price

According to Michael Porter, firms gain competitive advantage via:

- Differentiation (superior features, service, higher pricing), or
- Cost advantage (lower cost than rivals).

Porter's Value Chain helps identify sources of differentiation and understand cost behavior through analysis of primary and supporting activities.

### Understanding Product and Industry - Product

Businesses sell products, which can be either a good or a service. It might be a physical good, service, or experience. Key characteristics of business products:

#### Business products are either tangible or intangible.

A **tangible product** can be handled, seen, and felt, like a **mobile handset**. An **intangible product** includes **telecom services, banking, insurance** etc.

#### A product has a price.

The market price is influenced by supply and demand, where quantity provided equals quantity desired. In a competitive world, the price is often set by the market, so businesses must manage costs to maintain profitability.

#### New Product Pricing Strategy

- Customer-**centric** approach in development. (make your price acceptable)
- Ensure **returns** with reasonable margin.
- Aim to increase **market share**.

#### **Products have features that deliver satisfaction.**

A **product feature** is a **component** that satisfies a **consumer need**. Features **determine** pricing and may change during the **development process** to improve the **user experience**.

Products must deliver **value satisfaction** to **customers** through **function, design, quality, and experience**.

#### **A product is central to business.**

It drives production, quality, sales, marketing, logistics, and all business processes. It is the driving force behind all business activities.

## A product has a useful life.

It has a **usable life** and a life cycle after which it may be **reinvented** or replaced—e.g., **fixed line telephone** replaced by **mobile phones**.

## Classification and differentiation

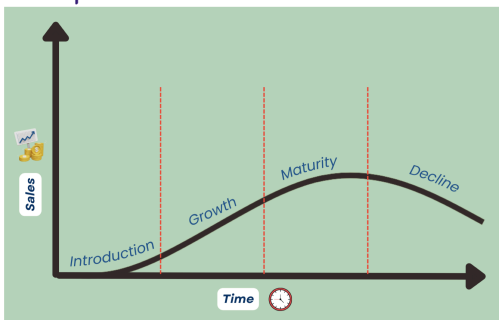
- Classified as industrial/consumer, essential/luxury, durable/perishable.
- Some products have steady demand, others may have seasonal demand.
- Differentiation via size, shape, color, brand, after-sales service.
- Psychological branding influences customer perception.
- Example: P&G brands (Head & Shoulders, Olay, Pantene, etc.).
- Brand names legally protected to establish identity.
- Firms build image & loyalty through advertising.

## Product Strategy

- Strategies: Manage existing, add new, drop failures.
- Decisions on branding, packaging, warranties.

## Product Life Cycle

PLC is an S-shaped curve showing the relationship between sales of a product and time, moving through four stages: Introduction, Growth, Maturity, and Decline. The concept applies to both products and businesses.



Stages of Product – A product passes through 4 successive stages

- Introduction: Slow sales growth, high prices, low competition, limited market, and low customer awareness.
- Growth: Rapid demand, falling prices, rising competition, expanding market, and more customer interest.
- Maturity: Growth slows, tough competition, stable market, falling profits, need to maintain stability.
- Decline: Sharp drop in sales and profits, due to new products replacing old ones. Use diversification or retrenchment.

## Advantage of PLC

- Helps analyse product/business portfolios by identifying their stage.
- Depending on the diagnosis, appropriate strategic choice can be made
  - For introductory/growth stages: adopt expansion strategies.
  - For the mature stage: use as cash sources for others.
  - For the declining stage: use selective harvesting, retrenchment, etc.
- A balanced portfolio is built using PLC-based strategic choice.

## Market

- Place where goods and services can be exchanged for a price
- Maybe
  - Physical
  - Virtual (like e-commerce websites and applications)
  - May further be local or global
- Can be used for
  - stock market,
  - group of individuals potential buyers and
  - for defining business or industry
- May further be **local** or **global**
- Markets are not the same for all businesses
  - Each business has its **own** set of **customers**, i.e., market.
  - Each **product within a business** has its **own market**.

## Marketing

Marketing improves business success. It's explained using 4 Ps – Product, Place, Pricing, and Promotion – to meet customer needs and deliver satisfaction.

The goal of marketing is to deliver a great customer experience and build strong relationships.

## Marketing Orientations

- Product-oriented: Focus on **quality, performance, design**
- Production-oriented: Focus on **low price**
- Sales-oriented: Rely on **advertising and promotion**
- Customer-oriented: Focus on **customer needs**, value creation using **market and competitor data**



**Customer****Basics**

- A person or business who buys goods or services
- Provides essential revenue for business survival
- Businesses compete for customers by:
  - Aggressive marketing
  - Lowering prices

**Customer Research and Segmentation**

Businesses study customer characteristics and segments to:

- Create marketing strategies
- Adjust inventory levels

Segmentation is based on demographics like age, race, gender, ethnicity, income level, and geographic region

**Customer analysis**

- Essential marketing component of strategic business plan
- Identifies Target customers, Determines wants, Defines how products meet their needs
- Includes:
  - Administration of customer surveys
  - Study of consumer data
  - Evaluation of market positioning analysis
  - Development of customer profiles (Persona)
  - Selection of best market segmentation techniques
- Example: A headphone brand categorizes buyers into:
  - High value buyers (willing to pay more)
  - Medium value buyers
  - Low value buyers (spend less)

**Customer vs. Consumer**

- Customer: **Buys** the product/service.
- Consumer: **Uses** the product/service.
- Example:
  - **Parents** buy stationery (customers), but **kids** use it (consumers).
  - Baby **diapers** are bought by **parents**, but babies use them.
- Marketers must **understand both** for effective strategies.
- If **consumers** (users) are **unhappy**, **retaining customers** (buyers) becomes **difficult**.

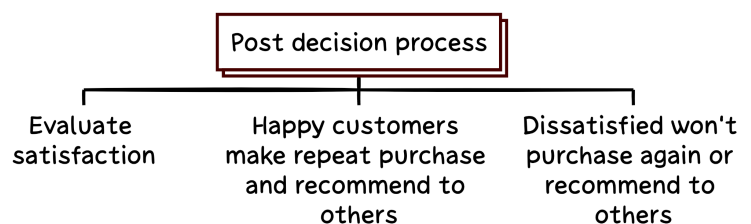
**Customer behaviour**

Customer behaviour explains how customers purchase products—covering shopping frequency, product preferences, and perception of marketing, sales, and service. It helps in effective communication, marketing, advertising, and customer retention.

Consumer behaviour is influenced by three conceptual domains:

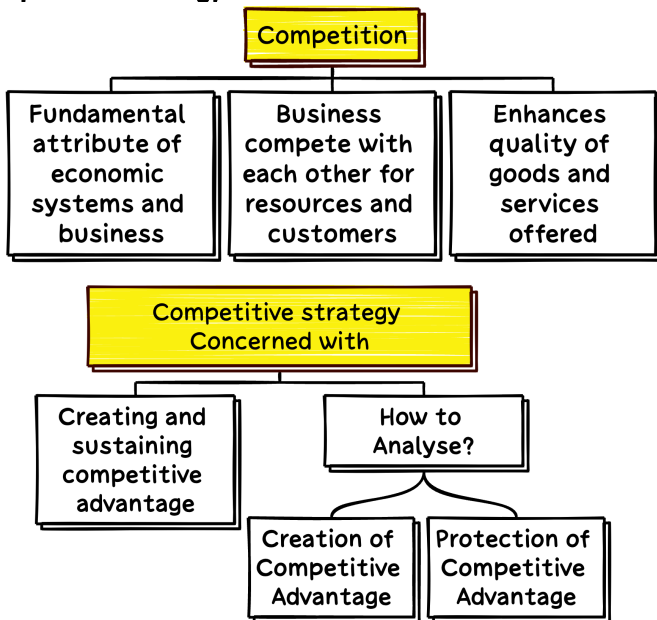
- External Influences Include advertisement, peer recommendations, and social norms. These affect psychological and internal processes in decision-making. Divided into
  - Company's marketing efforts
  - Environmental elements
- Internal Influences: Psychological factors like motivation and attitudes internal to the customer that impact decisions.
- Decision making - Gather information, check pros and cons, integrate with prior knowledge and then make decisions. Stages of decision making processes:
  - Problem recognition
  - Search for desirable alternatives
  - Seeking information on available alternatives and weighing their pros and cons
  - Make a final choice

More common for significant purchases in comparison to casual choices, like ice cream, et cetera.



**CBQ - You are a strategic manager for a tech company launching a new smartphone model. The company wants to target tech-savvy consumers who value innovation and cutting-edge technology. Using the concept of customer behaviour, develop a marketing strategy to promote the new smartphone. (MTP1, May 2024, 5 Marks)(MTP1, Jan 2025, 5 Marks) (ICAI Study material)(Model Test Paper 1, May 2025, 5 marks) (Model test paper 6, May 2025, 5 marks)**

## Competitive strategy



Competitive advantage over competitors means being more profitable in the long run.

## Competitive landscape

Competitive landscape is a business analysis to identify competitors, direct or indirect. It involves understanding their vision, mission, core values, niche market, strengths, and weaknesses.

### Steps to understand the competitive landscape:

- **Identify the competitor:** Find competitors in the industry and collect data on market share.
- **Understand the competitors** - Use market research reports, internet, social media, industry reports, etc., to study their products and services.
- **Determine the strengths of the competitors** - What do they do well? Good products? Strong marketing? Why do customers choose them?
- **Determine the weaknesses of the competitors** - Use consumer reports and reviews to find weak areas.
- **Put all of the information together** - Summarize findings to identify gaps and areas the firm can fill or strengthen.

*Riya Sharma owns a confectionery business in Jaipur, specializing in homemade chocolates and candies. Despite holding a substantial market share in the central region, her business has experienced declining sales of these products over the last few years. Concerned about the market dynamics, Riya consulted a management expert for guidance. The consultant recommends a comprehensive understanding of the competitive landscape.*

*Explain the steps to be followed by Riya Sharma to understand the competitive landscape to address the sales decline. (MTP2, May 2024, 5 Marks)(ICAI Study material.) (RTP, Jan 2025, NA) (MTP1, Sep 2025, 5 Marks)*

## Key success factors

### Meaning

- An industry's Key Success Factors (KSFs) are things that most affect industry members' ability to prosper in the marketplace.
- KSFs are so important that all firms must pay close attention to them.
- They are the prerequisites for industry success
- KSFs are the rules that determine whether a company will be financially and competitively successful.
- Misdiagnosis raises risk of misdirected strategy

### Dynamics

- Vary from industry to industry and from time to time
- At one time rarely an industry has more than 3-4 KSFs
- One or two usually outrank others in importance

### KSF Questions

Three questions help identify an industry's key success factors:

- Basis
  - On what basis customers choose between competing brands of sellers
  - What product attributes are crucial to sales?
- Resources and competitive capabilities
  - What resources are needed to be competitively successful e.g. better human capital, quality of product, quantity of product, cost of service, etc?
- Sustainable competitive advantage
  - What does it take for sellers to achieve a sustainable competitive advantage

*DQ - Analyze the role of Key Success Factors (KSFs) in determining competitive success within an industry. (MTP2, Sep 2024, 5 Marks)(MTP2, Jan 2025, 5 Marks) (Model test paper 5, May 2025, 5 marks) (Model test paper 7, May 2025, 5 marks)*

## 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**

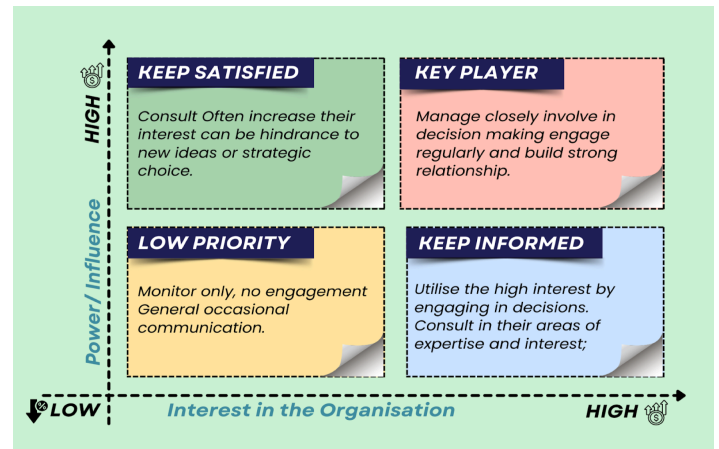
- High power, highly interested people
- Fully engage this group of stakeholders, making the greatest efforts to satisfy them.
- Take their advice, build actions, and keep them informed with all information on a regular basis.
- Examples: Shareholders, CEO, Board of Directors, etc.

#### **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 Marker
- 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:

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

3. Achieving **economies of scale** leads to lower per unit cost of product/service.
4. **Standardisation of products** for mass production to yield lower cost per unit.
5. Invest in **cost saving technologies** and try using advanced technology for smart working.
6. **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

1. Cost advantage **may not be remaining for long** as competitors may also follow cost reduction techniques.
2. Cost leadership can succeed only if the firm can achieve **higher sales volume**.
3. 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**.
4. **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 Intel 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.

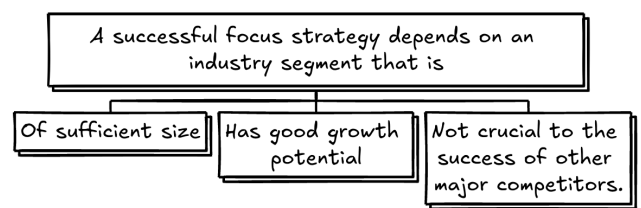
## Disadvantages of Differentiation Strategy

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:

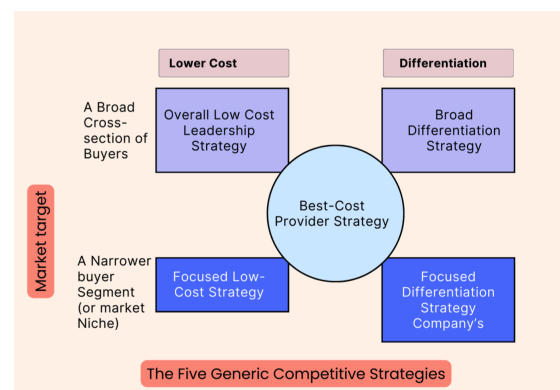
- Android flagship phones from OnePlus, Xiaomi, Oppo, Vivo, etc.
  - They are offering high value quality at lowest prices to attract customers.
  - They are following the best-cost provider strategy to penetrate the market.

### 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.

## Chapter 4: Strategic Choices

### Overview

- Different types of strategies
- Corporate strategy
- Stability strategy
- Expansion/growth strategy
- Strategic Exits-Retrenchment strategies
- Strategic options
  - Ansoff's Product Market Growth Matrix
  - ADL Matrix
  - BCG Growth share Matrix
  - GE Matrix
  - Difference between GE Matrix and BCG Matrix

### Different Types of Strategies Based on Their Classification

1. Level of the Organization
  - Corporate Level Strategy
  - Business Level Strategy
  - Functional Level Strategy
2. Stages of Business Life Cycle
  - Entry/Introduction Stage – Market Penetration Strategy
  - Growth Stage – Growth/Expansion Strategy
  - Maturity Stage – Stability Strategy
  - Decline Stage – Retrenchment/Turnaround Strategy
3. Competition-Oriented Strategies:
  - Competitive Strategies – Cost Leadership, Differentiation, Focus
  - Collaboration Strategies – Joint Venture, Merger & Acquisition, Strategic Alliance

### Strategies Followed by Business Conglomerates

Businesses with multiple products and divisions formulate strategies at different levels, including corporate, business unit, and functional strategies.

Three Levels of Strategies:

1. Corporate Level Strategy
  - Provides direction to the company.
  - Focuses on overall business growth, diversification, and long-term planning.
2. Business Level Strategy
  - Formulated for each product/process division, known as a Strategic Business Unit (SBU).

- Focuses on competition, market positioning, and profitability.

### 3. Functional Level Strategy

- Designed for the implementation of corporate and business strategies.
- Includes strategies in business areas such as:
  - Production/Operations
  - Marketing
  - Finance
  - Human Resources (HR)

### Corporate Level Strategies – Introduction

#### Also Known as

- Corporate-level strategies are **grand strategies** that provide direction to the company.
- They are sometimes referred to as "**directional strategies**" or **generic strategies**.

#### Discussed By

These strategies were initially discussed by William F. Glueck and Lawrence R. Jauch and are also known as **Glueck and Jauch Strategies**.

#### Importance of Corporate Strategy

Corporate strategy ensures the growth of the firm due to the following reasons:

1. **Correct Alignment:**
  - Aligns the firm with its external environment.
  - Serves as a design for strategic planning.
2. **Help to Managers:**
  - Assists managers in handling uncertainties and complexities in the environment.
3. **Competitive Advantages:**
  - Helps build relevant competitive advantages for the firm.
4. **Harnessing Opportunities:**
  - Utilizes available opportunities in the environment while countering potential threats.

*Question-ABC Ltd. intends to grow its business. Its top management argues that its 'Corporate Strategy' will ensure the growth of the firm. Do you agree with the top management's argument? Give reasons.-(MTP2, May 2023, 5 Marks)*



## Basic Corporate Strategies

1. Stability Strategy
2. Expansion Strategy
3. Retrenchment Strategy
4. Combination Strategy (noted in handwritten correction)

## Basic Features of Corporate Strategies

Self read this topic after completing all the strategies

### Stability

Stays with its current businesses and product markets; maintains the existing level of effort; and is satisfied with incremental growth. NOT a do-nothing strategy.

### Expansion

Seeks significant growth—

- Maybe within the current businesses
- Maybe by entering new businesses that are related to existing businesses
- Or by entering new businesses that are unrelated to existing businesses

### Retrenchment

The firm retrenches some of the activities in some business(es), or drops the business as such through sell-out or liquidation.

### Combination

The firm combines the above strategic alternatives in some permutation/combination so as to suit the specific requirements of the firm.

## Stability Strategy

### Meaning & Concept

Stability Strategy

- Serve **same**/similar **markets**
- Offer **same**/similar **products**/services
- Focus on **incremental functional improvements**

**Stability strategy is not a 'do-nothing' strategy.** It involves keeping track of new developments to ensure that the strategy remains relevant.

## Major Reasons for Stability Strategy

1. Maturity Stage – A product has reached the maturity stage of its life cycle.
2. Less Risk, Less Change – It involves fewer changes, making staff feel comfortable.
3. Expansion is Threatening – Expansion may seem risky or challenging.
4. Consolidation – Stability is preferred after rapid expansion.
5. Stable Environment – The business operates in a relatively stable market.

## Other Characteristics of Stability Strategy

- **No Redefinition:** It does not redefine the business model.
- **Safety-Oriented** (Status Quo): Maintains the current status quo and avoids unnecessary risks.
- **Fresh Investment:** Requires minimal investment.
- **Minor Improvement:** Involves small changes in products and packaging.
- **Risk:** Lower risk strategy compared to expansion.
- **Benefit:** Focuses resources on existing businesses, products, and markets.
- **Growth Objective:** Modest growth expectations while maintaining stability.

*Question-Startups rarely aim for stability strategy. While agreeing with the statement or otherwise, support your point of view by briefly stating as to when the stability strategy is meaningful. State the major reasons for considering stability strategy as one of the corporate strategies by a company.-(SA Sep 2024,5 Marks)*

*Answer - Start-ups rarely choose a stability strategy as they focus on speed, agility, rapid growth, and market penetration in early stages. Stability strategy suits mature businesses aiming to maintain operations and market share, usually after expansion to full capacity.*

*Also write reasons and scenarios of stability strategy.*

## Expansion Strategy

### Meaning & Concept

Expansion Strategy (or Growth Strategy) is a corporate-level strategy where a business enlarges operations and increases investment. It shows dynamism, vigour, and success. It includes entering new markets, adopting new technologies, launching new products, and

making fresh investments. It aims for ambitious growth, which is risky but rewarding.

**Characteristics of Expansion Strategy**

1. **Redefinition of Business Scope:** The strategy involves a fundamental reshaping of the corporation’s business operations by exploring new areas, markets and technologies.
2. **High Risk – High Reward Nature:** Unlike stability strategy, expansion is characterized by high risks but also potentially high rewards. It is suited for firms willing to take bold steps for growth.
3. **Facilitates Business Growth:** It is a key strategy for firms aiming at substantial business growth, helping them to meet large-scale ambitions.
4. **Drives Renewal through Investment:** Expansion enables the renewal of the firm through fresh investments in new businesses, products and markets.
5. **Versatile Strategy with Multiple Growth Routes:** The strategy is flexible and versatile, allowing firms to design growth through various permutations in products, markets and functions.

*Question-Explain in brief the expansion strategy as one of the corporate strategies. Also state the characteristics of expansion strategy.-(SA,May 2025,1+4 Marks)*

**Major Reasons for Growth/Expansion Strategy:**

- **Demand** of Environment: Expansion may become necessary when the environment demands faster activity.
- **Satisfaction:**
  - Strategists feel more satisfied with growth prospects.
  - Chief executives prefer to lead growth-oriented organizations.
- **Greater Control:**
  - Expansion provides firms with better control over the market as compared to competitors.
- **Experience Curve Benefits:**
  - Leverages scale and operational experience for better efficiency.

*Question-Which strategy is implemented by redefining the business, by enlarging its scope of business and substantially increasing investment in the business? Explain the major reasons*

*for adopting this strategy.-(MTP2, Sep 2024, 5 Marks) (Model test paper 5,May 2025, 5 marks)*

**Type of Growth or Expansion**

Growth and Expansion Overview				
Internal	Intensification	Market Penetration		
		Market Development		
		Product Development		
	Diversification	concentric diversification (Related)	vertical integrated diversification	Forward
			horizontal integrated diversification	
		conglomerate diversification (Unrelated)		
innovation				
External	Mergers and Acquisition	horizontal merger		
		vertical merger		
		Co-generic merger		
		Conglomerate merger		
	Strategic alliance	meaning		
		advantage		
disadvantage				

**Expansion or Growth through Intensification and Igor Ansoff Product – Market Expansion Grid**

Intensification - Igor Ansoff Product – Market Expansion Grid				
Market Penetration	Focus is to concentrate on growing existing products in the current market	Method utilise resources of company to enhance the profitability and market share of current offerings	other points	increase product usage
				increase the frequency used
				increase the quantity used
				find new application applications for current users.
Market Development	Focus Markets existing products to new customer groups or regions.	Methods Includes using different distribution channels, modifying advertising content, or changing promotional media.	Other Points	Expand geographically, target new segments.
Product Development	Focus Involves significant changes to existing products or creating new, related items	Methods Targets current customers using established distribution channels.	Other points	Add product features, product refinement.
				Develop a new-generation product.
				Develop a new product for the same market.
Diversification	(Involving new products and new markets) Related / Unrelated			

*Question-Explain the 'product market growth matrix' as propagated by Igor Ansoff as a device for identifying growth opportunities for the future.-(SA,Jan 2025)*

**Question**—ABC Fashion, a prominent brand in the domestic market, is now venturing into the international arena. As part of its global expansion strategy, the company is introducing a variety of products tailored to meet the unique tastes and preferences of customers in different regions. By customizing its offerings for each market, ABC Fashion aims to capture a broader audience and establish a strong international presence. Which expansion strategy from Ansoff's Product-Market Growth Matrix best aligns with ABC Fashion's approach?—(MTP 1, May 2025, 5marks)

**Example - Coca-Cola**

**Market Penetration (Existing Product, Existing Market)**

- **Coca-Cola focuses on increasing sales of its existing beverages in current markets.**
- **Methods:**
  - Increasing consumption through advertisements (e.g., "Open Happiness" campaign).
  - Promotional discounts to boost sales.
  - Expanding availability in restaurants, supermarkets, and vending machines.
- **Example: Introducing smaller pack sizes (e.g., 200ml bottle) at a lower price to encourage frequent purchases.**

**Market Development (Existing Product, New Market)**

- **Coca-Cola expands its existing products to new geographical areas or customer segments.**
- **Methods:**
  - Entering new countries or rural areas.
  - Changing advertising to appeal to different cultures.
  - Using different distribution channels.
- **Example: Coca-Cola expanding aggressively in African and Asian rural markets by making bottles more affordable.**

**Product Development (New Product, Existing Market)**

- **Coca-Cola introduces new products to its existing customers.**
- **Methods:**
  - Developing healthier beverage options (e.g., Diet Coke, Coke Zero).
  - Launching flavored versions of Coca-Cola.
- **Example: Introduction of Coca-Cola Zero to appeal to health-conscious consumers who prefer zero-calorie drinks.**

**Diversification (New Product, New Market)**

- **Coca-Cola enters completely new industries or develops unrelated products.**
- **Methods:**
  - Acquiring or launching products in different industries.
  - Expanding into non-beverage categories.
- **Example: Coca-Cola acquiring Costa Coffee to enter the coffee retail market.**

Concentric Diversification	
Related	Amounts to related diversification.
Linked	In concentric diversification, the new business is linked to the existing businesses through:
	Process
	Technology
	Marketing
Spin-off	The new product is a spin-off from the existing facilities and products/processes.
Benefits	There are benefits of synergy with the current operations.
Understood in two directions	Vertical integration
	Horizontal integration

**Apple is a great example of concentric diversification. Let's break it down based on the elements in the image.**

**1. Related Diversification:**

- Apple started as a computer company but expanded into related products like smartphones, tablets, smartwatches, and services.
- Each new product is connected through Apple's ecosystem.

**2. Linked through Process, Technology, and Marketing:**

- **Process:** Apple uses the same high-quality design and production processes across its product lines.
- **Technology:** Apple's operating systems (iOS, macOS, iPadOS) and chips (A-series & M-series) are shared across devices.
- **Marketing:** Apple's branding, retail stores, and online platforms create a unified customer experience.

**3. Spin-off Products:**

- Apple Watch was a spin-off from iPhones, leveraging similar software, hardware, and app ecosystem.
- AirPods spun off from Apple's audio and wireless technology, enhancing its ecosystem.

**4. Benefits of Synergy:**

- Apple ensures seamless integration across devices, encouraging users to buy multiple Apple products.
- Shared resources and R&D efforts reduce costs and increase efficiency.

**"Spin-off" means a new product that has been developed from an existing product by using similar technology, software, or ecosystem for example- Apple created new products by leveraging its existing expertise and innovations.**

**Question**—Leatherite Ltd., was started as a leather company to manufacture footwear. Currently, they are in the manufacturing of footwears for males and females. The top management desires to expand the business in leather manufacturing goods. To expand

they decided to purchase more machines to manufacture leather bags for males and females. Identify and explain the strategy opted by the top management of Leatherite Ltd.-(MTP1, May 2019, 5 Marks) (RTP, Nov 2021, NA)(MTP1, Jan 2025, 5 Marks) (Model test paper 6, May 2025, 5 marks)

Question-There has been fierce demand for both Gecko and FlyBee for the last 3 years. Gecko makes mass consumption pens while FlyBee is a notebook and diary brand - both being complementary goods of each other. But to grow further, FlyBee decided to take up competition with Gecko in the pens segment and thereby launched FlyPens. Identify and explain the growth strategy opted by FlyBee? -(MTP1, May 2022, 5 Marks)

Hint:FlyBee, a notebook and diary brand, has entered the pen market by launching FlyPens, competing with Gecko. This is a concentric diversification strategy since pens are functionally related to notebooks and cater to the same customer base.

Vertically Integrated Diversification	
Related	Engage in businesses that are related to the existing business of the firm.
Same Process	Remains vertically within the same process sequence and moves forward or backward in the value chain.
Does Not Jump	The characteristic feature of vertical integrated diversification is that the firm does not jump outside the vertically linked product process chain.

Types of Vertically Integrated Diversification	Backward Integration	Purpose	To create an effective supply chain by becoming an input provider.
		Strategy	Enhance profits and control over product production through the establishment of businesses that improve supply capability or reduce production costs.
		Example	A large supermarket chain considers entering into farm business that would provide it a significant amount of fresh produce.
	Forward Integration	Definition	Moving forward in the value chain to enter businesses that utilize existing products.
		Application	Includes entering into distribution channels or related retail sectors.
		Example	A coffee bean manufacturer starting coffee café chain.

Example: Starbucks

Let's apply the two types of vertical integration to Starbucks, the global coffee chain.

1. Backward Integration (Moving Back in the Supply Chain)

- Starbucks owns coffee farms and sources coffee beans directly instead of relying on third-party suppliers.
- Purpose: Ensures high-quality raw materials and reduces dependency on external suppliers.

2. Forward Integration (Moving Forward in the Supply Chain)

- Starbucks opened its own retail stores instead of selling coffee through third-party retailers.
- Application: Starbucks controls the entire coffee experience by owning the coffee shops, creating a premium brand experience.

Horizontal Integrated Diversification:

- A firm diversifies by acquiring similar businesses at the same production-marketing stage.
- Can integrate with firms producing complementary products or by-products.
- Can also take over competitors' products.
- Example: Textile Mill 1 acquires Textile Mill 2 and 3.

- Coca-Cola acquiring a juice brand like Minute Maid
- A biscuit company acquiring a jam company


- **Maruti Suzuki taking over a small car model from a rival brand**

*Swift Insurance is a company engaged in the business of providing medical insurance, maintaining a market share of 25 to 30 per cent in the last five years. Recently, the company decided to enter into the business of auto insurance by having foreign collaboration. Identify the strategy being followed by the Swift Insurance with its advantages.*

*Swift Insurance is following a horizontal diversification strategy because it is expanding into a new but related industry (insurance) rather than moving up or down its existing supply chain.*

Conglomerate Diversification Strategy Overview	
Nature	Diversification into completely unrelated businesses or products.
Characteristics:	No linkages in product, market, or technology between the new and existing businesses.
Distinctiveness:	The new ventures are entirely separate in terms of process, technology, or function.
Example:	A cement manufacturer diversifying into steel and rubber product manufacturing.

*Question-NovaTech Pvt. Ltd. is a well-established educational technology (EdTech) company in India. The company has been performing well in the online learning industry. The management of NovaTech Pvt. Ltd. has now decided to expand its business by launching a luxury skincare brand named "GlowNova." Identify and explain the growth strategy adopted by NovaTech Pvt. Ltd.-(MTP2, May 2025,5 Marks)*

Acquisitions and Mergers (Two or More Companies Combine)		
Attractive & Tempting:	Circumvents (reduces) the time, risks, and skills involved in screening internal growth opportunities and seizing them.	
 Synergy:	Synergy may result from:	Another main objective of achieving the expansion.
		Physical facilities
		Technical and managerial skills
		Research and development
Definition and Differences:	Merger:	A union of two or more companies to form a new entity, usually on friendly terms, with shared profits and goals.
	Acquisition:	One company (usually stronger financially) takes over another, often in situations like economic recession or declining profits.  Can be unfriendly, with the dominant company absorbing the weaker one.

Synergy -The positive effects of the merged resources are greater than the effects of the individual resources before merger or acquisition.

### Different Types of Mergers

#### Horizontal Merger

- Merger of companies in the **same industry**, often **direct competitors**.
- Achieve **economies of scale**, reduce **duplication**, expand **product lines**, **reduce competition**.
- Merger of **Lipton** India and **Brooke Bond** to form Brooke Bond Lipton India Ltd.

#### Vertical Merger

- Union of companies at **different stages** of production or distribution in the same industry.
  - **Backward** Integration - Company **acquires** its suppliers or raw material producers.
  - **Forward** Integration - Company **acquires** its distribution channels or buyers.
- Increases **synergies**, creates an advantageous **market position** by controlling supplies or distribution.

## Co-generic Merger

- Merger of companies **related** in **some aspects** of **production, market, or technology**.
- Extend product lines or acquire needed components, based on shared resources or strategic requirements.
- A refrigerator manufacturer merging with a kitchen appliance company.

**Question**–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. What kind of external growth strategy is being considered by TechNova and Electrowave?–(MTP2, Sep 2024, 5 Marks) (Model test paper 5, May 2025, 5 marks)

## Conglomerate Merger

- Combination of companies that are **completely unrelated** in terms of customer groups, functions, or technologies.
- **No significant commonalities** in production, marketing, R&D, or technology, though **some overlap may exist**.
- These mergers are more **diverse** and may **not** have **immediate synergies** or related business functions.

### Example

#### Horizontal Merger (Same Industry, Competitors Merge)

- **Example: Tata Steel acquiring Bhushan Steel**
- **Why?**
  - Both companies are in the steel industry and direct competitors.
  - The merger helped Tata Steel expand capacity, reduce competition, and achieve economies of scale.
  - Bhushan Steel's assets improved Tata Steel's market position in India.

#### Co-generic Merger (Related Businesses Merge for Synergy)

- **Example: Tata Consumer Products merging with Tata Coffee**
- **Why?**
  - Both companies are in the food & beverage industry.
  - Tata Consumer Products (which owns Tata Tea) can now control its coffee supply chain, improving product diversity.
  - Helps Tata expand into the premium coffee market using shared resources.

#### Conglomerate Merger (Unrelated Businesses Merge)


- **Example: Tata Group acquiring BigBasket (E-commerce Grocery Platform)**

### Why?

- Tata Group, originally known for automobiles, steel, and IT, diversified into online grocery retail.
- There was no direct connection between Tata's previous businesses and BigBasket.
- This move helped Tata enter India's booming e-commerce and digital consumer market.

### Why Mergers Matter?

- **Horizontal Mergers: Reduce competition, improve market share.**
- **Vertical Mergers: Strengthen supply chain control.**
- **Congeneric Mergers: Expand related product offerings.**
- **Conglomerate Mergers: Diversify business risks and explore new markets**

Innovation	
Meaning:	Innovation is the process of creating and implementing new ideas, methods, or products that lead to significant positive change.
	Innovation improves product lines or processes, enhancing market share, revenues, profitability, and customer satisfaction.
Advantages 	
Problem-Solving Through Innovation:	Addresses complex societal issues with customer-centric solutions.
	Example: Environmental challenges tackled by renewable energy innovations.
Enhancing Productivity:	Innovations simplify and automate tasks, boosting productivity.
	Example: MS Excel automates financial tasks, leading to increased efficiency.
Competitive Advantage:	Innovation distances a company from its competitors.
	Innovative products naturally attract customers, reducing the need for extensive marketing.
	Helps in retaining existing customers and attracting new ones.

### Example: Tesla's Innovation in Electric Vehicles

**Question**–'Innovation leads to unnecessary expenses that do not give as many returns.' Do you agree with the statement? Give reasons in support of your answer.–(SA, May 2024, 5 Marks) (MTP2, May 2025, 5 Marks)

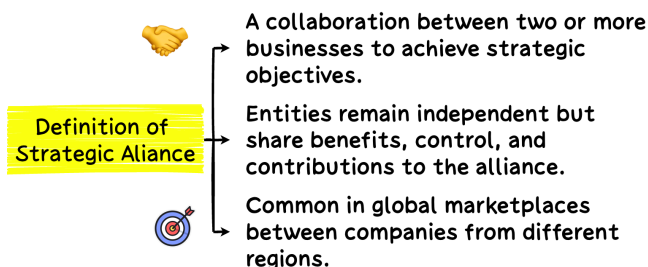
Tesla is a prime example of innovation in the automobile industry. Let's analyze its innovations based on the elements in the image.

#### 1. Problem-Solving Through Innovation

- Tesla addressed environmental challenges by developing electric vehicles (EVs) to reduce carbon emissions.
- Example: Renewable energy innovations, such as Tesla's battery technology and solar energy integration.

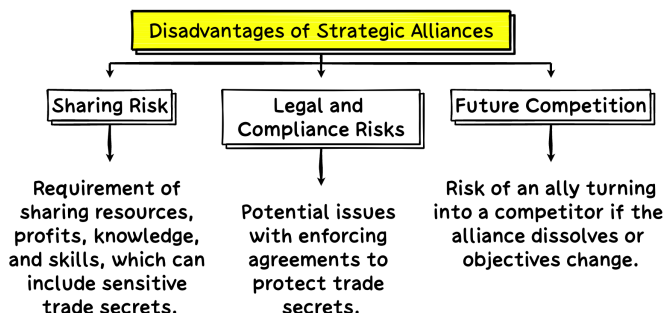
- *Impact: Reduces dependence on fossil fuels and supports sustainability.*
2. **Enhancing Productivity**  
*Tesla automates many aspects of vehicle production with robotics and AI.*
- *Example: Tesla's Gigafactories use highly automated assembly lines, improving manufacturing efficiency.*
  - *Impact: Faster production, lower costs, and higher-quality vehicles.*
3. **Competitive Advantage**
- *Tesla distances itself from competitors by leading in EV technology.*
  - *Example: Autopilot & Full Self-Driving (FSD) features, giving Tesla an edge over traditional car manufacturers.*
  - *Impact: Attracts tech-savvy customers and increases brand loyalty.*

### Expansion Through Strategic Alliances



### Advantages of Strategic Alliances

- **Organizational** - Learning new skills, enhancing capacity, extending supply chains, and adding legitimacy to new ventures through respected partners.
- **Economic** - Cost and risk reduction, achieving economies of scale, and co-specialization (e.g., bundling products from different companies).
- **Strategic** - Collaboration with rivals, vertical integration in supply chains, pooling resources for competitive advantage, accessing new technologies, and joint R&D efforts.
- **Political** - Gaining entry into foreign markets through local partners, overcoming legal barriers, and improving political influence.

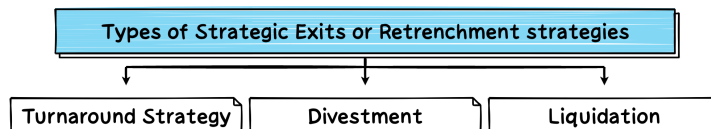


*Example: Starbucks & PepsiCo (Global Beverage Expansion)*  
 Starbucks and PepsiCo formed a strategic alliance to expand Starbucks' bottled coffee products worldwide.

- Definition of Strategic Alliance in this Case:**
  - Starbucks (a coffee company) and PepsiCo (a global beverage distributor) joined forces.
  - Starbucks provided its brand and coffee expertise.
  - PepsiCo handled distribution, logistics, and retail partnerships.
- Advantages of this Alliance:**
  - **Organizational:** Starbucks learned large-scale distribution and gained access to PepsiCo's extensive supply chain.
  - **Economic:** Starbucks reduced costs by leveraging PepsiCo's existing infrastructure instead of building its own.
  - **Strategic:** Starbucks focused on product development while PepsiCo focused on logistics, creating a win-win situation.
  - **Political:** Starbucks expanded into new global markets without facing regulatory hurdles alone.
- Disadvantages of this Alliance:**
  - **Sharing Risks:** Starbucks had to share trade secrets about its coffee formulation with PepsiCo.
  - **Legal & Compliance Risks:** Ensuring PepsiCo honored branding and quality standards.
  - **Future Competition:** If the alliance ended, PepsiCo could launch its own coffee-based beverages.

*Question-Strategic alliances are formed if they provide an advantage to all the parties in the alliance. Do you agree? Explain in brief the advantages of a strategic alliance.-(RTP, May 2018, NA) (MTP2, May 2024, 5 Marks)(MTP2, Jan 2025, 5 Marks) (Model Test Paper 2, May 2025, 5 Marks) (Model test paper 7, May 2025, 5 marks)*

### Strategic Exits - Retrenchment Strategies



#### Turnaround Strategy

##### Nature of Turnaround Strategy

- Focuses on internal retrenchment.
- Aims to enhance internal efficiency of the organization.

##### Indicators Necessitating a Turnaround Strategy

- Persistent negative cash flow from business.
- Uncompetitive products or services.
- Declining market share.
- Deterioration in physical facilities.

- Over-staffing, high turnover of employees, and low morale.
- Mismanagement.

There are certain conditions or indicators which point out that a turnaround is needed if the company has to survive." Discuss.

### Action Plan for Turnaround

A workable action plan for turnaround would involve the following stages

#### Stage One – Assessment of current problems (ACP- DCP)

Assess current problems & find the extent of damage caused by the problem. Resources should be focused toward those areas which are essential.

#### Stage Two – Analyze the situation and develop a strategic plan (S/PAP/CB/ABF)

Identify appropriate strategies & develop preliminary action plans & look for viable core businesses, adequate bridge financing & available organizational resources.

#### Stage Three – Implementing an emergency plan (HR/F/M/O – Action – RD/IWC/RC/IBP)

- The plan typically includes human resource, financial, marketing & operations actions to restructure debts, improve working capital, reduce costs, and improve budgeting practices etc.

#### Stage Four – Restructuring the business

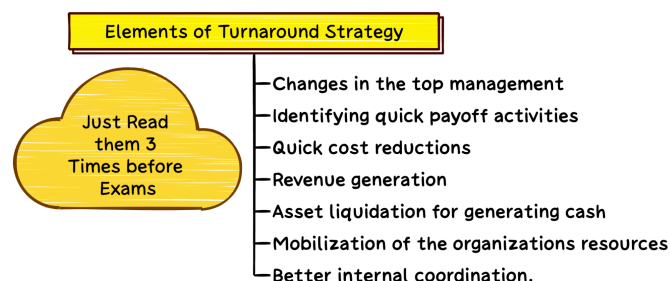
- "Product mix" must be changed to do some repositioning.
- Core products neglected over time may require immediate attention to remain competitive.
- Organisation may withdraw from certain markets to target its products toward a different ideal position.
- "People mix" – an important ingredient should also be enhanced by allowing rewards & compensation that will encourage employees' dedication & creativity.

#### Stage Five – Returning to normal (P/ROI/EVA – NP, CS, CA, MS)

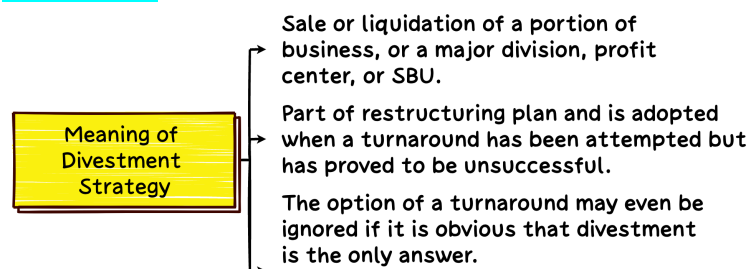
- In the final stage, the organization should begin to show signs of profitability, return on investments & enhancing economic value added.

- Adding new products, improving customer service, creating alliances with other organizations, increasing market share, etc., shall be the areas of emphasis.

*Question–Pizza Galleria was India's first pizza delivery chain enjoying monopoly for several years. However, after entry of Modino and Uncle Jack it is struggling to compete. Both Modino and Uncle Jack have opened several eateries and priced the product aggressively. In last four years the chain has suffered significant losses. The chain wishes to know whether they should go for a turnaround strategy. List out components of the action plan for turnaround strategy.-(RTP, Nov 2019, NA) (RTP, Sep 2024, NA) (Study material)*



### DIVESTMENT



### Reasons for Divestment

A divestment strategy may be adopted due to various reasons:

- A business that had been **acquired** proves to be a **mismatch** and cannot be integrated within the company.
- **Persistent negative cash flows** from a particular business create financial problems for the whole company, creating the need for divestment of that business.
- **The severity of competition** and the inability of a firm to cope with it may cause it to divest.
- **Technological upgradation** is required if the business is to survive, but where it is not possible for the firm to invest in it, a preferable option would be to divest.



- A **better alternative may be available** for investment, causing a firm to divest a part of its unprofitable businesses.

*Question—MaAi is a prominent group of companies. Currently it has businesses 1 named Alpha, Bravo, Charlie and Delta. In year 2020, the company had acquired a business dealing in product 'Nota'. In evaluating the contribution to its portfolio, it was observed that product 'Nota', is not contributing as it was expected rather causing a financial duress. After identifying apparent problem area, in the year 2023, an emphasis was placed on change in management and improvement in internal efficiency. However, on further evaluation in the year 2024, it was observed that even after due emphasis, positive outcome is not there and in-turn the company decided to get rid-of the business related to product 'Nota'.*

*Identify the retrenchment strategies followed by the company for product 'Nota' (i) in the year 2023 (ii) in the year 2024.*

*Also state various reasons to adopt the strategy by any organization, as followed in the year 2024 for product 'Nota'.—(SA, May 2025, 5 Marks)*

## LIQUIDATION

### Definition of Liquidation

- The process of **closing down** a firm and **selling** its assets.
- Considered the most **extreme** and **unattractive** strategy.

### Consequences of Liquidation

- Loss of **employment** for **workers** and staff.
- Termination of future **business opportunities**.
- Associated **stigma** of **failure**.

### Frequency and Reluctance

- More **common** in **small-scale**, proprietorship, and partnership firms.
- **Rare** in **medium** and **large**-sized companies in India **due** to **reluctance** from management, government, banks, trade unions, suppliers, creditors, and other stakeholders.

### Challenges in Asset Sales

- **Difficulty** in **finding buyers**.
- **Assets** are often sold at a **value** much **lower** than their worth, sometimes only as scrap.

### Appropriateness of Liquidation

- When a "**dead business** is worth more than alive," it is a good proposition.

- For instance, the **real estate** owned by a firm may fetch more money than the actual returns of doing business.

### Planned Liquidation

- When liquidation is **evident**, an **abandonment plan** is desirable.
- Involves a systematic approach to maximize benefits for shareholders during the liquidation process.

### Combination Strategy

- The above strategies are not mutually exclusive.
- It is possible to adopt a mix of the above to suit particular situations.
- An enterprise may seek stability in some areas of activity, expansion in some, and retrenchment in the others.
- Retrenchment of ailing products followed by stability and capped by expansion in some situations may be thought of.
- For some organizations, a strategy by diversification and/or acquisition may call for a retrenchment in some obsolete product lines, production facilities, and plant locations.

#### Major Reasons for Combination Strategy

The organization is large and faces a complex environment.

The organization is composed of different businesses, each of which lies in a different industry requiring a different response

### Strategic Options - Portfolio Analysis Models

- Used for competitive analysis and corporate strategy in multi-product, multi-business firms.
- Enables resource allocation to the most promising businesses at the corporate level.

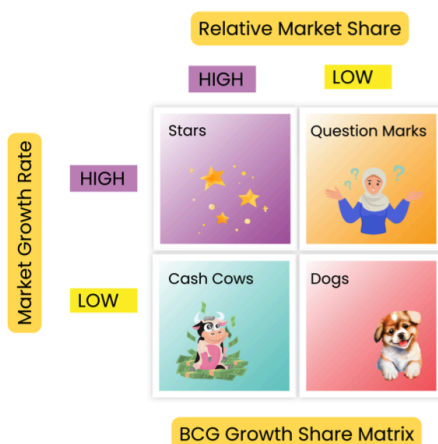
### BCG Growth-Share Matrix:

Simplest way to portray a corporation's investment portfolio.

- Known for cow and dog metaphors.
- Used for resource allocation in diversified companies.
- Classifies businesses on a two-dimensional matrix:
  - Vertical axis: Market growth rate.
  - Horizontal axis: Relative market share (company strength).

## Four Types of Products/SBUs

- **Stars (High growth, high market share)**
  - Require heavy investment to sustain growth.
  - Best opportunities for expansion.
- **Cash Cows (Low growth, high market share)**
  - Generate cash with low costs.
  - Require minimal investment to maintain market share.
  - Stars eventually become cash cows.
- **Question Marks (High growth, low market share)**
  - Need significant cash to hold their share.
  - Heavy investment, low cash generation.
  - Can become cash traps if ignored.
  - Aim: Convert them into stars, then cash cows.
- **Dogs (Low growth, low market share)**
  - May generate enough cash for survival.
  - Often require cash support.
  - Best strategy: Divest or liquidate.



## Problems and Limitations of the BCG Method

- Difficult, time-consuming, and costly to implement.
- Defining SBUs and measuring market share & growth can be challenging.
- Focuses on current businesses, offers little guidance for future planning.
- May overemphasize market-share growth, leading to risky expansions.
- Risk of abandoning established units too soon for new, uncertain ventures.

## Strategies in the BCG Model

Four possible strategies:

- **Build**
    - Aim: Increase market share, even at the cost of short-term earnings.
    - Requires high investment to turn Question Marks into Stars.
  - **Hold**
    - Aim: Preserve market share when investment is not feasible.
    - Suitable when the company has other financial commitments.
  - **Harvest**
    - Aim: Maximize short-term cash flow with little concern for the future.
    - Best for Cash Cows with low investment needs.
  - **Divest**
    - Aim: Sell or liquidate businesses in the Dog quadrant.
    - Redirects resources to better opportunities.
- 
- **Stars (High Growth, High Market Share)**
    - Example: Apple iPhone (Latest Models)
    - Market leader in fast-growing smartphones.
    - Heavy R&D, marketing, and innovation investment.
    - Goal: Sustain growth and leadership.
  - **Cash Cows (Low Growth, High Market Share)**
    - Example: Apple MacBook & iPad
    - High revenue, slow market growth.
    - Minimal investment needed.
    - Goal: Use profits to fund Stars & Question Marks.
  - **Question Marks (High Growth, Low Market Share)**
    - Example: Apple TV & Apple Watch
    - Growing market but not dominant.
    - Competes with Fitbit & Samsung.
    - Goal: Invest to turn into Stars.
  - **Dogs (Low Growth, Low Market Share)**
    - Example: iPod
    - Market shrank due to smartphones & streaming.
    - Discontinued in 2022.
    - Best Strategy: Divest and focus on growth areas.

**Question-Explain the strategic implications of each of the following types of business in a corporate portfolio:**

- Stars
- Question Marks
- Cash Cows
- Dogs

-(RTP, May 2022, NA)(MTP 2 Jan 2025, 5 Marks) (Model test paper 7, May 2025, 5 marks)

**Question-Organic Beverages has been manufacturing various soft drinks for over a decade. It has developed a sugar free beverage to cater to the needs of specific customers by spending**

heavily on research and development for this product. In addition, a lot of money was spent on marketing (branded as 'Say no to Sugar') and in obtaining a licence for it. In a span of five months, the company has gained a major share in the market for this new product and it is growing rapidly. Profitability of this product is also better. In order to take advantage of the best opportunity for expansion, it has to make heavy investments to maintain their position in the current and new market.

Classify 'Say no to Sugar' product in the most related category in the two dimensional growth share matrix as per Boston Consulting Group. Explain the strategies which can be pursued post identification and classification of products in such a matrix. Also state the limitations of this technique as one of the strategic options.-(SA,Jan 2025,5 marks)

### General Electric (GE) Model for Business Portfolio Analysis

Also known as:

- Business Planning Matrix
- GE Nine-Cell Matrix
- GE Model

### Concept & Approach

- Inspired by traffic control lights:
  - Green → Go (Invest & Grow)
  - Yellow → Caution (Strategic Decision Required)
  - Red → Stop (Retrenchment/Exit)

### Key Factors in Strategic Decisions

- Vertical Axis → Market Attractiveness
- Horizontal Axis → Business Strength

### Strategic Implications

- Green Zone (Advantageous Position)
  - Business is well-placed.
  - Strategy: Expand, Invest, and Grow.
- Yellow Zone (Caution Required)
  - Needs careful evaluation.
  - Strategy: Managerial discretion for strategic choices.
- Red Zone (High Risk, Potential Losses)
  - Business is weak and unsustainable.
  - Strategy: Retrenchment, Divestment, or Liquidation.

### Comparison with BCG Matrix

- Market Attractiveness replaces Market Growth (considers broader factors).

- Competitive Strength replaces Market Share (assesses SBU competitiveness).

		Business Strength		
		Strong	Average	weak
Market Attractiveness	High	Invest/Expand	Invest/Expand	Select/Earn
	Medium	Invest/Expand	Select/Earn	Harvest/Divest
	Low	Select/Earn	Harvest/Divest	Harvest/Divest

### Antivirus

- **Green Zone (Go: Invest & Grow)** 🚀
  - Example: Tata Nexon EV, Tata Tiago EV
  - Market: High growth due to govt. incentives, rising fuel costs, and EV adoption.
  - Strength: 80%+ market share in Indian EVs, expanding lineup.
  - Strategy: Invest in R&D, battery tech, charging infra, global expansion.
- **Yellow Zone (Caution: Strategic Decision)** ⚠️
  - Example: Commercial Vehicles (Buses & Trucks)
  - Market: Moderate growth, high competition (Ashok Leyland, Volvo, Eicher).
  - Strength: Leading player but faces cost pressures, fuel price fluctuations, BS-VI norms.
  - Strategy: Focus on CNG, hydrogen trucks, efficiency, and exports.
- **Red Zone (Stop: Retrench/Exit)** 🛑
  - Example: Jaguar Land Rover (JLR) in China & Europe
  - Market: Slowing luxury car demand, competition from Tesla, BMW EVs.
  - Strength: Profitability struggles, shrinking market share in key regions.
  - Strategy: Reposition JLR with EVs or reduce focus on fuel-based models.

**ADL Matrix**

- The ADL matrix (derived its name from Arthur D. Little) is a portfolio analysis technique that is based on product life cycle.
- The approach forms a two-dimensional matrix based on stage of industry maturity and the firms competitive position
- Stage of industry maturity is an environmental measure that represents a position in industry's life cycle.
- Competitive position is a measure of business strengths that helps in categorization of products or SBU's into one of five competitive positions
  - Dominant
  - Strong
  - Favourable
  - Tenable
  - Weak

It is four by five matrix-

<b>Dominant</b>	-Fast grow -Build barriers -Act offensively	-Fast grow -Attend cost leadership -Renew -Defend position -Act offensively	-Defend position -Attend cost leadership -Renew Fast grow -Act offensively	-Defend position -Renew -Focus -Consider withdrawal
<b>Strong</b>	-Differentiate -Fast Grow	-Differentiate -Lower cost -Attack small firms.	-Lower cost -Focus -Differentiate -Grow with industry	- Find niche - Hold niche - Harvest
<b>Favorable</b>	-Differentiate -Focus -Fast Grow	-Focus -Differentiate -Defend	-Focus -Differentiate -Harvest -Find niche -Hold niche -Turnaround -Grow with industry -Hit smaller firms	-Harvest -Turnaround
<b>Tenable</b>	-Grow with industry -Focus	-Hold niche -Turnaround -Focus -Grow with industry -Withdraw	-Turnaround -Hold niche -Retrench	-Divest -Retrench
<b>Weak</b>	-Find Niche -Catch-up -Grow with industry	-Turnaround -Retrench -Niche or withdraw	-Withdraw -Divest	-Withdraw

The competitive position of a firm is based on an assessment of the following criteria:

**Dominant**

This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.

**Strong**

By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to

Competitive position	Stage of industry maturity Arthur D. Little (ADL) Matrix			
	Embryonic	Growth	Mature	Ageing

act without its market position being unduly threatened by its competitors.

### **Favourable**

This position, which generally comes about when the industry is *fragmented* and *no one competitor* stand out clearly, results in the market leaders a *reasonable degree of freedom*.

### **Tenable**

Although the firms within this category are able to perform *satisfactorily* and can justify staying in the industry, they are generally vulnerable in the face of *increased competition* from stronger and *more proactive* companies in the market.

### **Weak**

The performance of firms in this category is generally *unsatisfactory* although the *opportunities* for improvement do *exist*.

## Chapter 5 – Strategy, implementation, and Evaluation

### Strategic Management Model

- Framework for studying and applying strategic management.
- This model does **not guarantee** sure-shot **success**
- Strategists do not go through the process in lockstep fashion.

### Stages in Strategic Management

Strategic management involves the following stages:

#### Stage 1: Strategic Vision, Mission and Objectives

- ORG. must determine what directional path it should take and what change would improve its current market position and future prospects.
- In this stage ORG. should decide its strategic intent, vision, mission and objectives

#### Stage 2: Environmental and Organisational Analysis

- Diagnostic phase
- Environmental Scanning
- ORG.al Analysis
- This would reveal organisational strengths and weaknesses which could be matched with the threats and opportunities in the external environment.

#### Stage 3: Formulating Strategy

- Develop **strategic alternatives** based on **strengths**, **weaknesses**, **opportunities**, and **threats**.
- Analyse alternatives to choose the most appropriate **strategy**.
- Alternatives include
  - Continue in same business with same volume
  - Grow by expanding units, setting new ones, or acquiring others
  - Diversify into related or unrelated areas
  - Exit business fully or partially

#### Stage 4: Implementation of Strategy

**Operations-oriented**, most demanding and time-consuming part of the strategic-management **process**. Convert **strategic plans** into actions.

Key aspects

- Develop **budgets** for critical activities
- **Staffing** with needed skills, build competencies and capabilities, organize work
- Ensure **policies** and **procedures** support execution.
- Install **information and operating systems** for strategic roles
- **Motivate** people toward objectives
- Build **culture** and climate for successful implementation
- Provide **leadership** for ongoing improvement

#### Stage 5: Strategic Evaluation and Control

- Evaluate performance, assess impact of external development, and make corrective adjustments.
- Fine-tuning and improving execution may be enough, but disruptive changes require rethinking direction and strategy.

*Question – Describe the principal aspects of strategy-execution process, which are included in most situations. – (SA, May 2018, 5 Marks) (MTP1, Nov 2022, 5 Marks) (MTP2, Sep 2024, 5 Marks) (Model test paper 5, May 2025, 5 marks) (RTP, Sep 2025, NA)*

### Strategy Formulation

#### Strategic Planning

Strategic planning is the process of **determining** the **objectives** of the firm, **resources** required to attain these objectives and formulation of **policies** to govern the acquisition, use and disposition of resources.

#### Difference between Strategic and Operational planning

Strategic Planning	Operational planning
<b>Shapes</b> the organisation and its resources.	deals with current <b>deployment</b> of resources.
Assesses the impact of <b>environmental variables</b> .	develops <b>tactics</b> rather than strategy.
takes a <b>holistic</b> view of the organisation.	projects <b>current operations</b> into the future.
develops <b>overall objectives</b> and <b>strategies</b> .	makes <b>modifications</b> to the business functions but not fundamental changes.
is concerned with the <b>long-term</b> success of the organisation.	is concerned with the <b>short-term</b> success of the organisation.
Is a <b>senior</b> management responsibility.	is the responsibility of <b>functional</b> managers.

**Question - Differentiate between Strategic Planning and Operational Planning.** -(RTP, May 2022, NA) (MTP2, Nov 2023, NA)(MTP1, Jan 2025, 5 marks)(RTP ,May 2025,NA) (Model test paper 6,May 2025, 5 marks)

**Question - Strategic planning is an important constituent of strategic management. In the light of the same explain the meaning of strategic planning. Also outline the characteristics of strategic planning.** -(SA, May 2023, 5 Marks)

### Strategic uncertainty

Strategic uncertainty refers to the **unpredictability of future events** affecting an ORG.'s strategy and goals, driven by market, technology, competition, regulation, and other external factors. To manage it, uncertainties are grouped into clusters and assessed for importance to prioritize information gathering.

**Antivirus - A car company groups uncertainties like electric vehicle regulation, fuel norms, and emission standards into a "Regulatory Cluster"**

To manage strategic uncertainties, ORG.s must adopt proactive strategies:

- Flexibility: Build flexible strategies to adapt quickly to change.
- Diversification: Broaden product portfolio, markets, and customer base to reduce impact.
- Monitoring and Scenario Planning: Monitor key indicators and conduct scenario planning to prepare for future possibilities.
- Building Resilience: Strengthen operational processes, increase financial flexibility, and enhance risk management.
- Collaboration and Partnerships: Work with ORG.s, suppliers, customers, and partners to share resources, risk, and gain market access.

**Question - Explain how ORG.s can effectively manage strategic uncertainties in a rapidly changing business environment.** -(SA, May 2024, 5 Marks)

### Impact of Strategic Uncertainty on Business

- Strategic uncertainty can affect current, proposed, and potential business activities
- Impact varies based on each Strategic Business Unit's (SBU) significance to the firm

- Importance often measured by sales, profits, or costs, but potential growth should also be considered for a comprehensive understanding of value

**Antivirus -**

1. **The electric vehicle trend forces a traditional carmaker to revise its current petrol models, delay upcoming diesel launches, and invest heavily in EV R&D.**
2. **A pharma firm's cancer drug division contributes 60% of revenue—any change in healthcare regulations poses high risk to the firm.**
3. **A startup SBU in renewable energy has low current sales but massive future potential—making it strategically valuable despite low profits now.**

### Strategy Implementation

#### Meaning of Strategy implementation

- Strategy implementation concerns the **managerial exercise** of putting a freshly chosen strategy, decisions into **action**.
- Allocation of **resources** as per the new course of action
- Adapting the organisation's **structure** to handle the new activities.
- **Training** personnel and devising appropriate systems.
- A company will be successful only when the strategy **formulation** is **sound** and the **implementation** is **excellent**.

#### Difference between strategy formulation and strategy implementation

Strategy formulation	Strategy implementation
Includes <b>planning</b> and <b>decision</b> -making involved in developing an ORG.'s strategic goals and plans.	Involves all those means related to <b>executing</b> the strategic plans.
placing the forces <b>before the action</b> .	managing forces <b>during the action</b> .
An <b>Entrepreneurial</b> Activity based on strategic decision-making.	An <b>Administrative</b> Task based on strategic and operational decisions.
Emphasizes on <b>effectiveness</b> .	Emphasizes on <b>efficiency</b> .
Primarily an <b>intellectual</b> and rational process.	Primarily an <b>operational</b> process.
Requires co-ordination among a few individuals at the top level.	Requires co-ordination among many individuals at the middle and lower levels
Requires a great deal of <b>initiative, logical skills,</b>	Requires specific <b>motivational</b> and <b>leadership traits</b> .

<i>conceptual intuitive and analytical skills.</i>	
Strategic Formulation <i>precedes</i> Strategy Implementation.	Strategy Implementation <i>follows</i> Strategy Formulation.

**Question - Distinguish between Strategy Formulation and Strategy Implementation.**-(MTP1, May 2021, 5 Marks) (MTP1, Nov 2021, 5 Marks) (MTP1, May 2023, 5 Marks) (MTP2, May 2025, 5 Marks)

**Linkage between Strategic Formulation and Implementation**

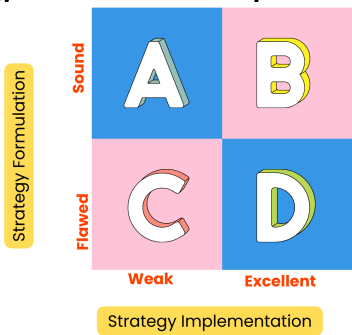
- The strategy formulation and strategy implementation are intertwined and linked with each other. Two types of linkages exist between these two phases of strategic management
- Forward Linkages:** These show the effect of *formulation* on *implementation*. New or revised strategies set the ORG.'s direction.
- Backward Linkages:** These show how *implementation* affects *formulation*. During execution, *feedback* and past actions can influence future *strategic decisions*.

**Antivirus**

- A company decides to go digital-first (formulation) → Marketing, sales, and operations shift online (implementation).
- A new product fails in one region due to local preferences → Company updates strategy to include regional customization.

**Question - Explain the concept of forward and backward linkages between strategy formulation and implementation in strategic management, using relevant examples. How do these linkages impact the overall strategic decision-making process of an ORG.?**-(MTP2, May 2024, 5 Marks) (Model Test Paper 2, May 2025, 5 Marks)

**Strategy formulation and Implementation Matrix**

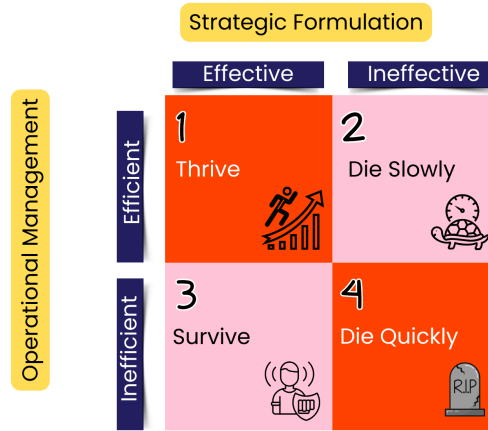


Strategy Formulation and implementation Matrix

ORG.al success depends on sound strategy formulation and excellent implementation.

- Square A: Strong strategy formulation, but poor implementation due to lack of experience, resources, or leadership. The goal is to move to Square B.
- Square B: Ideal case—good strategy and successful implementation.
- Square D: Poor strategy formulation, but strong implementation. The company must redesign its strategy first.
- Square C: Weak strategy formulation and poor implementation. The path to success is through business model redesign and implementation readjustment.

**Principal Combination of Effectiveness and Efficiency**



**Principal Combination of efficiency & effectiveness**

- An ORG. in cell 1 thrives with high effectiveness and efficiency.
- Cell 2 or 4 is risky without clear strategic direction.
- Cell 2 is worse than cell 3, where effectiveness exists despite low efficiency.
- Effectiveness means doing the right thing, efficiency means doing it the right way.

**Antivirus -** A restaurant opens a new branch in a busy office area where there's high demand for quick, healthy meals (right goal = effectiveness). It uses a cloud kitchen model, limited menu, and digital ordering system to reduce rent, wastage, and manpower costs (smart execution = efficiency).

**Question -** Merako Appliances recently automated its assembly line to produce kitchen gadgets faster and at lower cost, improving operational efficiency. However, customer feedback shows that the new products don't meet market needs, leading to declining sales. This has sparked an internal debate on balancing efficiency (doing things right) with effectiveness (doing the right things). How should Merako balance efficiency and effectiveness to achieve sustainable success? Also, describe the four possible



*situations a business can face when comparing levels of efficiency and effectiveness.-(RTP, Sep 2025, NA)*

### Issues in Strategy Implementation

Management issues central to strategy implementation include

- O - Establishing annual objectives,
- P - Devising policies,
- R - allocating resources,
- S - altering an existing ORG.al Structure,
- R - Restructuring and reengineering,
- I - revising reward and incentive plans,
- Change - minimizing resistance to change,
- Culture - developing a strategy supportive culture,
- Processes - Adapting production/operations processes,
- HR - developing an effective human resource system and,
- Downsizing - if necessary, downsizing.

#### Strategy Implementation (Read it yourself)

- Strategy Activation: Convert strategies into actionable steps.
- Plans Development: Evolve strategies into detailed plans with clear milestones.
- Program Creation: Formulate programmes outlining specific goals and procedures.
- Projects Formulation: Develop time-bound projects with allocated budgets for operational infrastructure.
- ORG.al Structure: Design effective structure, install systems, and set functional policies.
- Implementation Steps: Include project, procedural, resource, structural, functional, and behavioral aspects.
- Inclusive Participation: Involve divisional and functional managers in strategy formulation and strategists in implementation.
- Strategic-Operational Integration: Blend strategic goals with practical operational execution for success.

### Strategic Change

#### Meaning of Strategic Change

Strategic Change

- Changing the existing strategies
- and bringing out new strategies
- because of environmental changes
- is called strategic change.

Strategic change is a complex process and it involves a corporate strategy focused on

- new markets,
- products,
- services and
- new ways of doing business.

#### Steps for initiating Change

For initiating strategic change, three steps can be identified as under

- **Recognize the need for change** - Diagnose which parts of corporate culture are strategy supportive. Do environmental scanning, appraise internal and external capabilities through SWOT analysis, identify problems, and determine scope for change.
- **Create a shared vision to manage change** - Objectives and vision of individuals and ORG.s must align. Shared vision helps avoid conflict - Strategy implementers must show that cultural change is serious, not superficial, and reflect management's commitment to new strategic initiatives.
- **Institutionalize the change** - This action stage involves implementation of changed strategy, building a positive attitude toward change. Regularly monitor, review, and analyze the after-effects. Address any discrepancy or deviation properly.

#### Kurt Lewin model of Change

To make the change lasting, Kurt Lewin proposed 3 phases of the change process for moving the ORG. from the present to the future. These stages are unfreezing, changing and refreezing.

#### Unfreezing the situation

- Awareness for Necessity for change
- Prepare them for change
- Should Not come as a surprise
- If came as surprise - Socially destructive, Morale Lowering
- Make Announcements, Hold Meetings, Promote idea

### Changing to New situation

After unfreezing, members recognize the need for change and are ready to accept it. Their behavior patterns must be redefined using three methods by H.C. Kellman

- Compliance - Change through reward and punishment for behavior.
- Identification - Members adopt the behavior of admired role models.
- Internalization - Change in thought processes with freedom to learn new behavior.

### Antivirus

1. *Employees start coming on time because latecomers are fined and punctuality is rewarded.*
2. *A junior team member starts using a structured presentation style like the respected team leader.*
3. *An employee genuinely embraces sustainability after understanding its long-term impact, not just because the company promotes it*

### Refreezing

- New behavior becomes normal and replaces the old.
- It must be reinforced to stay permanent.
- Change is continuous due to a dynamic environment.
- The process of unfreezing, changing, and refreezing is cyclical and ongoing.
- The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action.

*Question - What is strategic change? Explain the change process proposed by Kurt Lewin that can be useful in implementing strategies. -(ICAI Study Material)*

*Question - Connect Group was one of the leading makers of the mobile handsets till a few years ago and which went at the bottom of the heap. Connect Group didn't adapt to the current market trends which eventually lead to its downfall. Which would have helped Connect Group to change, adapt and survive? Explain the steps to initiate the change. -(RTP, Nov 2021, NA) (MTP 1, Jan 2025, 5 marks) (Model test paper 6, May 2025, 5 marks)*

### Digital transformation

Digital transformation uses digital technologies to improve procedures, goods, or services. Change management helps plan, prepare, and execute changes, overcome challenges, and maximise investment returns.

### Change Management Strategies for Digital Transformation

- Begin at the top: Leadership must be united, focused, and promote change.
- Ensure change is necessary and desired: Unplanned or fast change without strategy can cause issues.
- Reduce disruption
  - Communicate the transition early and set expectations.
  - Provide proper training and resources to help employees adapt.
  - Empower change agents (team leaders, project managers) to guide employees through the process.
- Encourage communication: Allow queries, promote collaboration, and ensure everyone is aligned.
- Recognizing change is the norm: ORG.s must be ready, proactive, and view change as a continuous process.

*General principles/strategies for managing change during digital transformation. It gives broad strategic practices to manage change in small and medium-sized businesses.*

*Question - Nexora Innovations, a mid-sized IT services firm, decided to implement a cloud-based project management system to enhance collaboration and streamline operations. However, many employees resisted the shift, fearing job redundancies and struggling to adapt to the new system. Despite initial communication, productivity dipped, and frustration grew among staff. What key change management strategies should Nexora Innovations adopt to ensure a smooth digital transformation and minimize disruption?-(MTP2, May 2025, 5 Marks)*

### How to manage change during digital transformation?

Change management is essential during digital transformation to ensure the success of the process.

- Specify the digital transformation's aims and objectives
  - Clarify digital transformation outcomes and objectives.
- Always, always, always communicate
  - Regularly share transformation goals and impacts.
- Be ready for resistance
  - Prepare for and strategize against resistance.
- Implement changes gradually
  - Roll out changes in phases to ease adjustment.
- Offer assistance and training
  - Provide necessary training on new systems and processes.

*These are Tactical steps during the actual process of implementing change. More of a step-by-step guide for handling change during a real digital transformation.*

### Antivirus

1. A retail chain clearly defines that it wants to shift 60% of its sales to online platforms within one year.
2. The CEO sends monthly emails explaining what's changing, why, and how it impacts each department.
3. Older employees hesitant to use new inventory software are identified early, and feedback sessions are held to address concerns.
4. An organization introduces the new CRM system in one region first before rolling it out nationally.
5. Employees receive hands-on workshops and video tutorials on how to use the new HR portal.

**DQ – Why is change management crucial during digital transformation, and what are some key strategies for navigating change effectively? – (RTP, May 2024, SA) (Model test paper 3, May 2025, 5 marks)**

## Organisational Framework

### McKinsey 7S Model

The McKinsey 7S Model analyzes a company's ORG.al design and shows how effectiveness is achieved through the interaction of Hard and Soft elements.

*Antivirus – The McKinsey 7S Model was created as a response to the growing realization that structure and strategy alone are not enough. Effective organizations must align both hard and soft elements to drive performance and adaptability in a dynamic business environment.*

### Hard elements (controlled by management):

- **Strategy:** ORG.al direction to build **core competency** and gain **competitive advantage**.
- **Structure:** Chosen based on **resources** and desired **centralization** or **decentralization**.
- **Systems:** Execution of tasks, operations, and goals efficiently.

### Soft elements (culture-driven):

- **Shared Values:** Core values seen in **culture** and **ethics**.
- **Style: Leadership style,** its impact on **strategy, motivation,** and goal delivery.
- **Staff:** The ORG.'s **talent pool**.
- **Skills:** Employees' **core competencies** crucial for success.

## Limitations

- Ignores external environment
- Does not clearly define ORG.al effectiveness
- The model is considered to be more **static** and **less flexible** for decision making.
- Misses the gaps in strategy conceptualization and execution.

**Question – BOYA Ltd. is a venture in the market present for a decade. Till, 2023, it was working on the values and vision of its founder while operating in limited area of operations.**

*Growth opportunities exist for BOYA Ltd. Considering the changing environment, company is interested to leverage new skills in marketing, technology, product development and financial management. As a known fact, modifying one aspect might have a ripple effect on other elements. The company wants to understand various hard and soft elements interrelated with each other in the company and having a bearing on effective operational results.*

*As a strategist, you intend to prepare a questionnaire based on both types of elements by analyzing the ORG.al design. The response to the same will help in finding an answer to ensure effectiveness through the interaction of such elements. Briefly discuss the strategic model you will use in the given situation. State the limitations of the model as well. – (SA, May 2024, 5 Marks) (RTP, Jan 2025, NA)*

## ORG. Structure

*Antivirus – What is Organisational Structure?*

*It is how a company arranges people and jobs to perform work and meet goals efficiently. It's a blueprint of how all parts fit together.*

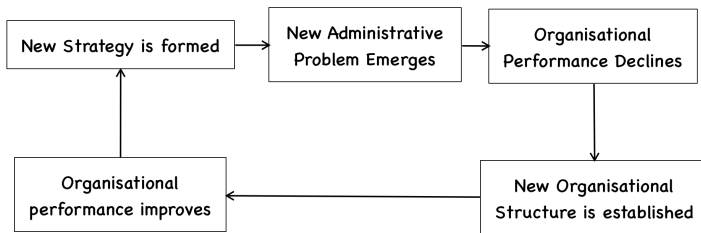
*Example: A small bakery may have a simple structure: Owner manages products, finances, and suppliers. The head baker ensures quality. Sales staff serve customers and handle transactions.*

## ORG. Structure Basics

- Purpose: Defines how tasks allocation, coordination, and supervision are aimed at ORG.al goals.
- Strategy-Structure Match: Creates competitive advantage.
- Strategic Leadership: Develops superior structure and controls compared to competitors.

## Structure and Strategy Relationship

- Changes in Strategy: Often necessitate organisational structural adjustments.
- Reasons:
  - Objective and Policy Formation: Structure influences how these are established.
  - Resource Allocation: Dictated by the ORG.al structure.
- Examples:
  - A firm expanding into international markets may create regional divisions (like Asia, Europe, etc.) to allocate resources and budgets region-wise.
  - A company shifting from product-based to customer-centric strategy may create a new Customer Experience Department to focus on service-related policies.
- Strategic Implications:
  - Structure Follows Strategy: Designed to support strategic goals.
  - Adapting Structure: Essential for new activities, resource allocation, training, and system development.
  - Strategy Influence: Structure can also shape strategy.



Chandler's Strategy-Structure Relationship

**Antivirus** - A company's structure can influence future strategy. If a part of the organisation performs well, the company may build its strategy around it. Example:

- A city-based coffee shop chain, with independent local managers who understand their areas, sees success.
- Impact on Strategy - The company chooses to grow by opening more neighbourhood-specific shops instead of using a standardised model.
- The success of the regional structure and local autonomy drives the strategy, showing that sometimes structure influences strategy, not the other way around.

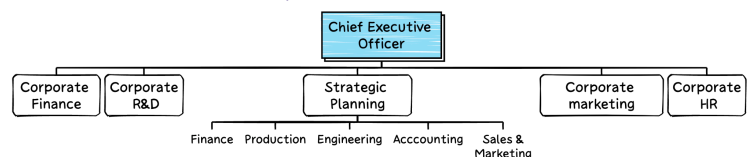
## Simple Structure

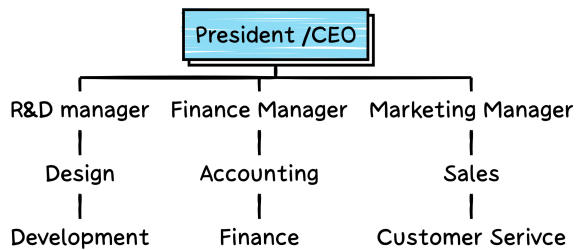
- Simple ORG.al structure is most appropriate for companies that follow

- a **single-business strategy** and
- offer a line of products
- in a **single geographic** market.
- Appropriate for companies implementing
  - **focused cost** leadership or
  - **focused differentiation** strategies.
- The owner-manager makes major decisions and monitors activities; staff act as executors.
- Some key features/Characteristics
  - **Little specialization** of tasks,
  - Few **rules**,
  - little **formalization**,
  - **unsophisticated information systems** and
  - **direct involvement** of **owner-manager** in all phases of day-to-day operations
- Communication is direct and frequent, enabling faster product introduction and possible competitive advantage, with fewer coordination problems.
- If small companies grow, they outgrow the simple structure and should shift to a functional structure for complex ORG.al functions.

## Functional Structure

- The functional structure consists of a chief executive officer or a managing director and limited corporate staff with functional line managers in dominant functions such as production, accounting, marketing, R&D, engineering, and human resources.
- A functional structure groups tasks and activities by business function.
- Functional structure is widely used because of its simplicity and **low cost**.
- Disadvantages of a functional structure are that it **forces accountability** to the top, minimises career development opportunities, etc.
- Most large companies abandoned the functional structure in favor of decentralization and improved accountability. (Difficult to add new products)





**Question - What do you understand by functional structure?-(MTP1, May 2022, 5 Marks)**

**Question - Manoj started his telecom business in 2010. Over the next five years, he gradually hired fifty people for various activities such as to keep his accounts, administration, sell his products in the market, create more customers, provide after sales service, and coordinate with vendors. Draw the ORG. structure Manoj should implement in his ORG. and name it. -(SA, Nov 2018, 5 Marks) (ICAI Study Material)**

### Divisional Structure

- The divisional structure can be organized in one of the 4 ways:
  - by **geographic** area,
  - by **product** or service,
  - by **customer**, or
  - by **process**
- Functional activities are performed both centrally and in each division separately
- Widely used when an ORG. offers only a few products or services, when an ORG.'s products or services differ substantially
- A major difference between functional and divisional structure is that functional departments are not accountable for profits.

### Advantages of Divisional Structure

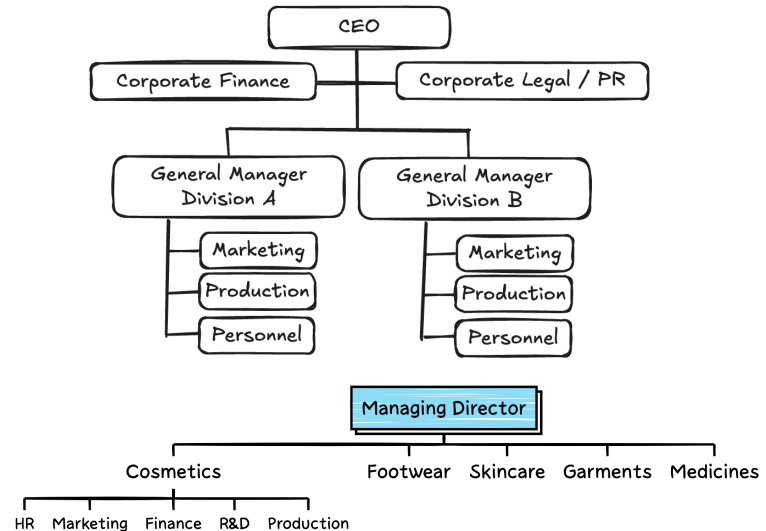
Accountability is clear as divisional managers are responsible for sales and profit. With delegation of authority, performance results are visible, boosting morale.

Other advantages:

- Offers **career development**
- Enables **local control** of local situation.
- Encourages **competitive climate**
- Allows easy addition of **new businesses and products**

### Disadvantages of Divisional Structure

- Higher cost due to the need for qualified functional specialists at divisions and headquarters, and a headquarters-driven control system.
- Conflicts between divisional managers may arise from special treatment of certain regions, products, or customers, affecting consistency.

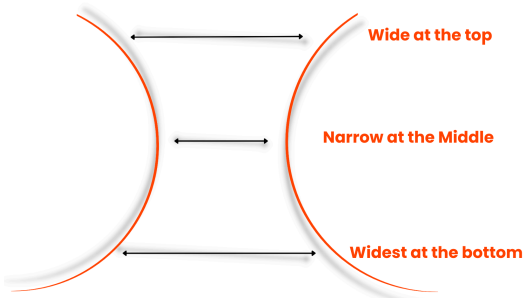


**Question - Draw 'Divisional Structure' with the help of a diagram. Also, give advantages and disadvantages of this structure in brief.-(SA, Nov 2020, 5 Marks) (ICAI Study Material)**

### Hourglass Structure

- Information technology and communications have significantly altered the functioning of ORG.s.
- The role played by **middle management** is **diminishing** as the tasks performed by them are increasingly being replaced by technological tools.
- Hourglass ORG. structure consists of three layers with a constricted middle layer.
- The structure has a short and narrow middle-management level.
- Information technology links the top and bottom levels in the ORG. taking away many tasks that are performed by the middle level managers.
- Unlike traditional middle level managers who are specialists, hourglass structure managers are generalists handling cross-functional issues like marketing, finance, or production.
- Hourglass structure has obvious benefit of
  - **reduced costs**.
  - It also helps in enhancing responsiveness by simplifying **decision** making.

- Decision making authority is shifted close to the source of information so that it is faster.
- With reduced middle management, promotion opportunities for lower levels decrease. Staying at the same level may cause monotony, lack of interest, and low motivation. ORG.s address this by assigning challenging tasks, lateral transfers, and performance rewards.

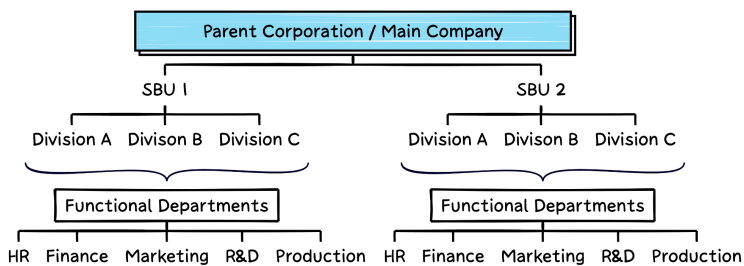


**Question - What is an Hourglass structure? How is it beneficial for an ORG.?-(ICAI Study Material)**

### Strategic Business Unit (SBU) Structure

- The concept is relevant to multi-product, multi-business enterprises.
- An SBU is a grouping of related businesses.
- The purpose is to provide **effective strategic planning**.

A strategic business unit (SBU) structure consists of at least three levels, with a corporate headquarters at the top, SBU groups at the second level, and divisions grouped by relatedness within each SBU at the third level.



### Attributes and Benefits of SBU Structure:

- Strategic **planning** for each SBU is **distinct**; products/businesses within an SBU get the same treatment and priorities.
- Each SBU has its own **competitors** and strategy.
- **SBU CEO** is **responsible** for strategic planning and profit performance.
- **Related** products/ **businesses** are **grouped** into one SBU.

- **Unrelated** products/businesses are **separated** into **different** SBUs.
- Grouping by SBU **removes vagueness** and helps in strategic planning.
- Each SBU is a **separate business**, distinct in mission, objectives, etc.

Benefits of SBU are

- Establishing **coordination** between divisions having common strategic interests.
- Facilitates strategic management and **control** on large and diverse organizations.
- Fixes **accountabilities** at the level of distinct business units.
- Helps allocate **corporate** resources to areas with greatest growth opportunities.
- Makes the task of strategic **review** by top executives more objective and more effective.
- Allows strategic **planning** to be done at the most relevant level within the total enterprise.

**Question -How the 'Strategic Business Unit (SBU), structure becomes imperative in an ORG. with increase in number, size and diversity of divisions? -(RTP, May 2022, NA) (MTP2, Jan 2025, 5 Marks) (Model test paper 7,May 2025, 5 marks)**

**Question - A chennai based fast moving consumer goods (FMCG) major CDE Ltd. recently announced restructuring its business. The company indicated that the business would be split into mainly four different streams- FMCG, E-commerce, Retail and Research and development. The company management has decided that these four units will operate as separate businesses. The top corporate officer shall delegate responsibility for day to day operations and business unit strategy to the concerned managers.**

**Identify the ORG. structure that CDE Ltd. has planned to implement. Discuss any four attributes and the benefits the firm may derive by using this ORG. structure. -(SA, Dec 2021, 5 Marks) (MTP2, May 2024, 5 Marks) (RTP, Sep 2024, NA) (ICAI Study material.) (Model Test Paper 2,May 2025,5 Marks) (Model test paper 8,May 2025, 5 marks) (MTP 1, May 2025, 5 Marks)**

### Network Structure

- Radical organisational design
- Also termed as **"Non-Structure"**
- Elimination of in-house function of business
- Organisations following this type of structure can be termed as **VIRTUAL ORGANISATIONS**

- Used when → Environment is unstable → There is need for innovation & quicker response
- Provides flexibility / adaptability to cope up change in business environment (**Technological competition, global trends**)
- Instead of salaried employee, Org enter into contracts for specific projects
- The contract replaces the in-house function
- Example: **Nike, Reebok** etc. uses **Network Structure** by subcontracting **Mfg** to other Co's at low cost

Network structure has disadvantages:

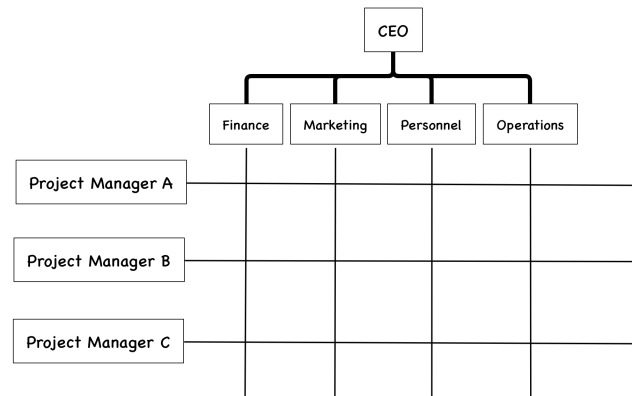
- Too many potential partners can cause problems.
- Co-ordination among business partners is a major issue for management.
- Employees may lack confidence to engage in organisation-sponsored learning

**Question -M/s. MTS Ltd, is one of the mobile telephone service providers in India. It has its own mobile network, towers and distribution channels. It operates through its team of network operation, technicians, marketing, sales and after sales services. Currently all the team members are on its roll. The company knows that the market is densely competitive. The environment is quite unstable and likely to remain so. Customer's tastes and preferences are changing very fast. There is a strong need for innovation and quick response. While eliminating in-house business functions, the company is considering outsourcing major activities and focusing on its core competencies. In the given situation identify the ORG.al structure suitable for the company. Also outline the merits and demerits in going for the identified structure.-(SA, Sep 24,5 marks)**

### Matrix Structure

- Matrix Structure combines functional and product forms at the same level.
- Employees report to both a product/project manager and a functional manager.
- The home department (e.g., engineering, manufacturing, marketing) is functional and permanent, while product units/projects are temporary and act like divisions.
- It is suitable when neither functional nor divisional structures, even with strategic business units, support strategy well.
- Matrix structure offers the stability of functional and flexibility of product form, useful in complex, changing technological and market environments.

- Common in construction, healthcare, research, defense, and for ORG.s with multiple projects needing people for limited periods.



### 3 Conditions for Matrix Structure to be used / Found

1. Ideas need to be cross-utilised across project
2. Resources are scarce
3. Abilities to process information & to make decision needs to be improved (*Fast Decision Making*)

**Question-ABC group of companies has five projects at different geographical locations. Each project is managed by a dedicated project manager. A Chief Executive Officer (CEO) is supported by a team of subject matter experts (SMEs) in each function at corporate level of the company. As an accepted practice, the authority and communication flow vertically and horizontally in the company. There are five common functions i.e. finance, human resource, operations, marketing and information technology facilitating each project. Each functional manager is having administrative relationship with respective project manager and functional relationship with related SME with a clear mutual understanding of his or her roles and responsibilities.**

**Identify and explain the ORG.al structure best suited in the above scenario. State the advantages and disadvantages of the above structure.-(SA, Jan 2025,5 Marks)**

### Davis and Lawrence Three Phase Development

Davis and Lawrence Three Phase Development of matrix structure:

1. Cross-functional task forces: Temporary teams used for new product lines, led by a project manager as the key horizontal link.
2. Product/brand management: Task forces become semi-permanent. The project manager becomes product/brand manager. Function remains primary, but product/brand managers integrate semi-permanent products/brands.

3. Mature matrix: True dual-authority structure where both functional and product structures are permanent. Employees report to both a functional superior and a product manager. Both have equal authority and must cooperate.

However, matrix structure is not very popular due to implementation and management difficulties.

**Question - Davis and Lawrence have proposed three distinct phases to develop matrix structure. Explain. -(RTP, Nov 2018, NA)**

### Multidivisional Structure

Multidivisional (M-form) structure consists of operating divisions, each a separate business, where the top corporate officer delegates day-to-day operations and business unit strategy to division managers. The corporate office handles overall corporate strategy using strategic and financial controls.

Developed in the 1920s, it addressed coordination and control problems in large firms. Functional departments struggled with multiple product lines, cost allocation, and resource distribution, leading top managers to focus on short-run issues and neglect long-term strategy.

Multidivisional structure includes:

- Creating separate divisions, each for a distinct business
- Each division with its functional hierarchy
- Division managers handling daily operations
- A small corporate office for long-term strategy and financial control of semi-autonomous divisions

**Question - Bunch Pvt Ltd is dealing in multiproduct like electronics and FMCG and are having outlets in different cities and markets across India. Due to scale of operation, it is having technical difficulty in dealing with distinct product lines and markets, especially in coordination and control related problems. Identify and suggest an ideal ORG.al structure for Bunch Pvt Ltd in resolving the problem?-(RTP, Nov 2021, NA) (MTP1, May 2023, 5 Marks)**

### ORG. Culture

#### Meaning of Corporate Culture

Corporate culture refers to a company's **values, beliefs,** business **principles, traditions,** way of operating and internal work **environment.** Every corporation has a culture that exerts powerful influences on the behaviour of managers.

### Role of Culture in Strategy Execution

Strong culture supports strategy execution when aligned and hinders it when misaligned. Examples:

- Frugality aids low-cost leadership strategy.
- Creativity fits innovation strategy.
- Customer focus and employee empowerment support customer value strategy.

Such culture guides behaviour through informal rules, enhances motivation, and shapes work habits and cooperation.

It promotes identification with vision and strategy, and drives enthusiastic, collaborative execution.

**Question - Orion Tech Solutions Pvt. Ltd. is renowned for its ability to launch groundbreaking software products. Despite the relaxed and casual work environment at Orion, there is a strong commitment to meeting deadlines. Employees at Orion believe in the "work hard, play hard" ethic. The company has shifted from a formal, hierarchical structure to a more results-oriented approach. Employees are deeply committed to the company's strategies and work diligently to achieve them. They safeguard innovations and maintain strict confidentiality and secrecy in their operations. Their work culture is closely aligned with the ORG.'s values, practices, and norms.**

**What aspects of an ORG. are being discussed? Explain.-(MTP2, Sep 2024, 5 Marks) (Model test paper 5, May 2025, 5 marks) (RTP, Nov 2019, NA)(MTP2, Jan 2025, 5 Marks) (Model test paper 7, May 2025, 5 marks)**

### Perils of Strategy-Culture Conflict

- When **culture** is not aligned with **strategic success**, it must be changed quickly.
- Usually, **mismatched cultural features** are changed, not the **strategy.**
- Deep **cultural mismatch** delays **strategy implementation.**
- Prolonged **strategy-culture conflict** weakens **managerial efforts.**

### Creating a strong fit between strategy and culture:

- Strategy makers must select strategy compatible with sacred parts of corporate culture.
- Strategy implementers must change cultural facets that hinder execution.

### Changing a problem culture

- Very Difficult (due to deeply held values & habits)



- Requires Concerted Management Efforts over a period of time
- Step 1 - Diagnose - Identify strategy-supportive and non-supportive parts of the existing culture
- Step 2 - Talk Openly - Communicate clearly about the parts of the culture that need to be changed
- Step 3 - Follow the Talk with Visible, Aggressive Action
- Create Shared Vision
- Activities Involved
  - Revising Policies & Procedures
  - Altering Incentives (to reward desired behaviour)
  - Changing Behaviour (through visible recognition and praise)
  - Hiring New People (with desired cultural values)
  - Replacing Old Executives (tied to the old culture)

### Strategic Leadership

- Strategic leadership
  - sets the firm's direction by developing and communicating vision of future,
  - formulate strategies in the light of internal and external environment,
  - brings about changes required to implement strategies and inspire the staff to contribute to strategy execution.
- Leadership word is used to address
  - The group of people leading the organisation
  - The activity of leading

### Leadership role for good strategy execution

Leaders/Managers have five leadership roles:

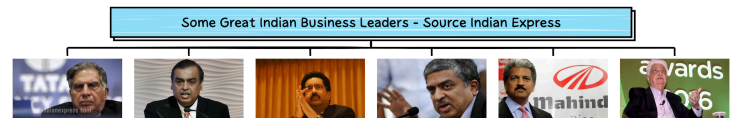
- Monitoring progress, solving issues, and finding obstacles to execution.
- Promoting esprit de corps for competent strategy execution and high performance.
- Keeping the ORG. alert to changing conditions, opportunities, innovative ideas, and ahead of rivals in competencies and capabilities.
- Exercising ethical leadership and acting like a model corporate citizen.
- Pushing corrective actions to improve strategy execution and performance.

**Question -Suresh Sinha has been recently appointed as the head of a strategic business unit of a large multiproduct**

**company. Advise Mr Sinha about the leadership role to be played by him in execution of strategy.**-(RTP, May 2018, NA) (MTP2, May 2021, 5 Marks) (MTP2, May 2022, 5 Marks) (ICAI Study Material)

### Responsibilities of Strategic Leader

- Making **strategic decisions**.
- Formulating **policies** and **action** plans to implement strategic decision
- Ensuring effective **communication** in the organisation.
- Managing **human capital** (perhaps the most critical of the strategic leader's skills).
- Managing **change** in the organisation.
- Creating and sustaining **strong** corporate **culture**.
- Sustaining **high performance** over time.



**Question -KaAthens Ltd., a diversified business entity having business operations across the globe. The company leadership has just changed as Mr. D. Bandopadhyay handed over the The company leadership has just changed as Mr. D. Bandopadhyay handed over the pedals to his son Aditya Bandopadhyay, due to his poor health. Aditya is highly educated with an engineering degree from IIT, Delhi. However, being very young he is not clear about his role and responsibilities. In your view, what are the responsibilities of Aditya Bandopadhyay as CEO of the company.**-(RTP, Nov 2018, NA) (RTP, May 2020, NA) (ICAI Study Material) (MTP1, Nov 2018, 5 Marks)

### Approaches to leadership

#### Transformational Leadership

- Uses **charisma** and **enthusiasm** to inspire people for the ORG.'s good.
- Appropriate in **turbulent environments**, at industry **start or end** stages, or **poorly performing ORG.s** needing major changes.
- Offer **excitement, vision, intellectual stimulation, and personal satisfaction**.
- Inspires involvement in a **mission** or **vision** to drive major performance changes.
- Motivates followers to exceed expectations, builds **self-confidence**, and promotes **innovation**.

### Transactional Leadership

- Uses authority to exchange rewards like pay and status.
- Appropriate for settled environments, growing/mature industries, and well-performing ORG.s.
- Offers a formalized approach—clear goals, with rewards or penalties for performance.
- Improves current situations by focusing on designing systems and controlling activities.
- Matches well with persuading people to work efficiently and run operations smoothly.

### Organisational Control

As per ICAI study material they have named the topic as Strategic control

### Meaning of Control

- Controlling is a key management function, ensuring performance of planned activities and achieving predetermined goals.
- It involves monitoring, measuring, analysing deviations, and adapting the system, helping organisations learn and grow.
- Elements of control process:
  - Objectives with measurable standards
  - Monitoring and measuring mechanism
  - System to compare actual results vs standards, detect deviations, and gain insights
  - Feedback for corrective and adaptive actions to stay on course
- Types: Operational, Management, and Strategic control

*Question -Sanya Private Limited is an automobile company. For the past few years, it has been observed that the progress of the company has become stagnant. When scrutinized, it was found that the planning department was performing fairly well but the plans could not be implemented due to improper use of resources, undesirable tendencies of workers and non-conformance to norms and standards. You are hired as a Strategic Manager. Suggest the elements of process of control to overcome the problem.-(SA, Jan 2021, 5 Marks) (MTP2, May 2022, 5 marks) (ICAI Study Material)*

### Operational Control

- Focus - Individual task rather than aggregate management functions.

- Procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole.
- Characteristics - Clear relationship between inputs and outputs.
- Nature - Mechanistic (RIGID), with specific standards and tolerances.
- Some of the examples of operational controls can be
  - production control (manufacturing to set programmes),
  - quality control (keeping product quality between agreed limits),
  - cost control (maintaining expenditure as per standards),
  - budgetary control (keeping performance to budget).

### Management Control

- Scope - More inclusive and aggregative, covering entire departments, divisions, or ORG.s.
- Purpose - To achieve enterprise goals efficiently and effectively
- Definition - ensuring resources are obtained and used efficiently and effectively to meet ORG.al objectives.

*Question -Differentiate between Operational control and management control. -(RTP, Nov 2018, NA) (MTP2, Nov 2022, 5 Marks) (MTP1, Nov 2023, 5 Marks) (Model test paper 3, May 2025, 5 marks)*

### Strategic Control

Strategic Control focuses on the dual questions of whether

- The strategy is being **implemented** as **planned** (जैसे प्लान किया था वैसे Implement भी हुआ); and
- The **results** produced by the strategy are those **intended** (जैसे रिजल्ट सोचे थे वो अचीव भी हुए)
- There is a Time Gap between strategy formulation and implementation.
- Strategic control is the process of evaluating strategy as it is formulated and implemented.

Types of Strategic Control: There are four types of strategic control as follows:

### Premise control

- A strategy is formed on the basis of certain **assumptions** or premises about the ORG.al environment.

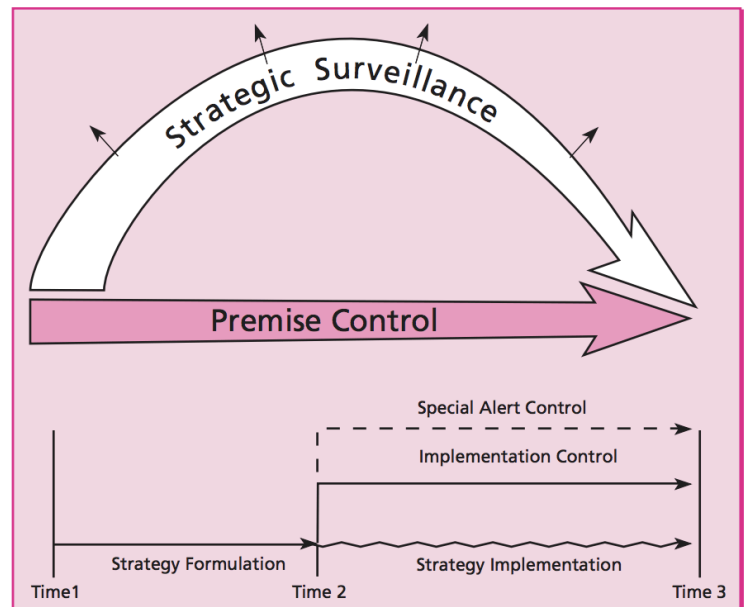
- Premise control is a tool for systematic and continuous **monitoring** of the environment to verify the **validity** and **accuracy** of the **premises** on which the strategy has been built.
- It primarily involves monitoring two types of factors.
  - **Environmental** factors such as economic, technological, social and regulatory.
  - **Industry** factors such as competitors, suppliers, substitutes.
- Not all premises warrant the same level of control due to differing impacts on ORG.al functioning and strategy

**Question -EcoTec, a company specializing in sustainable technology solutions, is facing challenges due to shifts in environmental regulations and market preferences. To manage these uncertainties, they regularly review and update their business assumptions and strategic plans based on changing regulatory environments and consumer trends. This proactive approach helps them stay aligned with evolving market conditions and maintain a competitive edge. Explain which approach is EcoTech to adapt to changes in regulations and market conditions?-(RTP, Jan 2025, NA)**

Strategic Surveillance	
Unfocussed	
General Monitoring	Various sources of info.
Casual Environment Browsing	Reading Newspaper, magazines
	Attending conferences etc
Loose form	capable of uncovering information relevant to the strategy.

Special alert control			
A mechanism designed to respond to			
sudden and unexpected events that significantly impact an organization's operations or strategy. Example of sudden changes	Natural Calamities	Terrorist attacks	Unexpected merger of competitors
Includes formation of	Crisis mgt. team		

Implementation control			
Assess the need for change in the overall Strategy →	In the light of	unfolding events	
		Results of steps and action	
Continuously monitor →	Basic direction		
Two forms→	Monitoring strategic thrusts→	determine whether the strategic thrust is helping the org to go into right direction or there is a need to change	
	Milestone review→	Breaks down the strategy implementation process into key activities marked by specific times, events, or major resource allocations.	
Evaluate progress of each milestone, →		assessing whether to continue on the current path or to adjust the strategy	



Source - [https://brainmass.com/file/298420/Strategic\\_Management\\_Ch13.pdf](https://brainmass.com/file/298420/Strategic_Management_Ch13.pdf) - Date of link 5/6/2021

### Strategic Performance Measures

- Strategic Performance Measures (SPM) are metrics used to track the effectiveness of strategies in achieving strategic goals.
- SPM provides a framework to measure key areas critical to strategy success, assess progress, and enable performance adjustments.

### Types of Strategic Performance Measures:

- Financial Measures: Track revenue growth, ROI, and profit margins.

- Customer Satisfaction Measures: Customer satisfaction, retention, and loyalty to evaluate ability to meet customer needs.
- Market Measures: Market share, customer acquisition, and referrals to assess competitiveness and customer attraction.
- Employee Measures: Employee satisfaction, turnover, and engagement to gauge talent retention and work environment.
- Innovation Measures: R&D spending, patent applications, and new product launches to assess ability to innovate.
- Environmental Measures: Energy consumption, waste reduction, and carbon emissions to measure sustainability efforts.

**Question – Define Strategic Performance Measures (SPM). Explain various types of strategic performance measures– (MTP2, May 2024, 5 Marks) (Model Test Paper 2, May 2025, 5 Marks)**

### The Importance of Strategic Performance Measures

Strategic performance measures are essential for ORG.s for several reasons:

- Goal Alignment: Align strategies with goals to stay on track for desired outcomes.
- Resource Allocation: Provide data to prioritize and allocate resources for maximum impact.
- Continuous Improvement: Enable tracking and adjustments for ongoing performance improvement.
- External Accountability: Show accountability to stakeholders with clear performance insights.

### Choosing the Right Strategic Performance Measures

ORG.s should choose strategic performance measures aligned with their goals and objectives and provide relevant and actionable information. Consider these factors:

- Relevance: SPM must be Aligned with goals, actionable and meaningful.
- Data Availability: Based on data that is easily available, collected, and analyzed.
- Data Quality: Based on high-quality, accurate, and reliable data.
- Data Timeliness: Based on current and up-to-date data for timely decisions

These measures help assess strategy success, find improvement areas, and guide resource allocation. They should be relevant, meaningful, understandable, and regularly reviewed to stay aligned with goals.

### Antivirus

- Track repeat purchase rate for customer loyalty. Track number of website visits when the goal is customer loyalty – not relevant.
- Track daily sales using the POS system already installed.
- Use automated defect count from machines for quality control.
- Use real-time inventory levels to restock on time.

**Question – Why Strategic Performance Measures are Essential for ORG.s?–(MTP1, May 2024, 5 Marks) (RTP, Sep 2024, SA) (Model Test Paper 1, May 2025, 5 marks) (Model test paper 8, May 2025, 5 marks)**

**Question – What factors should ORG.s consider when choosing strategic performance measures, and why are these factors important?–(MTP1, Sep 2024, 5 Marks) (Model test paper 4, May 2025, 5 marks)**

### Toward More Holistic Measures of Strategic Performance

Management thought has moved beyond financial metrics. The Triple Bottom Line (TBL) includes People, Planetary Concerns, and Economic Prosperity. The Quadruple Bottom Line adds a 4th P—Purpose, introducing a spiritual dimension.

