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STRATEGIC MANAGEMENT

Page No.

Paper 6: Information Technology and Strategic Management

(One paper – Three hours – 100 Marks)

Level of Knowledge: Working knowledge

Section A: Information Technology (50 Marks)
Section B: Strategic Management (50 Marks)

Objectives:

(a) To develop an understanding of the general and competitive business environment,
(b) To develop an understanding of strategic management concepts and techniques,
(c) To be able to solve simple cases.

Contents

1. Business Environment

General Environment–Demographic, Socio-cultural, Macro-economic, Legal/political, Technological, and Global; Competitive Environment.

2. Business Policies and Strategic Management

Meaning and nature; Strategic management imperative; Vision, Mission and Objectives; Strategic levels in organisations.

3. Strategic Analyses

Situational Analysis – SWOT Analysis, TOWS Matrix, Portfolio Analysis – BCG Matrix.

4. Strategic Planning

Meaning, stages, alternatives, strategy formulation.

5. Formulation of Functional Strategy

Marketing strategy, Financial strategy, Production strategy, Logistics strategy, Human resource strategy.

6. Strategy Implementation and Control

Organisational structures; Establishing strategic business units; Establishing profit centres by business, product or service, market segment or customer; Leadership and behavioural challenges.

7. Reaching Strategic Edge

Business Process Reengineering, Benchmarking, Total Quality Management, Six Sigma, Contemporary Strategic Issues.

1. Definition: Strategic Management

In a highly competitive marketplace, companies can operate successfully by creating and delivering superior value to target customers and also learning how to adapt to a continuously changing business environment. So to meet changing conditions in their industries, companies need to be farsighted and visionary, and must have a system of managing strategically.

Strategic Management starts with developing a company mission (to given it direction), objectives and goals (to give it means and methods for accomplishing its mission), business portfolio (to allow management to utilize all fastest of the organization), and functional plans (plans to carry out daily operations from the different functional disciplines)

The overall objective of Strategic management is two fold:
- To create competitive advantage, so that the company can outperform the competitors in order to have dominance over the market.
- To guide the company successfully through all changes in the environment.

2. What benefits accrue by following a strategic approach to managing?

The following are the benefits of Strategic Approach to managing:
- Strategic Management helps organizations to be more proactive instead of reactive in shaping its future. Organizations are able to analyze and take actions instead of being mere spectators. Thereby they are able to control there own destiny in a better manner. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.

- Strategic management provides framework for all the major business decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organizational structure. It provides better guidance to entire organization on the crucial point- what it is trying to do.

- Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various business opportunities. Organizations are able to identify the available opportunities and identify ways and means as how to reach them.

- Strategic management serves as a corporate defense mechanism against mistakes and pitfalls. It help organizations to avoid costly mistakes in product market choices or investments. Over a period of time strategic management helps organization to evolve certain core competencies and competitive advantages that assist in its fight for survival and growth.

3. What is Strategy?

Strategy means consciously choosing to be clear about company's direction in relation to what's happening in the dynamic environment. With this knowledge, a manager is in a much better position to respond proactively to the changing environment.

The fine points of strategy are as follows:

- ➢ Establishes unique value proposition compared to your competitors
- ➢ Executed through operations that provide different and tailored value to customers.
- ➢ Identifies clear tradeoffs and clarifies what not to do.
- ➢ Focuses on activities that fit together and reinforce each other.
- ➢ Drives continual improvement within the organization and moves it toward its vision.

4. The Concept of Strategy:

1. Strategy. 'A course of action, including the specification of resources required, to achieve a specific objective.' CIMA: Management Accounting: Official Terminology, (2005 edition).

2. Strategic plan: 'A statement of long-term goals along with a definition of the strategies and policies which will ensure achievement of these goals.' CIMA: Management Accounting: Official Terminology (2005 edition)

3. Strategy is the direction and scope of an organization over the long term. Which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations..

4. "The basic characteristic of the match an organization achieves with its environment is called its strategy.'

5. 'Corporate strategy is the pattern of major objectives, purposes and goals and essential policies or plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be..

6. 'Corporate strategy is concern with an organization's basic direction for the future: its purpose, its ambitions, its resources and how it interacts with the world in which it operates.

5. Common themes in strategy:

From these different definitions strategy is concerned with:

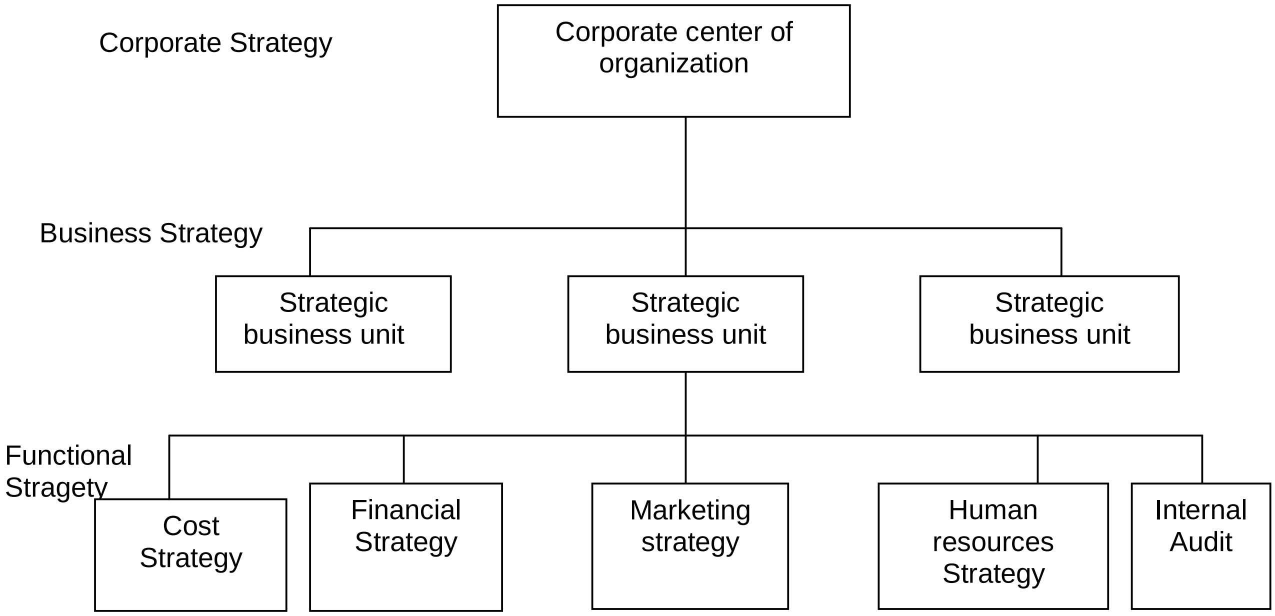
- The purpose and long-term direction of the business;
- The scope of an organization's activities and actions required to meet its objectives (broad or narrow);
- Meeting the challenges from the firm's business external environment, such as competitors and the changing needs of customers;
- Using the firm's internal resources and competencies effectively and building on its strengths to meet environmental challenges;
- Delivering value to the people who depend on the firm, its stakeholders, such as customers and shareholders, to achieve competitive advantage.

Whatever interpretation is put on strategy, the strategic actions of an organization will have widespread and long-term consequences for the position of the organization in the marketplace, its relationship with different stakeholders, and overall performance.

6. Levels of strategy:

Corporate strategy:

The corporate center is at the apex of the organization. It is the head office of the firm and will contain the corporate board. The planning view of strategy assumes that all strategy was formulated at corporate level and then implemented in a 'top-down' manner by instructions to the business divisions. During the 1980s, high profile corporate planners like IBM, General Motors and Ford ran into difficulties against newer and smaller 'upstart' competitors who seemed to be more flexible and entrepreneurial. One consequence was the devolution of responsibility for competitive strategy to strategic business units (S.B.U.).



Organization chart showing corporate, strategic business unit & functional strategies.

Corporate strategy today typically restricts itself to determining the overall purpose and scope of the organization. Common issues at this level include:

- Decisions on acquisitions, mergers and sell-offs or closure of business units;
- Conduct of relations with key external stakeholders such as investors, the government and regulatory bodies;
- Decisions to enter new markets or embrace new technologies (sometimes termed diversification strategies);
- Development of corporate policies on issues such as public image, employment practices or information systems.

Business Strategy:

A strategic business unit (SBU) is defined by CIMA as:
Management of the SBU will be responsible for winning customers and beating rivals in its particular market. Consequently, it is at this level that competitive strategy is usually formulated. The consideration at this level will include:

- Marketing issues such as product development, pricing, promotion and distribution;
- Decision on production technology;
- Staffing decisions.

A business strategy should be formulated within the board framework of the overall objectives laid down by the corporate centre to ensure that each SBU plays its part. The extent to which the management of the SBU is free to make competitive strategy decisions varies from organization to organization and reflects the degree of centralization versus decentralization in the management structure of the firm.

Functional Strategies

The functional (or sometimes called operational) level of the organization refers to main business functions such as sales, production, purchasing, human resources and finance. Functional strategies are the long-term management policies of these functional areas. They are intended to ensure that the functional area plays its part its part in helping the SBU achieve the goals of its business strategy.

Functional area strategy such as marketing, financial, production and Human Resource are based on the functional capabilities of an organization. For each functional area, first the major sub areas are identified and then for each of these sub functional areas, contents of functional strategies, important factors, and their importance in the process of strategy implementation is identified.

In terms of the levels of strategy formulation, functional strategies operate below the SBU or business-level strategies. Within functional strategies there might be several sub-functional areas. Functional strategies, are made within the higher level strategies and guidelines therein that are set at higher levels of an organization. Functional managers need guidance from the business strategy in order to make decisions. Operational plans tell the functional managers what has to be done while policies state how the plans are to be implemented.

The reasons why functional strategies are really important and needed for business can be enumerated as follows:

- The development of functional strategies is aimed at making the strategies-formulated at the top management level-practically feasible at the functional level.
- Functional Strategies facilitate flow of strategic decisions to the different parts of an organization.
- They act as basis for controlling activities in the different functional areas of business.
- The time spent by functional managers in decision-making is reduced as plans lay down clearly what is to be done and policies provide the discretionary framework within which decisions need to be taken.
- Functional strategies help in bringing harmony and coordination as they remain part of major strategies.
- Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

A Model of the Rational Strategy process:

The traditional approach to strategic management is often termed the formal or rational approach, and can described as a series of logical steps including:

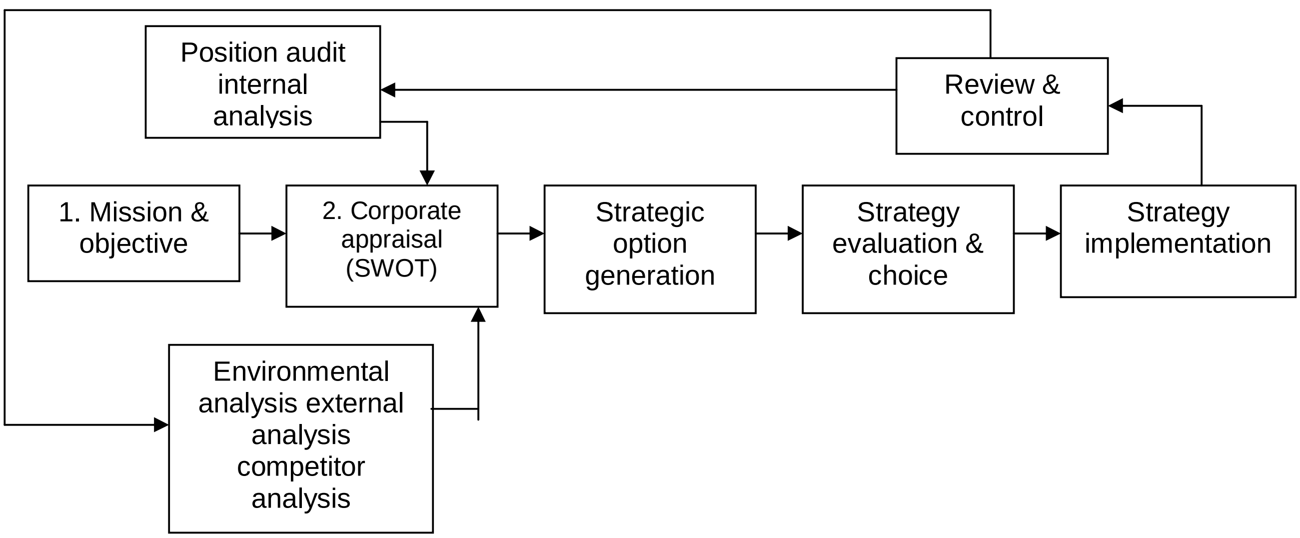
- The determination of an organization’s mission;
- The setting of goals and objectives;
- The understanding of the organization’s strategic position;
- The formulation of specific strategies;
- The commitment of resources.

A continuous analysis of the external environment and the organization's internal resources is needed in order to plan for the future development and survival of the business. This is often conceived as consisting of four major steps:

1. Analysis
2. Formulation
3. Implementation
4. Monitor, review and evaluation.

This process seeks to answer questions concerning where the organization is now, where it should go in the future, and how it should get there. The rational model therefore involves a number of interrelated stages. These are illustrated in Figure below, which shows the various stages which management may take to develop a strategy for their organization.

The basic idea from the model is that we start with the existing strategy of the organization and evaluate it using information collected from internal and external analysis. Form this we can determine if the organization should continue with its existing strategy or formulate a new strategy that will enable the organization to compete more effectively. Having made a choice on the strategic direction, the next stage involves implementing the



A model of a rational strategy process

Strategy and then evaluating performance to determine whether or not goals have been achieved.

Each of the different stages in the model above will now be elaborated on, introducing some of the tools and techniques of strategic management.

9. Mission, Objectives and goals:

Term	Definition
Mission	The Fundamental objects of entity expressed in general terms (CIMA). Overriding purpose in line with the values and expectations of stakeholders. What business are we in?
Vision or strategic intent	Desired future state: the aspiration of the organization.
Goal	General statement of aim or purpose- may be qualitative in Nature.
Term	Definition
Objective	Quantification (if possible) or more precise statement of the Goal.
Strategies	Long-term direction expressed in broad statement about the direction the organization should be taking and the type of actions required to achieve objectives.

From the above table we can see that a mission is a broad statement of the purposes of the business. It will be open-ended and reflect the core values of the business. A mission will often define the industry that the firm competes in and make comments about its general way of doing business.

- British Airways seeks to be 'the world's favourite airline;
- Nokia speaks of 'connecting people';
- DHL 'delivers your promises';

10. What is a mission statement?

Mission statement is an answer to the question "Who we are and what we do" and hence has to focus on the organisation's present capabilities, focus activities and business makeup. An organisation's mission states what customers it serves, what need it satisfies, and what type of product it offers. It is an expression of the growth ambition of the organization.

Roles of mission statements:

Mission statements help at four places in the rational model of strategy:

1. **Mission & Objectives:** The mission sets the long-term framework and trajectory for the business. It is the job of the strategy to progress the firm towards this mission over the coming few years covered by the strategy.

2. **Corporate appraisal:** Assessing the firm's opportunities and threats, its strengths and its weakness must be related to its ability to compete in its chosen business domain. Factors are relevant only insofar as they affect its ability to follow its mission.

3. **Strategic evaluation:** When deciding between alternative strategic options, management can use the mission as a touchstone or benchmark against which to judge their suitability. The crucial question will be, 'Does the strategy help us along the road to being the kind of business we want to be?

4. **Review and control:** The key targets of the divisions and functions should be related to the mission, otherwise the mission will not be accomplished.

Research conducted among companies by Hooley et al (1992) revealed the following purposes of mission statements:

1. To provide a basis for consistent planning decisions.
2. To assist in translating purposes and direction into objectives suitable for assessment and control.
3. To provide a consistent purpose between different interest groups connected to the organization.
4. To establish organizational goals and ethics.
5. To improve understanding and support from key groups outside the organization.

The link between mission, goals and objectives:

Whilst the mission is an open-ended statement of the firm's purposes and strategies, strategic goals and objectives translate the mission into strategic milestones for the business strategy to reach. In other words, the outcomes that the organizations seeks to achieve.

A strategic objective will possess four characteristics which set it apart from a mission statement:

1. A precise formulation of the attribute sought;
2. An index or measure for progress towards the attribute;
3. A target to be achieved;
4. A time-frame in which it is to be achieved.

Another way of putting this is to say that objectives must be SMART, that is,

- Specific- unambiguous in what is to be achieved.
- Measurable- specified as a quantity;
- Attainable- within reach;
- Relevant- appropriate to the group or individual to whom it is applied;
- Time-bound- with a completion date.

Lists some examples of strategic objectives.

Examples of strategic objectives

Mission	Attributes	Measure
Growth	Sales volume	000s of units
	Share of Market	% of total volume in the Market.
	Asset base of firm	Net assets
Quality	Customer satisfaction	Repeat purchases
	Defects (6 δ)	No. per Million
	Consistency	Adoption of Standard Procedures
Innovation	Peer group respect	industry awards received
	Speed to market	Development time
	Successful new product	% of sales from new Products
Social responsibility	Non-discrimination	Workforce composition
	Environmental pollution	cubic meters of waste
	Safety	Notified incidents.

The goal structure: The goal structure is the hierarchy of objectives in the organization. It can be visualized as the diagram in below.

Objectives perform five functions:

1. Planning: Objectives provide the framework for planning. They are the targets which the plan is supposed to reach.
2. Responsibility: Objectives are given to the mangers of divisions, departments and operations. This communicates to them:
   a) The activities, projects or areas they are responsible for;
   b) The sorts of output required;
   c) The level of outputs required.
3. Integration: Objectives are how senior management coordinate the firm. Provided that the objectives handed down are internally consistent, this should ensure goal congruence between managers of the various divisions of the business.
4. Motivation: Management will be motivated to reach their objectives in order to impress their superiors, and perhaps receive bonuses. This means that the objectives set must cover all areas of the mission. For example, if the objectives emphasize purely financial outcomes, then mangers will not pay much heed to issues such as social responsibility or innovation.
5. Evaluation: Senior management control the business by evaluating the performance of the managers responsible for each of its divisions. For example, by setting the manager a target ROI and monitoring it, senior management ensure that the business division makes a suitable return on its assets.

You may be familiar with these five functions (often recalled using the acronym PRIME) from your studies in budgetary control. Budget target are a good example of operational level objectives. In this chapter, however, we are working at a higher level by considering the strategic objectives of the firm.

Having established where the organization is in terms of its mission, goals and objectives, it must then determine where it wants to go in the future. This will be influenced by the nature of the external environment and the organization's internal capability.

PEST framework:

Political: These are political or legal factors affecting the organization, such as legislation or government policy, stability of the government, government attitudes to competition and so on.

- Taxation policy,
- Foreign trade regulations,
- Government stability.

Economic: These are economic factors such as tax rates, inflation, interest rates, exchange rates, consumer disposable income, unemployment levels and so on.

- Business cycles; GNP trends, interest rates;
- Inflation; unemployment disposable income.

Social: These are social, cultural or demographic factors (i.e. population shifts, age profiles etc.) and refers to attitudes, value and beliefs held by people; also changes in lifestyles, education and health and so on.

- Demographics,
- Income distribution,
- Lifestyle changes, Attitudes to work and leisure;
- Consumerism.

<u>Technological</u>:
These are changes in technology that an organization might use and impact on the way work is done, such as new system or manufacturing processes.

- Government spending on research,
- New discoveries/development,
- Rates of obsolescence.

<u>Ecological factors:</u>

- Protection laws,
- Energy consumption issues,
- Waste disposal

<u>Legal factors:</u>

- Monopolies legislation,
- Employment law, product safety, etc.

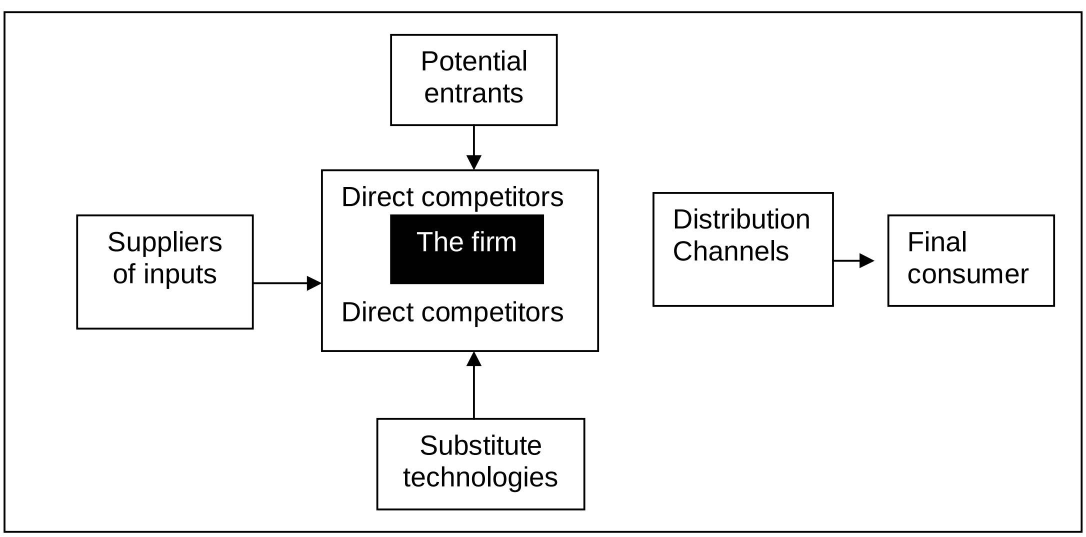
Some authors have expanded the mnemonic **PEST** into **PESTEL -** to include explicit reference to ethical or environmental and legal factors.

If you are asked to apply the **PEST** model to an organization, simply look for things that might affect the organization, and put each of them under the most appropriate heading. A brief explanation as to why you feel each activity creates either an opportunity or threat will suffice.

<u>A model of the organization in its environment</u>

(a) The five forces Model (Porter, 1980):

- Rivalry among existing firms,
- Bargaining power of buyers,
- Bargaining power of suppliers,
- Threat of new entrants,
- Threat of new entrants,
- Threat of substitute products or services.

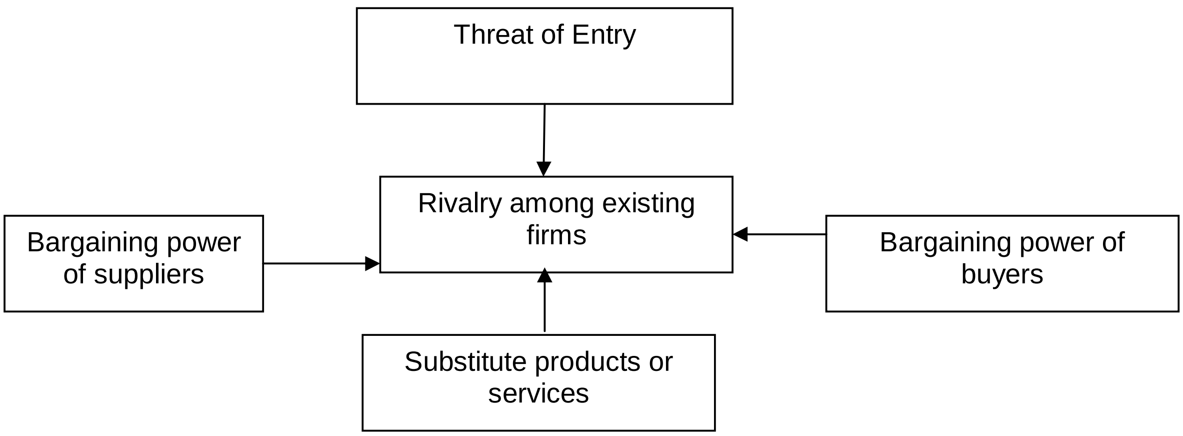


Model of the Business environment

Porter : The competitive environment- five forces model:

As well as the general environmental factors, part of external analysis also requires an understanding of the competitive environment and what are likely to be the major competitive forces in the future. A well established framework for analyzing and understanding the nature of the competitive environment is Porter's five forces model.

1. Rivalry among existing firms;
2. Bargaining power of buyers;
3. Bargaining power of suppliers.
4. Threat of new entrants;
5. Threat of substitute products or services.



The collective strength of these forces determines the profit potential, defined as long run return on invested capital, of the industry. Some industries have inherently high profits due to the weakness of these forces. Others, where the collective force is strong, will exhibit low returns on investment.

The model can be used in several ways.

1. To help management decide whether to enter a particular industry. Presumably, they would only wish to enter the ones where the forces are weak and potential returns high.

2. To influence whether to invest more in an industry. For a firm already in an industry and thinking of expanding capacity, it is important to know whether the investment costs will be recouped. The present strength of the forces will be evident in present profits, so management will wish to forecast how the forces may change through time. Alternatively, they may decide to sell up and leave the industry now if they perceive the forces are strengthening.

3. To identify what competitive strategy is needed. The model provides a way of establishing the factors driving profitability in the industry. These factors affect all the firms in the industry. For an individual firm to improve its profitability above that of its peers, it will need to deal with these forces better than they. If successful, it will enjoy a stronger share price and may survive in the industry longer. Both increase shareholder wealth.

Threat of entry: Entrance can affect the profitability of the industry in two ways:

1. Through the impact of actual entry. A new entrant will reduce profits in the industry by:

   (a) Reducing prices either as an entry strategy or as a consequence of increased industry capacity. There is also the danger that a price war may break out as rivals try to recover share or push out the new rival.

   (b) Increasing costs of participation of incumbents through forcing product quality improvements, greater promotion or enhanced distribution.

   (c) Reducing economies of scale available to incumbents by forcing them to produce at lower volumes due to loss of market share.

2. By forcing firms to follow pre-emptive strategies to stop them from entering. In view of the above danger, firms may take action to forestall entry of new rivals by:

   (a) Charging an entry-deterring price which is so low as to make the market unattractive to new, and possible higher cost, rivals.

   (b) Maintenance of high capital barriers through deliberate investment in product or production technologies or in continuous promotion of research and development.

Porter suggests that the strength of the threat of market entry depends on the availability of barriers to entry against the entrant. These are:

1. Economies of scale. Incumbent firms will enjoy lower unit costs due to spreading their fixed costs across a larger output and through the ability to drive better bargains with their suppliers. This gives them the ability to charge prices below the unit costs of new entrants and hence render them unprofitable.

2. Product differentiation. If established firms have strong brands, unique product features or established good relations with customers, it will be hard for an entrant to rival these by a price reduction, and expensive and time consuming to emulate them.

3. Capital requirements. If large financial resources will be needed by a rival to enter, the effect will be to exclude many potential entrants. Porter argues this will be particularly effective if the investment is needed in dedicated capital assets with no alternative use or in promotion. Few would-be entrants will want to take the risk.

4. Switching costs. These are one-off costs for a customer, to switch to the new rival. If they are high enough, they will eliminate any price advantage the new rival may have. Examples include connection charges, termination costs, special service equipment and operator training costs.

5. Access to distribution channels. If the established firms are vertically integrated, this leaves the entrant needing either to bear the costs of setting up its own distribution or depending on its rivals for its sales. Both will reduce potential profits.

6. Cost advantages independent of Scale. These make the established firm to have lower costs. Examples are unique low-cost technologies, cheap resources, or experience effects (a fall in cost gained from having longer experience in the industry, usually influenced by cumulative production volume).

7. Government policy. Some national governments jealously guard their domestic industries by forbidding imports or using legal and bureaucratic techniques to stall import competition. Also, some governments prefer to allow existing firms to grow large to give them the economies of scale that they will need to compete in a global market. Therefore, they try to restrict industry competition.

Pressure from substitute products:

Substitute products are ones that satisfy the same need despite being technically dissimilar. Examples include aeroplanes and trains, e-mail and postal services, and soft drinks and ice cream.
Substitutes affect industry profitability in several ways:

1. They put an upper limit on the prices the industry can charge without experiencing large-scale loss of sales to the substitute.
2. They can force expensive product or service improvements on the industry.
3. Ultimately, they can render the industry technologically obsolete.

The power of substitutes depends on:

1. Relative price/Performance: A coach journey is cheaper than a rail journey which is in turn cheaper than a flight. However, coach is slower than a train. The trade-off is far less clear between e-mail and postal services for simple messages, since e-mail is both quicker and cheaper!
2. The extent of switching costs.

Bargaining power of buyers:

Buyers use their power to trade around the industry participants to gain lower prices and/or improvements to product or service quality. This will impact on profitability. Their power will be greater if:

1. Buyer power is concentrated in a few hands. This denies the industry any alternative markets to sell to if the prices offered by buyers are low.
2. Products are undifferentiated. This enables the buyer to focus on price as the important buying criterion.
3. The buyer earns low profits. In this situation, they will try to extract low prices for their inputs. This effect is enhanced if the industry's supplies constitute a large proportion of the buyer's costs.
4. Buyers are aware of alternative producer prices. This enables them to trade around the market. Improvements in information technology have significantly increased this, by enabling a reduction in 'search costs.'
5. Low switching costs. In this case, the switching costs might include the need to change the final product specification to accept a different input or the adoption of a new ordering and payments system.

Bargaining power of Suppliers:

The main power of suppliers is to raise their prices to the industry and hence take over some of its profits for themselves. Power will be increased by:

1. Supply industry dominated by a few firms: Provided that the buying industry does not have similar monopolistic firms, the supplier will be able to raise prices. For example, the 'Intel' domination in personal computers developed because IBM did not insist on exclusive access to Microsoft's operating systems or Intel's processors.
2. The suppliers have proprietary product differences. These unique features of images make it impossible for the industry to buy elsewhere. For example, branded food suppliers rely on this to offset the buyer power of the large grocery chains.

Rivalry among existing competitors:

Some industries feature cut-throat competition, while others are more relaxed. The latter have the higher profitability. Porter suggests that the factors determining competition are:

1. Numerous rivals, such that any individual firm may suddenly reduce price and trigger a price war. If there are fewer firms of similar size, they will tend to, formally or informally, recognize that it is not in their interest to cut prices.
2. Low industry growth rate. Where growth is slow, the participants will be forced to compete against one another to increase their sales volumes.
3. High fixed or storage costs. The former, sometimes called operating gearing, put pressure on firms to increase volumes to take up capacity. Because variable costs are low, this is usually accomplished by cutting prices. This is common in transportation and telecommunications. Similarly, high storage costs are often the cause of a sudden dumping of stocks on to the market.
4. Low differentiation or switching costs mean that price competition will gain customers and so be commonplace.
5. High strategic stakes. This is where a lot depends on being successful in the market. Often this is because the firms are using the market as a springboard into other lines of business. For example, banks may fight for a share of the current (chequing) account or mortgage markets in order to provide a customer base for their insurance and investment products.
6. High exit barriers. These are economic or strategic factors making exit from unprofitable industries expensive. They can include the costs of redundancies and cancelled leases and contracts, the existence of dedicated assets with no other value or the stigma of failure.

Illustration: Porter's five forces applied to the confectionery industry:

The following data relate to the Indian confectionery market:

- Yearly spend is approximately Rs. 100 per head of population;
- Overall (slight) growth of 2% per annum;
- Chocolate is the country's no. 1 impulse buy;
- The market is dominated by three major producers who share a total of 68% of the market (Nestle 20%; Amul (20%; Cadbury 28%);
- There are many smaller companies operating within the chocolate confectionery and sugar confectionery sectors.

Using Porter's Five Forces Model, a structural analysis of the industry shows:

- The threat of entry: low. Main barriers to entry:
  - Economies of scale, particular chocolate to compete with the leaders;
  - Advertising necessary for band awareness (the leaders jointly spend approaching Rs. 100 p.a.)
  - Access to distribution channels: concentrated retail supermarket;
  - Cost advantages independent of size;
  - Experience in production and distribution of major operators.
- Threat of substitutes: Moderate/high. Growth in light food snacks, introduces possibilities: healthier snacks; fun fruit packaging; savory snacks.

- Supplier power: Moderate

  - Milk, sugar subject to Indian prices, therefore inflated but stable;

  - Cocoa subject to price fluctuations, but larger manufacturers can hedge against this by backward integration.

- Buyer Power: Potentially high

  - As there is a concentration of buyers (the six largest retailers account for 60% of total Indian food;

  - Competition for shelf space in high;

  - There is a threat of backward integration, especially with brand only products being introduced ;

  - Only 30% of confectionery is sold through supermarkets; other outlets include petrol stations, off-licenses, vending machines, and so on, so the effect is offset a little.

- Competitive rivalry is high

- Substitutes threaten, competitors are in balance:

  - There is slow market growth;
  - There are high exit barriers (Capital intensive);
  - Major spending on advertising.

Internal Analysis or Value Chain or Value engineering

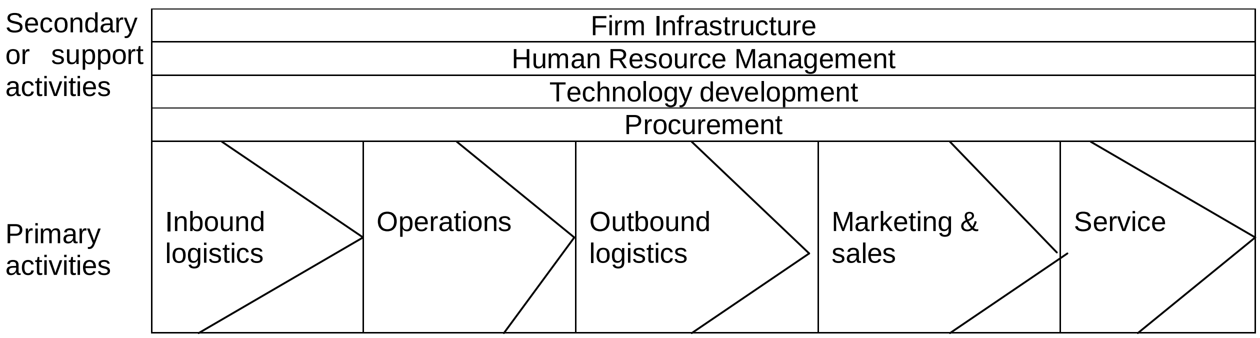
Internal analysis is needed in order to determine the possible future strategic options by appraising the organization's internal resources and capabilities. This involves the identification of those things which the organization is particularly good at in comparison to its competitors.

The analysis will involve undertaking a resource audit to evaluate the resources the organization has available and how it utilizes those resources- for example, financial resources, human skills, physical assets, technologies and so on. It will help the organization to assess its strategic capability. That is the adequacy and suitability of the resources and competences of an organization for it to survive and prosper. Johnson, schools and Whittington (2005) explain that this depends up having:

- Threshold resources – The resources needed to meet the customers' minimum requirements and therefore to continue to exist;
- Threshold competences- The activities and processes needed meet customers' minimum requirements and therefore continue to exist;
- Unique resources –The resources that underpin competitive advantage and are difficult for competitors to imitate or obtain;
- Core competences – are activities that underpin competitive advantage and are difficult for competitors to imitate or obtain.

There is often confusion surrounding the terms 'resources' and 'competences' –essentially resources are what the organization has, whereas competences are the activities and processes through which the organization deploys its resources effectively. This concept will be returned to later in this chapter when examining the resource- based view of strategy.

Michael Porter suggested that the internal position of an organization can be analyzed by looking at how the various activities performed by the organization added (or did not add) value, in the view of the customer. Porter proposed a model, the value chain For carrying out such an analysis. To be included in the value Chain, an activity has to be performed by the organization better, differently or more cheaply than by its rivals.



The value chain. Based on the work of Michael porter

The value chain of any organization can be divided into primary activities and support activities, each of these activities can be considered as adding value to an organization's products or services.

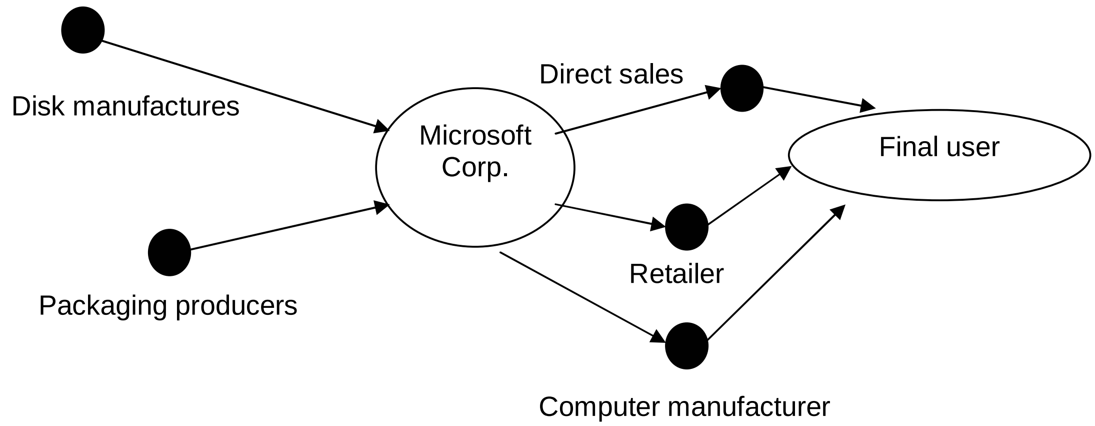
The primary activities of the value chain are as follows:

- Inbound logistics. The systems and procedures that the organization uses to get inputs into the organization, for example the inspection and storage of raw materials.
- Operations. The processes of converting inputs to outputs, for example production processes.
- Outbound logistics. The systems and procedures that the organization uses to get outputs to the customer, for example storage and distribution of finished goods.
- Marketing and Sales. Those marketing and sales activities that are aimed at persuading customers to buy, or to buy more, for example TV or point- of –Sale advertising.
- Service. Those marketing and sales activities that are clearly aimed before or after the point of sale, for example warranty provision, or advice on choosing or using the product.

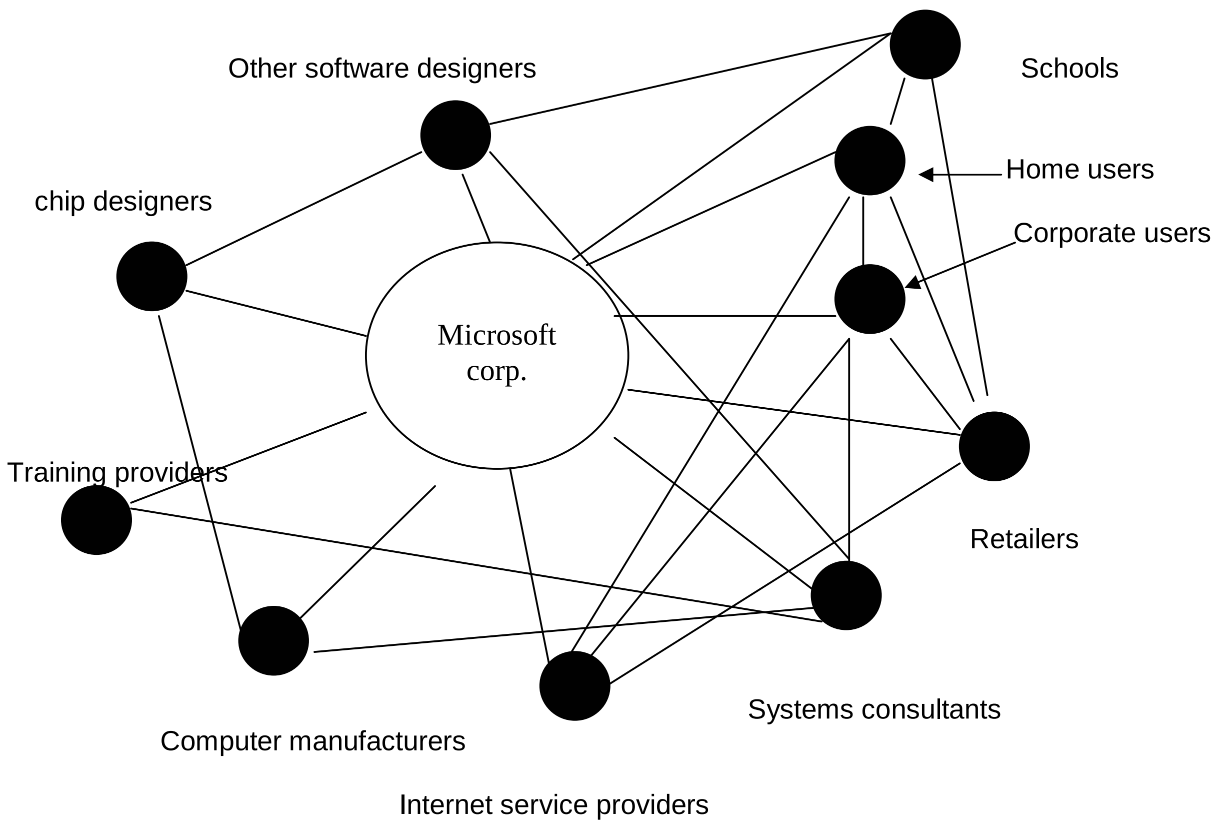
The secondary (or support) activities of the Value Chain are as follows:

- Procurement. The acquisition of any input or resource, for example buying raw materials of capital equipment.
- Technology development. The use of advances in technology, for example new IT developments.
- Human resource Management. The use of the human resources of the organization, for example by providing better training.
- Firm infrastructure. Those general assets, resources or activities of the organization that are difficult to allocate to one of the other activity headings, for example a reputation for quality, or a charismatic Chief Executive.

If you are asked to apply the Value chain to an organization, simply look for things that the organization does well, and put each of them under the most appropriate heading. A brief explanation as to why you feel each activity has strength will suffice.



Value system diagram for Microsoft



Value network for Microsoft

Forward and Backward integration

Organisations may enter into new business that is related to its existing business. The firm remains vertically within the same process. Sequentially, it moves forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm.

Supply chain management

Supply chain management is often explained with reference to Porter's value chain and value systems. According to a leading authority (Christopher, 1998): " The supply chain is the network of organizations that are involved, through upstream and downstream linkages, in the different processes and activities that produce value in the form of products and services in the hands of the ultimate consumer.

Corporate Appraisal: SWOT analysis

Having undertaken an analysis of the trends and possible external and internal environmental developments that may be of significance to the organization, the next step is to bring together the outcomes from the analysis.

This is often referred to as corporate appraisal or SWOT analysis, standing for strengths, weaknesses, opportunities and threats.

During this stage, management will assess the ability of the business, following its present strategy, to reach the objectives they have set. They will draw on two sets of information:

a) Information on the current performance and resource position of the business. This will have been gathered in a separate internal position audit exercise.

b) Information on the present business environment and how this is likely to change over the period of the strategy. This will have been collected by a process of external environmental analysis and competitor analysis.

The four categories of SWOT can be explained in more detail as follows:

1. Strengths. These are the particular skills or distinctive competences which the organization processes and which gives it an advantage over the competitors.
2. Weaknesses. These are the things that are going badly (or work badly) in the organization and can hinder the organization in achieving its strategic aims, such as a lack of resources, expertise or skills.
3. Opportunities. These relate to events or changes outside the organization, that is in its external business environment, which are favourable to the organization. The events or changes can be exploited to the advantage of the organization and will therefore provide some strategic focus to the decision-making of the managers within the organization.
4. Threats. Threats relate to events or changes outside the organization in its business environment which are unfavourable and that must be defended against. The organization will need to introduce some strategies to overcome these threats in some way or it may start to lose market share to its competitors.

The strengths and weaknesses normally result from the organization’s internal factors, and the opportunities and threats relate to the external environment. So, the strengths and weaknesses come from internal position analysis tools such as the Value Chain, and the opportunities and threats from environment analysis tools such as PEST and the five forces model.

<u>SWOT and a corporate appraisal are the same thing:</u>

Corporate appraisal. A critical assessment of the strengths and weaknesses, opportunities and threats (SWOT analysis) in relation to the internal and environmental factors affecting an entity in order to establish its condition prior to the preparation of the long-term plan.

<u>Purpose of a SWOT analysis:</u>

1. Strengths and weaknesses are usually internal and specific to the firm. Strength is something the firm is good at doing or a resource it can call upon to reach its goals. They are sometimes termed distinctive competences. A weakness is generally a resource shortage which renders the firm vulnerable to competitors.

2. Opportunities and threats are generally external to the firm. Opportunities and threats are strategic challenges to the firm. Because these are so often things like competitors, changing technology or imminent economic recession, most managers assume them to be solely

external. However some things inside the firm can also be threats or opportunities, for example, unrest among the labour force or the discovery of a new product innovation respectively (although these are often linked to external factors such as better job offers elsewhere or a market need which the innovation can satisfy, for instance).

From SWOT to strategy:

If the organization's approach to strategy is to make itself 'fit' the environment this might be achieved by:

1. Matching. The firm should build on those strengths that enable it to take advantage of the opportunities in the market place. For example, the local brewer in figure consider:
   - Marketing its beer as a bottled real ale through supermarkets and independent off licenses;
   - Converting some of its pubs to restaurants;
   - Arranging distribution deals with importers of bottled lagers;
   - Creating children's 'fun areas' in suitable pubs.

2. Converting. This is a more complex process in which management question their interpretation of a factor as a threat or weakness and consider whether it can be reinterpreted or turned to its advantage (sometimes called flip siding the negative). The local brewer decide to:
   - Emphasize its traditional brewing methods as the reason for its relatively higher costs and prices;
   - Distribute maps of the city in which most of its pubs were based and introduce a promotion based on having a 'passport' stamped by each pub the drinker visited- this emphasized how easy it was to walk to the pubs;
   - Introduce a 'designated driver' scheme where the driver was given free soft drinks and coupons for alcoholic drinks, which could be redeemed at a later date.

3. Remedying. Removing weaknesses that leave the firm exposed to threats or unable to grasp opportunities is a priority for strategic action. The regional brewer in figure decide to:
   - Set up a franchised brewing arrangement for larger with known brand to reduce its reliance on sales of the major national brands brewed by its rivals;
   - Rationalize its public houses by introducing a scheme where landlords could buy their pubs from the brewery;
   - Adopt selective investment in developing restaurant areas inside suitably located pubs;
   - Institute provision of training to publicans in providing cooked food;
   - Increase the quality and variety of wins, spirits and mineral waters on sale.

The TOWS approach

Another approach to generating strategic options from a SWOT analysis was identified by Weihrich. This uses the extended matrix shown in Figure below

Method

Management insert the elements of SWOT into the outsides of the matrix in the same way as discussed in section
Strategic options are identified in the four internal quadrants

- SO Strategies- ways in which the business could use its strengths to take advantage of opportunities.

- ST strategies- Considering how to use company's strengths to avoid threats. It can be hoped that rivals with be less able to do this and hence they will suffer deteriorating relative competitive performance.

- WO Strategies- Attempting to take advantage of opportunities by addressing weaknesses.

- WT strategies – Primarily defensive and seek to minimize weaknesses and avoid threats.

Internal Factors → / External Factors ↓	Strengths (S)	Weaknesses (W)
Opportunities (O)	SO Strategies	WO Strategies
Threats (T)	ST strategies	WT Strategies

TOWS Matrix

When should SWOT take place?

In the model shown in Figure the SWOT takes place after the setting of mission and objectives and the conduct of the environmental analysis and position audit. Not all strategists are agreed that objectives should be set before the position of the firm is understood. There are arguments for putting SWOT elsewhere in the strategy formulation process.

Strategic Methods

Not only must the organization consider on what basis to compete and the direction of strategic development, it must also decide what methods it could use. The options are:

- Internal development. Where the organization uses it own internal resources to pursue its chosen strategy. This may involve the building up a business from scratch.

- Take over/acquisitions or mergers. An alternative would be to acquire resources by taking over or margining with another organization, in order to acquire knowledge of a particular product/market area. This might be to obtain a new product range or market presence or as a means of eliminating competition.

- Strategic alliances. This route often has the aim of increasing exposure to potential customers or gaining access to technology. There are a variety of arrangements for strategic alliances, some of which are very formalized & some, which are much looser arrangements.

The evaluation stage considers each strategic option in detail for its feasibility and fit with the mission and circumstances of the business. By the end of this process, management will have decided on a shortlist of options that will be carried forward to the strategy implementation stage. The various options must be evaluated against each other with respect to their ability to achieve the overall goals. Management will have a number of ideas to improve the competitive position of the business.

Strategy implementation

The strategy sets the broad direction and methods for the business to reach its objectives. However, none of it will happen without more detailed implementation. The strategy implementation stage involves drawing up the detailed plans, policies and programmes necessary to make the strategy happen. It will also involve obtaining the necessary resources and committing them to the strategy. These are commonly called tactical and operational decisions:

- Tactical programmes and decisions are medium-term policies designed to implement some of the key elements of the strategy such as developing new products, recruitment or downsizing of staff or investing in new production capacity. Product appraisal and project management techniques are valuable at this level.

- Operational programmes and decisions cover routine day-to-day matters such as meeting particular production, cost and revenue targets. Conventional budgetary control is an important factor in controlling these matters.

Economic Profit

Both sets of strategy writers take an economic view of competitive advantages, seeing it as something enabling the firm to generate a superior return on shareholders' investment through time.

Economic Profit is essentially the excess of the firm's earnings over the opportunity costs of the capital it employs. In other words, for an economic profit to be recorded, the returns to the shareholder must exceed the rate of return the shareholder could have obtained by investing the same funds in the next best alternative.
For example, consider this simple investment situation:

Marsh Hall plc has net assets of Rs. 520 lakhs. Its profits last year were Rs. 62. lakhs. Its direct rival Jevons plc has net assets of Rs. 780 lakhs and earnings of Rs. 70.2 lakhs. Advise the investors in Marsh Hall plc and jevons plc on the economic performance of the firms. We need to calculate the economic profit earned by the two firms:

- Marsh Hall plc is making a return on net assets of 12% (Rs. 62.4 ÷ Rs. 520).
- Jevons plc is making a return on net assets of 9% (Rs. 70.2 ÷ Rs. 780).

- Investors in Marsh Hall plc are therefore enjoying a positive economic profit of Rs. 15.6 lakhs, calculated as (12%- 9%) × Rs. 520 lakhs. In other words, they are Rs. 15.6 lakhs better off by investing in Marsh Hall plc than if they had invested in the next-best alternative, Jevons plc.

- Investors in Jevons plc are suffering a negative economic profit of Rs. 23.4 lakhs (i.e. 3% of Rs. 780 lakhs) because they chose not to invest in Marsh Hall plc.

Investors should switch their investments from Jevons plc to Marsh Hall plc to gain a better return. The effect of this would be to reduce the share price of Jevons plc and raise the share price of Marsh Hall plc. The market value of Jevons plc would fall and the market value of Marsh Hall plc will rise. In a simple way this illustrates the link between economic profit and shareholder value.

The identity of stakeholders

You will be familiar with the concept of stakeholders from your study for integrated management &, it is recommended that you revise that section of the manual in addition to reading what follows.

Stakeholders are defined by CIMA as 'Those persons and organizations that have an interest in the strategy of the organization. Stakeholders normally include shareholders, customers, staff and the local community.

As such we can consider them to be people and organizations who have a say in:

- What you are to do,
- What resources you have,
- What you should achieve.

They are affected by, and feel they have a right to benefit or be pleased by what you do. For a commercial organization they include, amongst others:

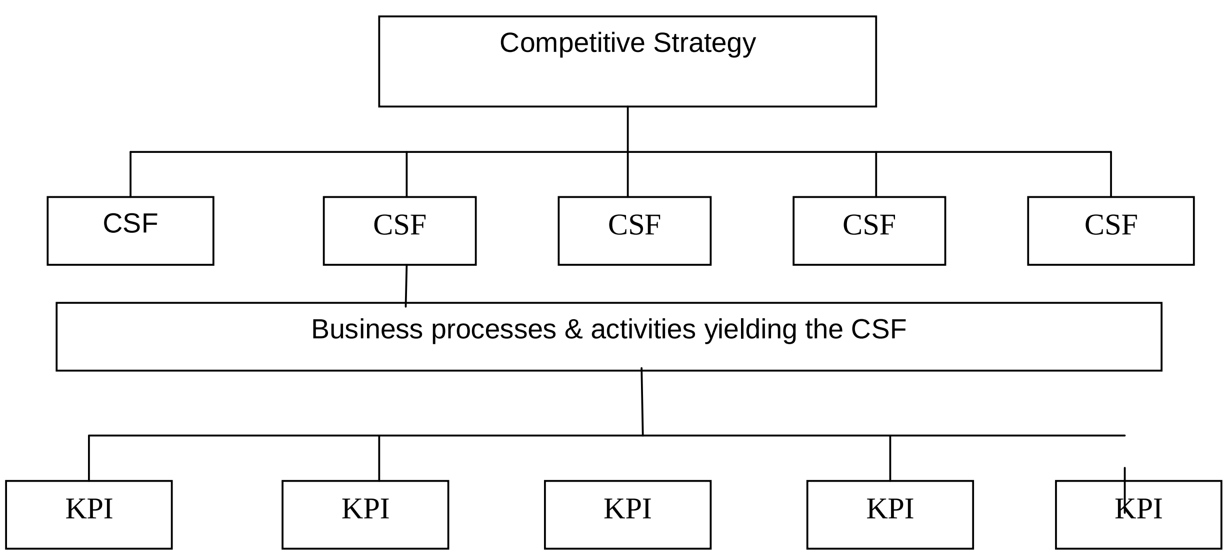
Internal stakeholders	Owners/founders Management Staff
Mixed internal and external stakeholders	Trade unions Communities where organization is based
External Stakeholders	Bankers, Other investors Governments & regulatory bodies

Critical Success Factors (CSF):

This approach first emerged as an approach for linking information systems strategy to broader commercial goals by first identifying the crucial elements of the firm's business strategy. More recently it has been appropriated by strategies in general as an alternative to the goal structure approach described above.

According to its originators, critical success factors (CSFs) are: The limited number of areas in which results, if they are satisfactory, will enable successful competitive performance.those components of strategy where the organization must excel to outperform competition. These are underpinned by competences which ensure this success. A critical factor analysis can be used as a basis for preparing resource plans.

CIMA defines critical success factors as 'An element of the organizational activity which is central to its future success. Critical success factors may change over time, and may include items such as product quality, employee attitudes, manufacturing flexibility and brand awareness.'



Critical Success factors and Key performance indicators

The attraction of the approach lies in the fact that it provides a methodology for identifying strategic goals (or CSFs) by basing them on the strengths, or core competences, of the firm. These are implemented through the development of key performance indicators (KPIs) for milestones in the processes delivering the CSFs.

Methodology of CSF analysis

According to Johnson and Scholes, this is a six-step process. We have illustrated them here using the example of a chain of fashion clothing stores.

1. Identify the critical success factors for the specific strategy. The recommend keeping the list of CSF to six or less. The store chain might decide that these are:
    - o Right store locations;
    - o Good brand image;
    - o Correct and fashionable lines of stock;
    - o Friendly fashionable store atmosphere.
2. Identify the underpinning competences essential to gaining competitive advantage in each of the CSFs. This will involve a thorough investigation of the activities, skills and processes that deliver superior performance of each.

    Taking just one of the store's CSFs the issue of correct stock, as an example:

    - Recruit and retain buyers with acute fashion sense;
    - Just-in-time purchasing arrangements with clothing manufacturers;
    - Proprietary designs of fabrics and clothes;
    - Close monitoring of shop sales by item to detect trends in which items are successful and which are not;
    - Swift replenishment delivery service to minimize amount of stock in the system.
3. Ensure that the list of competences is sufficient to give competitive advantage.
    The store needs to consider whether improvement to the systems and processes underlying its CSF will be sufficient to secure its place in the high street or whether more needs to be done. For example, have they considered whether they need to develop a direct ordering facility to raise profile and gain loyalty?
4. Identify performance standards which need to be achieved to outperform rivals. These are sometimes termed key performance indicators and will form the basis of a performance measurement and control system to implement and revive the strategy.

KPIs that the clothing store chain might consider to match its key processes (listed above) include:

- ❑ Staff turnover among buyers and designers;
- ❑ Lead times on orders from suppliers;
- ❑ Percentage of successful stock lines designed in-house;
- ❑ Installation of a real-time store sales information system by the end of the year;
- ❑ Establishment of 1-day order turnaround for store replenishment.

5. Ensure that competitors will not be able to imitate or better the firm's performance of each activity, otherwise it will not be the basis of a secure competitive strategy.

    Our store would compare its competences against Gap, Miss self ridge, Next, River Island, etc. It would need to consider whether its present advantages are sustainable.
6. Monitor competitors and predict the likely impact of their moves in terms of their impact of these CSFs.

This process is carried out principally by discussions between management, although there is a clear additional role for the special expertise of the chartered management accountant in mapping the key process, developing KPIs and monitoring them.

It is worth remembering that critical success factors are specific to an organization at which you are looking. They should not be confused with the survival factors and success factors which relate to the industry in general.

Benchmarking

Definition: CIMA defines benchmarking as: “The establishment, through data gathering, of targets and comparators, through whose use relative levels of performance (and particularly areas of underperformance) can be identified. By the adoption of identified best practices it is hoped that performance will improve”.

Purposes of benchmarking:

- A sales variance may indicate to what extent a fall in revenue is due to a fall in sales volume and how much to a fall in price. It does not indicate why people are less inclined to buy our product or are now only prepared to buy it at a lower price.
- A variable overhead variance may show us that factory overheads are rising. It does not tell us why we need to hold a greater stock of inventory than before.
- An analysis of our sales returns may show that products are being returned more than before. It does not tell us what is wrong with them or why people are buying a competitor’s product.

The purpose of benchmarking is to help management understand how well the firm is carrying out its key activities and how its performance compares with competitor and with other organizations who carry out similar operations

Four types of benchmarking

1. Internal benchmarking: A method of comparing one operating unit or function with another within the same industry [assume it means ‘firm’ rather than industry].
2. Functional Benchmarking: Internal functions are compared with those of the best external practitioners of those functions, regardless of the industry they are in.
3. Competitive benchmarking: Information is gathered about direct competitors, through techniques such as reverse engineering [decomposition& analysis of competitors’ products].
4. Strategic benchmarking: A type of competitive benchmarking aimed at strategic action and organizational change.

Stages in setting up a benchmarking programme:

1. Gain senior management commitment to the benchmarking project. To ensure that the programme enjoys the co-operation and commitment of managers it is essential that the senior management publicly and unequivocally endorse the benchmarking programme.

   Senior managers should be informed of:
   - The objectives and benefits of benchmarking;
   - The likely costs of the programme;
   - The possibility that sensitive data may be revealed to outside organization;
   - The long-term nature of a benchmarking programme and the likelihood that business improvements will take time to achieve.

2. Decide the process and activities to be benchmarked. To work properly this should commence by identifying the outcomes which drive the profits, sales and costs of the business. Factors which might be considered are:

   - Activities which generate the greatest costs;
   - Processes which have been the subject of customer complaints;
   - Processes essential to delivering the firm's competitive advantage.

3. Understand the processes and develop appropriate measures. Mapping the processes involves three sorts of activity:

   (a) Discussion with key stakeholders in the process.

   (b) Observation of the process. The benchmarking team should be prepared to walk through the process, observing and documenting the activities and any problems they see.

   (c) Experimental approaches involve making adjustments to the process or trying to force it to make mistakes in order to understand how it works better.

4. Monitor the process measurement system. The measures will need time to laid-down.

5. Choose appropriate organizations to benchmark against. There are four sources of comparative data:

   a) Internal benchmarking:
   b) Competitive benchmarking

   c) Activity (or process) benchmarking
   d) Generic benchmarking:

6. Obtain & analyse data.

7. Discuss results with process management and staff: Benchmarking is not supposed to be a process which pinpoints people to blame for poor organizational improvement. Rather it is an opportunity for improvement.

7. Develop and implement improvement programmes. Benchmarking simply monitors relative process performance. It cannot improve it. Once the management accept that there are serious deficits in certain processes, it must look for ways to improve things. This includes

   a) Visiting the best-in-class to see how they do things;
   b) Work study and process improvement programmes;

   c) Capital investment in R & D and better production and information processes;
   d) Product redesign;

   e) Management and staff training;
   f) Outsourcing;
   g) Organizational restructuring

<u>The main benefits of benchmarking:</u>

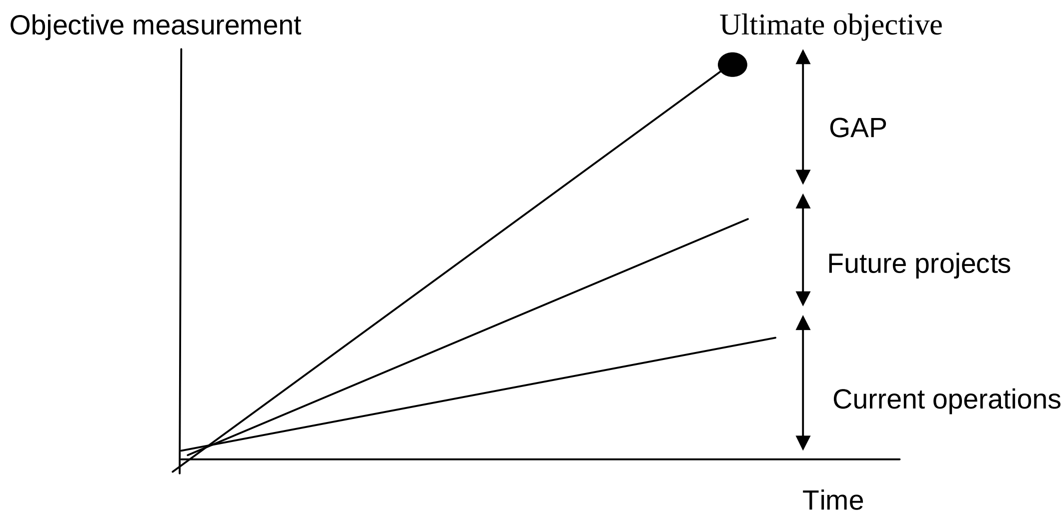
1. (a) Increased customer satisfaction;
   (b) Reduced waste and costs of poor quality;
   (c) Reduced overhead through business simplification;
   (d) Transmission of best practice between divisions;

2. It can assist in overcoming complacency and drive organizational change.
3. It provides a way to monitor the conduct of competitive strategy.
4. It provides advance warning of deteriorating competitive position.
5. It improves management understanding of the value-adding processes of the business.

Gap analysis

Definition: A comparison between an entity's ultimate objective (most commonly expressed in terms of demand, but may be reported in terms of profit, ROCE etc.) and the expected performance of projects both planned and under way. Differences are classified in a way which aids the understanding of performance, and which facilitates improvement.

Example of a gap analysis diagram



Gap analysis

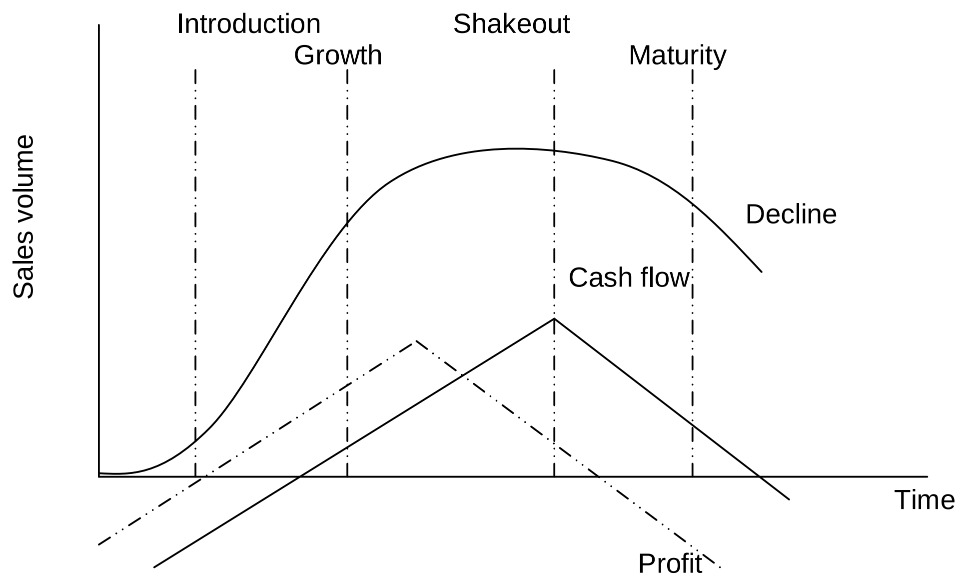
The Product Life Cycle model:

The model presents a generalized account of the stages through which a product passes from its initial launch until its final withdrawal from the market due to obsolescence.

The main characteristic of each stage are:

1. **Introduction stage.** This is a new product and hence will be unfamiliar to the market. The firm will need to invest considerable resources in developing and launching the product (including promotion, stock-building, staff training, etc.) without any guarantees that the product will succeed. Therefore:
   - Strongly negative cash flows;
   - High risk due to product novelty;
   - Single or limited product range to avoid confusing the customer;
   - Few if any competitors willing to take similar risks;
   - High need to introduce recognition and trial of the product;
   - Very high costs per customer.

2. **Growth stage.** Rapidly increasing sales due to acceptance of the product and a 'brandwagon effect' developing as buyers copy one another. The substantial investment needed to keep up with demand depresses cash flows. The most significant feature of



This stage is increasing complexity as rivals enter the market and the range of products widens as producers seek to attract customers from each other with novel features:

- Negative cash flows;
- Reducing risk due to product having achieved acceptance;
- Market entry by 'copycat' or 'me-too' producers;
- Growth sustained by attracting additional types of customers, sometimes through reductions in price or product features;
- Marketing focus switches to seeking to differentiate the firm's product and brand in the minds of customers.

3. **Shakeout stage.** The sales growth rate turns down (i.e. becomes ex-growth) due to the market having become saturated. Initially there will be an imbalance between supply and demand because participants will not have forecast the downturn. This is usually resolved by a wave of product or business failure or amalgamation of businesses through takeover or merger. Briefly:

- Overcapacity creates stimulus for pricing-cutting;
- Number of producers reduces due to failures or industry concentration;
- Peak levels of profitability.

4. **Maturity stage.** This is where purchases settle down into a pattern of repeat or replacement purchasing. For fast-moving consumer goods (FMCGs) like canned foods, soft drinks and confectionery these may be habitual purchases. For durables such as televisions, computers, cars and furniture the frequency of repurchase will be influenced by changing technical features, fashions and wearing-out of old product. The main features will be:

- Reduction in investment in additional capacity leads to improved current cash flows;
- Gradual price decline as firms compete against one another for a larger share of a fixed-size market- during this stage buyer and supplier power (porter) increase because of the larger number of industry members to choose between;

- Firms seek to capitalize on product loyalty by launching spin-off products under the same brand name;
- Gradual fragmentation of the market as firms seek out buyer groups to monopolies with special value-added features on products (e.g. premium quality foods in addition to regular and budget lines);
- Peak profitability and least risk.
  The later phases of the mature stage are often characterized by a second wave of consolidations as some firms pursue industry rationalization to restore profitability. This has been noticeable in recent years in industries such as oil and banking.

5. **Decline stage.** The product declines into obsolescence as technically better substitutes replace it. The existence of such substitutes will cause sharp profit reductions among producers of the product. Many firms will have already found alternative industries, while those remaining will be looking for an orderly way to exist the industry:

   - Falling profitability and marginal cash flows;
   - Firms seek to leave industry.

<u>Using the product life cycle model:</u>

1. To determine appropriate strategies for the firm. As the discussion above shows, each stage brings with it a number of strategic prescriptions.
   One great strength of the product life cycle is that it encourages mangers to look beyond present returns when deciding on product investment strategy.

2. To evaluate investment in products. Investment in products should be taken on the basis of the product life cycle gives an indication of whether these revenues may be expected to grow or not and also the likely level of further investment needed.

3. To develop performance measure for the product. Traditional financial control measures are of greatest use in the mature and decline stages where the most appropriate management style is one of critical use of resources and maximization of cash flows. During the introduction and growth stages, the factors which should be controlled are ones related to the product's market success because these will determine its future financial value.

The BCG Portfolio Matrix:

Levels of portfolio analysis: A portfolio means a 'collection'. In the present context it means a collection of products or businesses.

In business, portfolio analysis management seek to visualize their operations as a collection of income-yielding assets. This approach is based on an approach used in financial strategy and is intended to give guidance on where to invest additional funds.

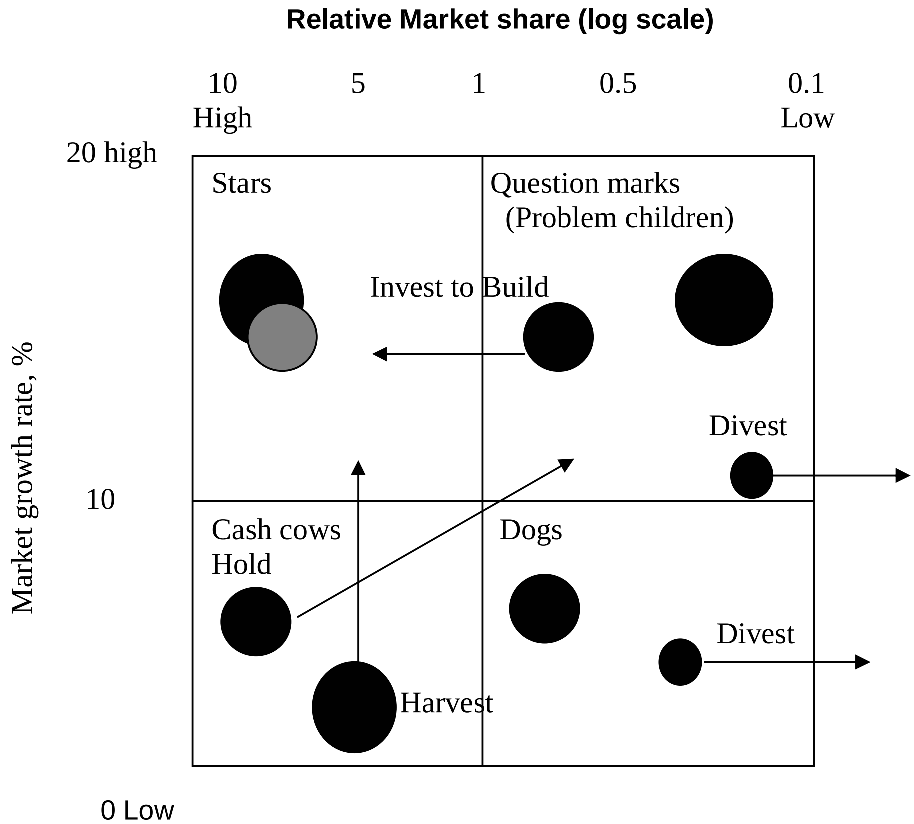
1. A product portfolio. A business unit may provide a range of products to its customers. For example, a life assurance firm may offer a number of products such as pensions, endowments, whole life, critical illness and guaranteed income polices.

2. A business (or corporate) portfolio. This is the businesses as seen from head office. Here the strategic business units (SBUs) are being seen as a collective whole.

The growth-Share matrix

The most well-known example of product or corporate portfolio analysis is provided by the Boston Consulting Group (BCG). There is a definition of the model in CIMA: Management Accounting: official Terminology, 2005. The BCG model requires management to plot the position of their business units (or products) against two axes:

1. Relative market share. This is calculated as the firm's market share against their largest rival, so a firm with a 20% share of the market which has a rival with a 60% share would have $0.3\times(\frac{20}{60} = 0.3x)$, while the rival would calculate their relative share as $\frac{60}{20}$ x =3x.



The BCG Matrix

2. Market growth rate. This is the annual percentage change in sales volume in the industry as a whole.

This allows the business units to be plotted on a two-dimensional space, as shown in above figure.

An additional factor is the inclusion of sales turnover in the model. The proportion of total group sales turnover accounted for each division is converted to the radius of a circle, with its center a the coordinates of the division.

The importance of relative market share:

High relative market share is of central importance as the key to competitive success argues the BCG. This is principally based on its earlier discovery of experience curves.

An experience curve is in many ways similar to a learning curve effect: the organization becomes more efficient in producing and marketing a given product as it produces more of it. This leads to the statement that unit cost declines and cumulative volume increases. BCG claim this typically amounts to a 15% fall in unit costs for every doubling of cumulative volume.

BCG argue that all firms in the industry face essentially the same experience curve effects. Consequently as the industry progresses the unit costs of each participant will fall. Inevitably this will lead to falling prices. The firm that survives this process will be the firm with the lowest costs which, by extension, will be the one with the highest cumulative volume.

The conclusion is that domination of the market is essential for low costs and hence competitive success. Hence high relative market share is sought within the BCG matrix.

High relative share therefore brings several benefits:

- The enjoyment of lower unit costs and therefore higher current margins than competitors at the same price levels;
- The ability to be a price leader- if the firm decides to cut price, others must follow to maintain their sales, but in so doing may find themselves selling at below unit costs;
- The dominance of the market means that the product will become the benchmark product- 'the real thing' against which others may be seen as pale imitations.

Strategies for each quadrant:

1. Question marks (Problem children). These products are in a high growth market which means that it is early in the product life cycle and therefore has the potential to repay present investment over its life cycle. Indeed the high market growth rate means that the firm will already be investing considerable sums in it.

   The low relative market share, however, means that this business unit is unlikely to survive in the long run because it will have a lower cost competitor.

   Management must decide between investing considerably more in the product to build its market share or shutting it down now before it absorbs any further investment which it will never repay. Investing to build can include:

   - Price reductions;
   - Additional promotion & securing of distribution channels;
   - Acquisition of rivals;
   - Product modification.

2. Stars. Very competitively strong due to high relative market share, although their current results will be poor due to the need to invest considerable funds into keeping up with the market growth rate.

   The strategy here is to hold market share by investing sufficient to match the commitment of rivals and the requirements of the marketplace.

3. Cash cows. These are mature products (low growth rate) which retain a high relative market share. The mature stage means that their prospects are limited to falling prices and volumes. Therefore investment will be kept under strict review and instead the priority is to maximize the value of free cash flows through a policy of harvesting the product.

   Harvest means to minimize additional investment in the product to maximize the case the division is spinning off. This cash can be used to support the question mark products as well as satisfy demands for dividends and interest.

   Holding may also be used for early-mature stage products where the market may repay the extra investment.

4. Dogs. Dogs come into being from two directions:

- Former cash cows that have lost market share due to management's refusal to invest in them;

- Former question marks which still had a low relative share when the market reached maturity.

In either case the BCG recommends divestment of the product or division. This can mean selling it to a rival, or shutting it down to liquidate its assets for investment in more promising business units.

In deciding whether or not to divest a dog, the following considerations should be taken into account:

(a) Whether the dog still provides a positive contribution or not.

(b) What is the opportunity cost of the assets it uses? For example, the contribution from products that could be made using its factory or the interest on the net proceeds from liquidation of the SBU.

(c) The impact on the rest of the portfolio that would result from divesting the SBU. Is it essential to attract customers for example?

In later versions the BCG introduced the notion of a cash dog to accommodate another strategy of creating a niche position for a dog product based on its nostalgia value (e.g. Mini cars) or because a group of loyalist customers remain who will continue to pay high prices for the product (e.g. hand-made cigars).

<u>In B.C.G. matrix for what the metaphors like stars, cows and dogs are used?</u>

The BCG growth-share matrix is a popular way to depict different types of products or SBU as follows:

. Stars are products or SBUs with high market share in a market which is growing rapidly. Cash Cows are low-growth, high market share businesses or products. Question Marks are low market share business in high-growth markets. Dogs are low-growth, low-share businesses and products.

Short questions

1. What is a Strategic plan?

A strategic plan is the formalized roadmap that describes how the company executes the chosen strategy. A plan spells out where an organization is going over the next year or more and how it's going to get there. Typically, the plan is organization-wide or focused on a major function such as a division or a department. A strategic plan is a management tool that serves the purpose of helping an organization do a better job, because a plan focuses the energy, resources, and time of everyone in the organization in the same direction.

A strategic plan:

- Is for established business and business owners who are serious about growth.
- Helps to build competitive advantage
- Communicates the strategy to staff.
- Prioritizes the financial needs.
- Provides focus and direction to move from plan to action.

2. What is the Strategic planning process?

In order to create a strategic plan, strategic planning process is to build first. The planning process typically includes several major activities or steps. People often have different names for these major activities. They may even conduct them in a different order. Strategic planning often includes use of several key terms as well.

3. What are the big planning pitfalls?

Strategic planning can yield less than desirable results if it ends up in one of the possible pitfalls. To prevent that from happening, here's a list of the most common traps to avoid:

- **Relying on bad information or no information:** A plan is only as good as the information on which it's based. Too often, teams rely on untested assumptions or hunches, erecting their plans on an unsteady foundation.
- **Ignoring what your planning process reveals:** Planning isn't magic: The planning process includes research and investigation. The investigation may yield results that tell the managers not to go in a certain direction. Do not ignore that information!
- **Being unrealistic about your ability to plan:** Put planning in its place and time. It takes time and effort to plan well. Some companies want the results but are not willing or able to make the investment. Be realistic resources, which include your time, energy, and money. .
- **Planning for planning sake:** Planning can become a substitute for action. Do not plan so much that it ignore the execution. Well-laid plans take time to implement. And results take time to yield an outcome.
- **Get your house in order first:** Planning can reveal that organization isn't in order. When an organization pauses to plan, issues that have been derail planning efforts. Make sure that the company is in order and that there are no major conflicts before it embark on strategizing.
- **Do not copy and paste:** It is easy to fall into the trap of copying the best practices of a company similar to the organization. Although employing best practices from industry is important, other organizations' experiences are not relevant to the company. Organizations are unique, complex, and diverse. One need to find ones own path instead of following a cookie-cutter approach.

4. What are the components of a Strategic plan?

There are several different frameworks to think about and use while you're developing a strategic plan. Think of the frameworks as different lenses through which to view the strategic planning process. Never look through two or three lenses at once. Normally use one at a time,

- **Strategy and culture:** An organization's culture is made up of people, processes, experiences, ideas and attitudes. The strategy is where the organization is headed, what path it takes, and how it gets there. One can't have strategy without culture or vice versa. The culture is like the culture of a house, and if it's not in order, the best strategy in the world can't the your company anywhere.
- **Internal and external:** Similar to the strategy and culture framework (previous bullet), you have an internal and external framework. The strategy is external. You gather information from your customers, competitors, industry, and environment to identify your opportunities and threats. Through employee surveys, board assessments, and financial statements, you identify your company's strengths and weaknesses, which are internal.
- **The Balanced Scorecard perspectives:** The Balanced Scorecard is a framework used to develop goals and objectives in four areas (instead of departments): financial, customers, internal business processes, and people. The financial, internal business processes, and people areas are internal. The customer area is external.
- **Market focus:** Growth comes from focusing on your customers and delivering superior value to them consistently year after year. Built into your strategic plan is a market-focus framework because of how critical this is to your organizational growth.
- **Where are we now? Where are we going? How will we get there?:** Because it's easy to confuse how all the elements of a plan come together and where they go, this framework is a simple, yet clear way of looking at the whole plan.

5. Who uses strategic plans?

Every one- or at least every company and organization that wants to be successful. Companies in every industry, in every part of the country, and in most of the Fortune 500 use strategic plans. Organizations within the non-profit, government, and small to big business sectors also have strategic plans.

6. Does every strategic plan include the same elements?

A strategic plan should include may elements:

- A mission statement and vision statement.
- A description of the company's long-term goals and objectives
- Strategic the company plans to use to achieve general goals and objectives.
- Action plans to implement the goals and objectives.

The strategic plan may also identify external factors that can affect achievement of long-term goals. Plans may vary in details and scope (depending on how big the organization is), but for the most part, a strategic plan includes the basic elements listed above.

7. Just exactly what is strategic planning?

The term strategic planning refers to a coordinated and systematic process for developing a plan for the overall direction of your endeavor for the purpose of optimizing future potential. For a profit-making business, this process involves many questions:

- What is the mission & purposes of the business?
- Where do we want to take the business?
- What do we sell currently? What could we sell in the future?
- To whom shall we sell it?
- How shall we beat or avoid competition?

The central purpose of this process is to ensure that the course and direction is well thought out, sound, and appropriate. In addition, the process provides reassurance that the limited resources of the enterprise (time and capital) are sharply focused in support of that course and direction. The process encompasses both strategy formulation and implementation.

8. What is the difference between strategic planning & long-range planning?

The major difference between strategic planning and long-range planning is in emphasis. Long-range planning is generally considered to mean the development of a plan of action to accomplish a goal or set of goals over a period of several years. The major assumption in long range planning is that current knowledge about future conditions is sufficiently reliable to enable the development of these plans. Because the environment is assumed to be predictable, the emphasis is on the articulation of internally focused plans to accomplish agreed-on goals.

The major assumption in strategic planning, however, is that an organization must be responsive to a dynamic, changing environment. Therefore, the emphasis in strategic planning is on understanding how the environment is changing and will change and on developing organizational decisions that are responsive to these changes.

9. Does every company need a strategic plan?

Every endeavor or enterprise already has a strategy. These range from some vague sense of the desires of the owner to massive, overly sophisticated master plans. So the question should not be whether every company needs a strategy but instead whether the company's strategy needs to be well thought out, sound, appropriate, and do-able. The answer is yes.

10. We are highly successful already, so why should we plan?

Success is strong evidence that a company has had a sound and appropriate strategy. Note the paste tense. There's absolutely no guarantee that yesterday's should and appropriate strategy will continue to be successful in the future. Indeed, there's great danger in assuming so without adequate study.

11. Can a smaller company afford the time for strategic planning?

Experience shows that the top management team devotes approximately 2 to 4 percent of its time to practical strategic planning. In reality, structured strategic planning is not something more to do; it's a better way of doing some thing already being done. Indeed, in the long run, you save time.

But understand, strategic planning can become a time trap. ;you can become caught in a long slog of planning if you get too mired down in the details. From the outset, you need to establish that the plan is a living document and that it is not written in stone. By doing that, you can avoid strategic planning becoming a time trap.

12. Why plan in a world that's highly uncertain?

Your efforts in forward planning can become pointless if you fear that the plan may be overwhelmed by unanticipated events and developments. Uncertainty is, indeed, a major problem in forward planning. However, the greater the uncertainty, the greater the need for good strategic planning because you want to try to be ready for the unknown.

13. How can we be confident that our planning will be successful?

Even in the presence of a structured strategic planning process, it's quite possible to formulate unsound, inappropriate strategies and/or to fail at implementation. But this book helps you run your organization better. You can be confident that the information and best practices outlined in this book result in a successful strategic planning process. I promise!

14. What is strategic thinking?

Strategic thinking means asking yourself "As we doing the right thing?" it requires three major components:

- Purpose or end vision
- Understanding the environment, particularly of the competition affecting and/or blocking achievement of these ends.
- Creativity in developing effective responses to the competitive forces.

15. What is a kieretsus

The cooperation may be witnessed in highly competitive business environment. Tata and Fiat have arrangements in relations to cars. Such cooperation is not necessarily restricted to the organizations producing or dealing in same product or services. They may identify some common interest for cooperation between them. A cold drink manufacture may enter into arrangement with a chain of restaurants to offer its beverages to the clients of restaurants. Lately, various credit card companies are entering into arrangements with other businesses to launch co-branded credit cards. Such arrangements help in reaching greater number of customers. The benefits of cooperation are also seen in Japan, where large cooperative networks of businesses are known as **Kieretsus**. These are formed in order to enhance the abilities of individual number businesses to compete in their respective industries.

A **Kieretsu** is a loosely-coupled group of companies, usually in related industries. **Kieretsu** members are peers and may own significant amounts of each other's stock and have many board members in common. However, they are different from conglomerates (common in western countries and also found in India) wherein all members are lineated through ownership pattern. A **Kieretsu** also differs from a consortium or an association, as the primary purpose of a **Kieretsu** is not to share information or agree industry standards, but to share purchasing, distribution or any other functions. In **Kieretsu** members remain independent companies in their own right: the only strategy they have in common is to prefer to do business with other **Kieretsu** members, both when buying and when selling.

16. What is demographic environment of business?

The term **demographics** denotes characteristics of population in a area, district, country or in world. It includes factors such as race, age, income, educational attainment, asset ownership, home ownership, employment status and location. Data with respect to these factors within a demographic variable, and across households, are both of interest, as well as trends over time to businessmen in addition to economist. Marketers and other social scientists often group populations into categories based on demographic variables. Some of the demographic factors have great impact on the business. Factors such as general age profile, sex ratio, education growth rate affect the business with different magnitude. India has relatively younger population as compared to some countries. China on the other hand is having an aging population.

Multinationals are interested in India considering its population size. With having approximately 16% of the world's population, the country holds huge potential for overseas companies.

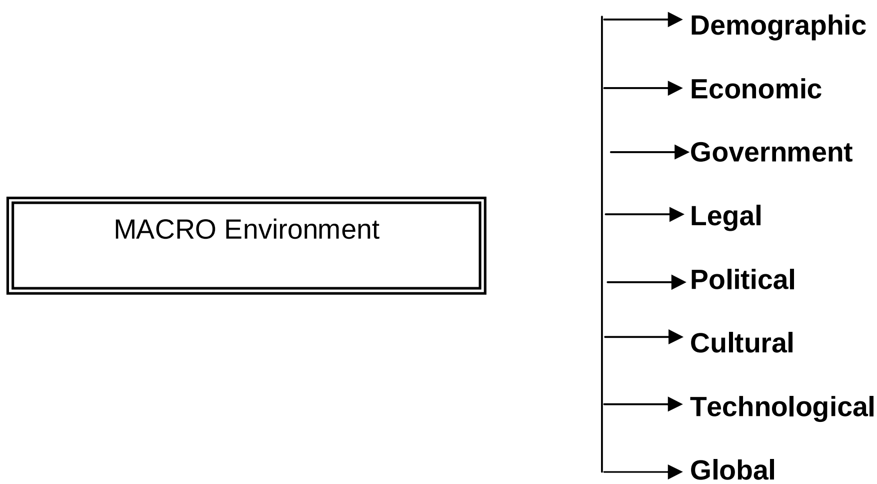
We will briefly discuss a few factors that are of interest to a business.

1 Population size
2 Geographic Distribution
3. Ethnic Mix
4. Income Distribution

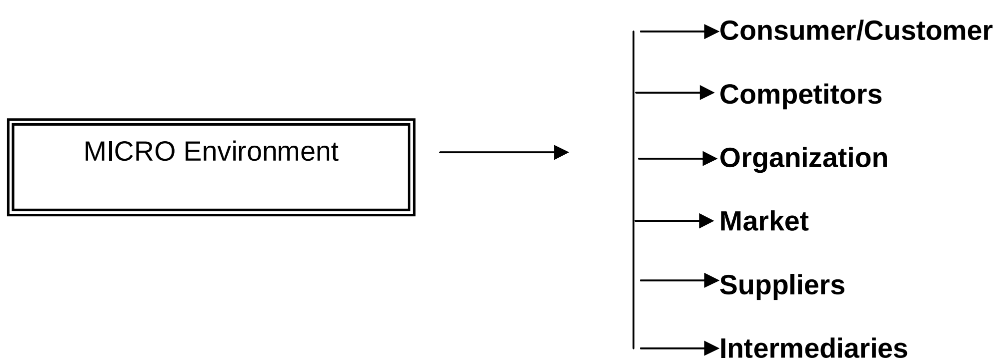
17. Write a short note on The MICRO & MACRO Environment. (Environmental Scanning)

The environment of business can be categorized into two broad categories micro-environment and macro-environment.

Macro Environment: consists of demographics and economic conditions, socio-cultural factors, political and legal systems, technological developments, etc. These constitute the general environment, which affects the working of all the firms.



Micro Environment: Consist of suppliers, consumers, marketing intermediaries, etc. These are specific to the said business or firm and affects it's working on short term basis.



This is also known as the task environment and affects business and marketing in the daily operating level. When the changes in the macro environment affect business in the long run, the effect micro environmental changes are noticed immediately. Organizations have to closely analyze and monitor all the elements of micro environment in order to stay competitive.

Environmental Scanning:
Environmental scanning also known as environmental monitoring is the process of gathering information regarding company's environment, analyzing it and forecasting the impact of all predictable environmental changes. Successful marketing depends largely on how a company can synchronize its marketing programmes with its environmental changes.

18. Write a short note on business policy.

According to Glueck, development in business policy arose from the use of planning techniques by managers. Starting from day-to-day planning in earlier times, managers tried to anticipate the future through preparation of budgets and using control systems like capital budgeting and management by objectives. With the inability of these techniques to adequately emphasize the role of future, long-range planning came to be used. Soon, long-range planning was replaced by strategic planning, and later by strategic management:, a term that is currently used to describe the process of strategic decision making.

Business policy, as defined by Christensen and others, is "the study of the functions and responsibilities of senior management, the crucial problems that affect success in the total enterprise, and the decisions that determine the direction of the organization and shape its future. The problems of policy in business, like those of policy in public affairs, have to do with the choice of purposes, the moulding of organizational identity and character, the continuous definition of what needs to be done, and the mobilization of resources for the attainment of goals in the face of competition or adverse circumstance.

19. Explain diversification as strategy.

Diversification is defined as entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge. When an established firm introduces a new product which has little or no affinity with its present product line and which is meant for a new class of customers different from the firm's existing customer groups, the process is known as conglomerate diversification. Both the technology of the product and of the market are different from the firm's present experience.

Diversification is a means of utilizing their existing facilities and capabilities in a more effective and efficient manner. They may have excess capacity or capability in manufacturing facilities, invest able funds, marketing channels, competitive standing, market prestige, managerial and other manpower, research and development, raw material sources and so forth. Another reason for diversification lies in its synergistic advantage. It may be possible to improve the sales and profits of existing products by adding suitably related or new products, because of linkages in technology and/or in markets.

20. Strategic Groups

Strategic groups are conceptually defined clusters of competitors that share similar strategies and therefore compete more directly with one another than with other firms in the same industry. Strong economic compulsions often constrain these firms from switching one competitive posture to another. Any industry contains only one strategic group when all firms essentially have identical strategies and have comparable market positions. At the other extreme, there are as many strategic groups as there are competitors when each rival pursues a distinctively different competitive approach and occupies a substantially different competitive position in the market place.

21. What do you understand by focus strategy?

Focus Strategies: A successful focus strategy depends on an industry segment that is of sufficient size, has good growth potential, and is not crucial to the success of other major competitors. Strategies such as market penetration and market development offer substantial focusing advantages. Midsize and large firms can effectively pursue focus-based strategies only in conjunction with differentiation or cost leadership-based strategies. All firms in essence follow a differentiated strategy. Because only one firm can differentiate itself with the lowest cost, the remaining firms in the industry must find other ways to differentiate their products.

Focus strategies are most effective when consumers have distinctive performances or requirements and when rival firms are not attempting to specialize in the same target segment. Risks of pursuing a focus strategy include the possibility that numerous competitors will recognize the successful focus strategy and copy it, or that consumer performances will drift toward the product attributes desired by the market as a whole. An organization using a focus strategy may concentrate on a particular group of customers, geographic markets, or on particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market.

The Generic Strategies

According to Glueck and Jauch there are four generic ways in which strategic alternatives can be considered. These are stability, expansion, retrenchment and combinations.

(i) **Stability strategies:** One of the important goals of a business enterprise is stability to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business.

(ii) **Expansion Strategy:** Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business.

Expansion is a promising and popular strategy that tends to be equated with dynamism, vigor, promise and success. It is often characterised by significant reformulation of goals and directions, major initiatives and moves involving investments, exploration and onslaught into new products, new technology and new markets, innovative decisions and action programmes and so on. Expansion include diversifying, acquiring and merging businesses.

(iii) **Retrenchment Strategy:** A business organisation can redefine its business by divesting a major product line or market. Retrenchment or retreat becomes necessary or expedient for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal. In business parlance also, retreat is not always a bad proposition to save the enterprise's vital interests, to minimise the adverse environmental effects, or even to regroup and recoup the resources before a fresh assault and ascent on the growth ladder is launched.

(iv) **Combination Strategies:** Stability, expansion or retrenchment strategies are not mutually exclusive. It is possible to adopt a mix 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 organisations, a strategy by diversification and/or acquisition may call for a retrenchment in some obsolete product lines, production facilities and plant locations.

22. What is differentiation strategy?

Differentiation strategies: Different strategies offer different degrees of differentiation. Differentiation does not guarantee competitive advantage, especially if standard products sufficiently meet customer needs or if rapid imitation by competitors is possible. Durable products protected by barriers to quick copying by competitors are best. Successful differentiation can mean greater product flexibility, greater compatibility, lower costs, improved service, less maintenance, greater convenience, or more features. Product development is an example of a strategy that offers the advantages of differentiation.

A differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty because consumers may become strongly attached to the differentiation features. Special features that differentiate one's product can include superior service, spare parts availability, engineering design, product performance, useful life, gas mileage, or ease of use.

A risk of pursuing a differentiation strategy is that the unique product may not be valued highly enough by customers to justify the higher price. When this happens, a cost leadership strategy easily will defeat a differentiation strategy. Another risk of pursuing a differentiation strategy is that competitors may develop ways to copy the differentiating features quickly. Firms thus must find durable sources of uniqueness that cannot be imitated quickly or cheaply by rival firms.

Common organizational requirements for a successful differentiation strategy include strong coordination among the R & D and marketing functions and substantial amenities to attract scientists and creative people.

23. Explain conglomerate diversification.

Conglomerate diversification: In conglomerate diversification, no such linkage exists; the new businesses/products are disjointed from the existing businesses/products in every way; it is a totally unrelated diversification. In process/ technology/function, there is no connection between the new products and the existing ones. Conglomerate diversification has no common thread at all with the firm's present position.

Retrenchment, Divestment and Liquidation strategies: Retrenchment grand strategy is followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies. If the organization chooses to focus on ways and means to reverse the process of decline, it adopts at turnaround strategy. If it cuts off the loss-making units, divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment (or divestiture) strategy. If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy. We deal with each of these strategies below.

24. Concentric diversification:

Concentric diversification amounts to related diversification. In this form of diversification, the new business is linked to the existing businesses through existing systems such as process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. There are benefits of synergy with the current operations. However, concentric diversification differs from vertically integrated diversification in the nature of the linkage the new product has with the existing ones.

While in vertically integrated diversification, the new product falls within the firm’s currant process-product chain, in concentric diversification, there is a departure from this vertical linkage. The new product is only connected in a loop-link manner at one or more points in the firm’s existing process/ technology/ product chain. In concentric diversification there are benefits of synergy with the current operations.

25. Turnaround Strategies:

Retrenchment may be done either internally or externally. For internal retrenchment to take place, emphasis is laid on improving internal efficiency, known as turnaround strategy.

There are certain conditions or indicators which point out that a turnaround is needed if the organization has to survive. These danger signs are:

- Persistent negative cash flow;
- Negative profits;
- Declining market share;
- Over manning, high turnover of employees, and low morale;
- Uncompetitive products or services;
- Mismanagement.

For turnaround strategies to be successful, it is imperative to focus on the short and long-term financing needs as well as on strategic issues. A workable action plan for turnaround should include:

1. Analysis of product, market, production processes, competition, and market segment positioning.
2. Clear thinking about the market place and production logic.
3. Implementation of plans by target-setting, feedback, and remedial action.

Sets of ten elements that contribute to turnaround are:

- Changes in the top management;
- Initial credibility-building actions;
- Neutralizing external pressures;
- Initial control;
- Identifying quick payoff activities;
- Quick cost reductions;
- Revenue generation;
- Asset liquidation for generating cash;
- Mobilization of the organizations;
- Better internal coordination.

26. Cost leadership strategy

emphasizes efficiency. By producing high volumes of standardized products, the firm hopes to take advantage of economies of scale & experience curve effects. The product is often a basic no-frills product that is produced at a relatively low cost and made available to a large customer base. Maintaining this strategy requires a continuous search for cost reduction in all aspects of the business. The associated distribution strategy is to obtain the most extensive distribution possible. Promotional strategy often involves trying to make a virtue out of low cost product features.

To be successful this strategy usually requires a considerable market share advantage for preferential access to raw materials, components, labour, or some other important input. Without one or more of these advantages, the strategy can easily be imitated by competitors. Successful implementation also benefits from;

- Process engineering skills
- Products designed for ease of manufacture
- Sustained access to inexpensive capital
- Close supervision of labour
- Tight cost control
- Incentives based on quantitative targets.

27. Divestment Strategies:

Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

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.
- Severity of competition and the inability of a firm to cope with it may cause it to divest.
- Technological up gradation 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.

28. Liquidation Strategies:

A retrenchment strategy considered the most extreme and unattractive is liquidation strategy, which involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure. Many small-scale units, proprietorship firms, and partnership ventures liquidate frequently but medium and large sized companies rarely liquidate in India. The company management, government, banks and financial institutions, trade unions, suppliers and creditors, and other agencies are extremely reluctant to take a decision, or ask, for liquidation.

Selling assets for implementing a liquidation strategy may also be difficult as buyers are difficult to find. Moreover, the firm cannot expect adequate compensation as most assets, being unusable, are considered as scrap.

Liquidation strategy may be unpleasant as a strategic alternative but 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 it more money than the actual returns of doing business. When liquidation is evident (though it is difficult to say exactly when), an abandonment plan is desirable. Planned liquidation would involve a systematic plan to reap the maximum benefits for the firm and its shareholders through the process of liquidation. Under the Companies Act, 1956, liquidation (termed as winding up) may be either by the court, voluntary, or subject to the supervision of the court.

29. Expansion Strategy:

Expansion or growth strategy can either be through intensification or diversification. Igor Ansoff gave a framework as shown which describe the intensification options available to a firm.

I. Growth in existing product markets Increase market share Increase product usage Increase the frequency used Increase the quantity used Find new application for current	II. Product development add product features, product refinement Develop a new-generation product Develop new product for the same market
III. Market development Expand geographically target new segments.	IV. Diversification involving new products and new markets related unrelated

Market Penetration: The most common expansion strategy is market penetration/concentration on the current business. The firm directs its resources to the profitable growth of a single product, in a single market, and with a single technology.

Market Development: If consists of marketing present products, to customers in related market areas by adding different channels of distribution or by changing the content of advertising or the promotional media.

Product Development: Product Development involves substantial modification of existing products or creation of new but related items that can be marketed to current customers through establish channels.

30. Logistics Strategy:

Management of logistics is a process, which integrates the flow of supplies into, through and out of an organization to achieve a level of service, which ensures that the right materials are available at the right place, at the right time, of the right quality, and at the right cost. Organizations try to keep the cost of transporting materials as low as possible consistent with safe and reliable delivery. Supply chain management helps in logistics and enables a company to have constant contract with its distribution team, which could consist of trucks, trains, or any other mode of transportation. Given the changes that affect logistics operations such as emerging technologies and industry initiatives, developing and using a formal logistics strategy is very important. For a business organization effective logistic strategy will involve raising and finding solutions to the following questions:

- Which sources of raw materials and components are available?
- How many manufacturing locations are there?
- What products are being made at each manufacturing locations?
- What modes of transportation should be used for various products?
- What is the nature of distribution facilities?
- What is the nature of materials handling equipment possessed? Is it ideal?
- What is the method for deploying inventory in the logistics network?
- Should the business organization own the transport vehicles?

Improvement is logistics can results in savings in cost of doing business. These savings can also reveal in the profits of the company. Some examples of how logistics can help a business are as follows:

- Cost savings
- Reduced inventory
- Improved delivery time
- Customer satisfaction
- Competitive advantage

31. Strategy formulation and implementation can be contrasted in the following ways:

Strategy formulation	Strategy implementation
Strategy formulation is positioning forces before the action.	Strategy implementation is managing forces during the action.
Strategy formulation focuses on effectiveness.	Strategy implementation focuses on efficiency.
Strategy formulation is primarily an intellectual process.	Strategy implementation is primarily an operational process.
Strategy formulation requires good intuitive and analytical skills.	Strategy implementation requires special motivation and leadership skills.
Strategy formulation requires coordination among a few individuals	Strategy implementation requires combination among many individuals.

32. Marketing Mix

Once the company has decided on its overall competitive marketing strategy, it is ready to begin planning the details of the marketing mix. The marketing mix is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything that the firm can do to influence the demand for its product. These variables are often referred to as the “four Ps.”

- **Product:** stands for the “goods-and-service” combination the company offers to the target market. Strategies are needed for managing existing product over time adding new ones and dropping failed products. Strategic decisions must also be made regarding branding, packaging and other product features such as warrantees.

- **Price:** stands for the amount of money customers have to pay to obtain the product. Necessary strategies pertain to the location of the customers, price flexibility, related items within a product line and terms of sale. Also, pricing strategies for entering a market, specially with a new product, must be designed.

- **Place:** stands for company activities that make the product available to target consumers. Strategies should be taken for the management of channels(s) by which ownership of product is transferred from producers to customers and in many cases, the system(s) by which goods are moved from where they are produced from they are purchases by the final customers. Strategies applicable to the middleman such as wholesalers and retails must be designed.

- **Promotion:** stands for activities that communicate the merits of the product and persuade target consumers to buy it. Strategies are needed to combine individual methods such as advertising, personal selling, and sales promotion into a coordinated campaign. In addition promotional strategies must be adjusted as a product move from an earlier stages from a later stage of its life.

An effective marketing program blends all of the marketing mix elements into a coordinated program designed to achieve the company's marketing objectives by delivering value to consumers. The 4 ps seems to take the seller's view rather than the buyer's view.

Perhaps a better classification would be the 4 cs:
a. Product = Customer Solution.
b. Price = Customer Cost.
c. Place = Convenience.
d. Promotion = Communication.

4 P's	4 C's
• Product • Price • Place • Promotion	• Customer solution • Customer Cost • Convenience • Communication

Expanded Marketing Mix:

In addition to the traditional four Ps the new marketing mix (particularly for services) includes people, physical evidence and process.

People: All human actors who play a part in delivery of the market offering and thus influence the buyer's perception, namely the firm's personnel and the customer.

Physical evidence: The environment in which the market offering is delivered and where the firm and customer interact.

Process: The actual procedures, mechanisms and flow of activities by which the product/service is delivered.

33. Definition of BPR:

Business Process Reengineering (BPR) refers to the analysis and redesign of workflows and processes both within and between organizations. The orientation of the redesign effort is radical, i.e., it is a total deconstruction and rethinking of a business process in its entirety, unconstrained by its existing structure and pattern. Its objective is to obtain quantum gains in the performance of the process in terms of time, cost, output, quality, and responsiveness to customers. The redesign effort aims at simplifying and streamlining a process by eliminating all redundant and non-value adding steps, activities and transactions, reducing drastically the number of stages or transfer points of work, and speeding up the work-flow through the use of it systems.

34. ERP

ERP stand for enterprise resource planning which is an IT based system linking isolated information centers across the organisation into an integrated enterprise wide

structured functional and activity bases. ERP is successor to MRP systems (material requirements and manufacturing resource planning systems). ERP is used for strengthening the procurement and management of input factors. Modern ERP systems deliver end-to-end capabilities to support the entire performance management of an organisation. It helps in consolidated financial reporting, financial management, planning, budgeting, performance management and so on.

35. Total Quality Management (TQM)

The Total Quality Management Movement (or simply TQM, as it is more commonly known) has caught on in essentially every corner of industry. The TQM philosophy is a guiding force in all industrialized nations like USA, European nations, Japan etc.

Total Quality Management (TQM) is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost.

TQM is a total system approach (not a separate area or program) and an integral part of high-level strategy; it works horizontally across functions & departments, involves all employees, top to bottom, & extends backward and forward to include the supply chain and the customer chain. TQM stresses learning & adaptation to continual change as keys to organizational success.

Critical success factors of TQM :

-- The focus should be on customer needs.
-- Everyone within the organization should be involve in TQM.
-- The focus should be on continuous improvement.
-- The aim should be to design and produce quality products.
-- Introduce an effective performance measurement system that measures continuous improvements from the customer's perspective.
-- Existing rewards and performance measurements should be renewed to encourage quality improvements.
-- Appropriate training and education should be given so that everyone is aware of the aims of TQM.

36. Six Sigma

Primarily Six Sigma means maintenance of the desired quality in processes and end products. It means taking systematic and integrated efforts toward improving quality and reducing cost.

It is a highly disciplined process that helps in developing and delivering near perfect products and services. It strives to meet and improve organizational goals on quality, cost, scheduling, manpower, new products and so on. It works continuously towards revising the current standards and establishing higher ones.

Six Signma has its base in the concept of probability and normal distribution in statistics. Six Sigma strives that 99.999966% of products manufactured are defect free. Six Sigma is a smarter way to manage a business or as department. Six Sigma puts the customer first and uses facts and data to drive better solutions.

Six Sigma efforts target three main areas:

- Improving customer satisfaction
- Reducing cycle time
- Reducing defects

Six Sigma Capability Chart

Sigma	Parts per million
6σ	3.4 defects per million
5σ	233 defects per million
4σ	6,210 defects per million
3σ	66,807 defects per million
2σ	3,08,537 defects per million
1σ	6,90,000 defects per million

Improvements in these areas usually represents dramatic cost savings to businesses, as well as opportunities to retain customers, capture new markets, and build a reputation for top performing products and services.

37. Six-sigma methodology:

For implementing six Sigma there are two separate key methodologies for existing and new processes. Conceptually there is some overlapping between the two. The two methodologies as follows:

1. **DMAIC:** DMAIC methodology is an acronym for five different steps used in six Sigma directed towards improvement of existing product, process or service. The five steps are as follows:
   - Define: To begin with six Sigma experts define the process improvement goals that are consistent with the strategy of the organization and customer demands. They discuss different issues with the senior mangers so as to define what needs to done.
   - Measure: The existing processes are measured to facilitate future comparison. Six sigma experts collect process data by mapping and measuring processes.
   - Analyze: Caused and effect relationship between the factors in the processes. Experts need to identify the relationship between the factors. They have to make an comprehensive analyses to identify hidden or not so obvious factors.
   - Control: Initial trial or pilots are run to establish process capability and transition to production. Afterwards continuously measure the process to ensure that variances are identified and corrected before they result in defects.

2. **DMADV:** DMADV is again acronym for the steps followed in implementing six sigma. It is a strategy for designing new products, processes and services.
   - Define: As in case of DMAIC six sigma experts have to formally define goals of the design activity that are consistent with strategy of the organization and the demands of the customer.
   - Measure: Next identify the factors that are critical to quality (CTQs). Measure factors such as product capabilities and production process capability. Also assess the risks involved.
   - Analyze: Develop and design alternatives. Create high-level design and evaluate to select the best design.
   - Design: Develop details of design and optimize it. Verify designs may require using techniques such as simulations.
   - Verify: Verify designs through simulations or pilot runs. Verified and implemented processes are handed over to the process owners.

Case studies

Case 1:

DD is the India's premier public service broadcaster with more than 1,000 transmitters covering 90% of the country's population across an estimated 70 million homes. It has more than 20,000 employees managing its metro and regional channels. Recent years have seen growing competition from many private channels numbering more than 65, and the cable and satellite operators (C & S). The C & S network reaches nearly 30 million homes and is growing at a very fast rate.

DD's business model is based on selling half-hour slots of commercial time to the programme producers and charging them a minimum guarantee. For instance, the present tariff for the first 20 episodes of a programme is Rs. 30 lakhs plus the cost of production of the programme. In exchange the producers get 780 seconds of commercial time that he can sell to advertisers and can generate revenue. Break-even point for producers, at the present rates, thus is Rs. 75,000 for a 10 second advertising spot. Beyond 20 episodes, the minimum guarantee is Rs. 65 lakhs for which the producer has to charge Rs. 1,15,000 for a 10 second spot in order to break-even. It is at this point the advertisers face a problem – the competitive rates for a 10 second spot is Rs. 50,000. Producers are possessive about buying commercial time on DD. As a result the DD's projected growth of revenue is only 6-10% as against 50-60% for the private sector channels. Software suppliers, advertisers and audiences are deserting DD owing to its unrealistic pricing policy. DD has three options before it. First, it should privatise, second, it should remain purely public service broadcaster and third, a middle path. The challenge seems to be to exploit DD's immense potential and emerge as a formidable player in the mass media.

(i) What is the best option, in your view, for DD?
(ii) Analyse the SWOT factors the DD has.
(iii) Why to you think that the proposed alternative is the best? (20 Marks)

Answer

(i) For several years Doordarshan was the only broadcaster of television programmes in India. After the opening of the sector to the private entrepreneur (cable and satellite channels), the market has witnessed major changes. The number of channels have increased and also the quality of programmes, backed by technology, has improved. In terms of quality of programmers, opportunity to advertise, outreach activities, the broadcasting has become a popular business. Broadcasters too have realised the great business potential in the market. But for this, policies need to be rationalised and be opened to the scope of innovativeness not only in term of quality of programmes. This would not come by simply going to more areas or by allowing bureaucratic set up to continue in the organisation.

Strategically the DD needs to undergo a policy overhaul. DD, out of three options, namely privatisation, public service broadcaster or a middle path, can choose the third one, i.e. a combination of both. The whole privatisation is not possible under the diversified political scenario. Nor it would be desirable to hand over the broadcasting emotively in the private hand as it proves to be a great means of communication of many socially oriented public programmers. The government could also think in term of creating a corporation (as it did by creating Prasar Bharti) and provide reasonable autonomy to DD. So far as its advertisement tariff is concerned that can be made fairly competitive. However, at the same time cost of advertising is to be compared with the reach enjoyed by the doordarshan. The number of viewers may be far more to justify higher tariffs.

(ii) The SWOT analyses involves study of strengths, weaknesses, opportunities and threats of an organisation. SWOT factors that are evidently available to the Doordarshan are as follows:

S – Strength

More than 1000 transmitters. Covering 90% of population across 70 million homes against only 30 million homes by C & S. More than 20,000 employees.

W – Weakness

Rigid pricing strategy. Low credibility with certain sections of society. Quality of programs is not as good as compared to C & S network

O – Opportunities

Infrastructure can be leased out to cable and satellite channel. Digital terrestrial transmission. Regional focused channels. Allotment of time, slots to other broadcasters.

T – Threats

Desertion of advertisers and producers may result in loss of revenues. Due to quality of program the reach of C & S network is continuously expanding. As the C & S network need the trained staff, some employees of DD may switchover and take new jobs. Best of the market-technology is being used by the private channels.

(iii) It is suggested that the DD should adopt a middle path. It should have a mix of both the options. It should economise on its operational aspects and ensure more productivity in term of revenue generation and optimisation of use of its infrastructure. Wherever, the capacities are underutilised, these may be leased out to the private operations. At the same time quality and viewership of programmes should be improved. Bureaucracy may reduce new strategic initiatives or make the organisation less transparent. Complete privatisation can fetch a good sum and may solve many of the managerial and operational problems. However, complete public monopoly is not advisable because that denies the government to fully exploit the avenue for social and public use. The government will also lose out as it will not be able to take advantage of rising potential of the market.

Case 2:

Dr. Sukumar inherited his father's Dey's Lab in Delhi in 1995. Till 2002, he owned 4 labs in the National Capital Region (NCR). His ambition was to turn it into a National chain. The number increased to 7 in 2003 across the country, including the acquisition of Platinum lab in Mumbai. The number is likely to go to 50 within 2-3 years from 21 at present. Infusion of Rs. 28 crores for a 26% stake by Pharma Capital has its growth strategy.

The lab with a revenue of Rs. 75 crores is among top three Pathological labs in India with Atlantic (Rs. 77 crores) and Pacific (Rs. 55 crores). Yet its market share is only 2% of Rs. 3,500 crores market. The top 3 firms command only 6% as against 40-45% by their counterparts in the USA.

There are about 20,000 to 1,00,000 stand alone labs engaged in routine pathological business in India, with no system of mandatory licensing and registration. That is why Dr. Sukumar has not gone for acquisition or joint ventures. He does not find many existing laboratories meeting quality standards. His six labs have been accredited nationally whereon many large hospitals have not thought of accreditation; The College of American pathologist's accreditation of Dey's lab would help it to reach clients outside India.

In Dey's Lab, the bio-chemistry and blood testing equipments are sanitised every day. The bar coding and automated registration of patients do not allow any identity mix-ups. Even routine tests are conducted with highly sophisticated systems. Technical expertise enables them to carry out 1650 variety of tests. Same day reports are available for samples reaching by 3 p.m. and by 7 a.m. next day for samples from 500 collection centres located across the country. Their technicians work round the clock, unlike competitors. Home services for collection and reporting is also available.

There is a huge unutilised capacity. Now it is trying to top other segments. 20% of its total business comes through its main laboratory which acts as a reference lab for many leading hospitals. New mega labs are being built to Encash preclinical and multi-centre clinical trials within India and provide postgraduate training to the pathologists.

(i) What do you understand by the term Vision? What is the difference between 'Vision' and 'Mission'? What vision Dr. Sukumar had at the time of inheritance of Dey's Lab? Has it been achieved?

(ii) For growth what business strategy has been adopted by Dr. Sukumar?

(iii) What is the marketing strategy of Dr. Sukumar to overtake its competitors?
(iv) In your opinion what could be the biggest weakness in Dr. Sukumar's business strategy?

Answer

(i) A Strategic vision is a road map of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create. A strategic vision thus points an organisation in a particular direction, charts a strategic path for it to follow in preparing for the future, and moulds organizational identity.

A company's Mission statement is typically focused on its present business scope – "who we are and what we do". Mission statements broadly describe an organisation's present capabilities, customer focus, activities, and business makeup. Mission is also an expression of the vision of the corporation. To make the vision come alive and become relevant, it needs to be spelt out. It is through the mission that the firm spells out its vision.

Dr. Sukumar's vision at the initial stage was to turn his one pathological laboratory firm into a national chain of pathological laboratories. He is in the process of achieving the vision as a number of Labs have been opened and others are in pipeline. However, at the same time the market share is low when compared with the external benchmark from US market.

(ii) To a large extent Dr. Dey's Lab has opted the business strategy of internal growth rather than going in for acquisitions or joint ventures. The reason for such a strategy is that Dr. Sukumar does not find many existing laboratories meeting the quality standards. To fund its growth and raise funds it has also given a 26% stake to Pharma Capital.

(iii) Dr. Sukumar's marketing strategy is superior to its competitors. Over a period of time it is able to evolve itself as reference lab for many leading hospitals. This is a testimony of the level of confidence it enjoys among the medical professionals. It provides a high level of customer services because of the following:

- **Product mix:** It possesses technical expertise to conduct 1650 variety of tests.

- **Quality:** The laboratories use modern methods to conduct tests. Even routine tests are conducted with highly sophisticated procedures. Technology such as bar coding and automated registration of patients is also used. Thus there are no mistakes in the identity of samples. There is also daily sanitisation and validation of lab equipments.

- **Speed:** Laboratories are working round-the-clock. Further, using modern systems the company is able to deliver test results faster.

- **Convenience:** There are 500 collection centres for the laboratory, thereby the reach is more. Additionally, system of collection of samples from home also provide convenience to the patients and others.

(iv) A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it. In the case it is given that Dr Sukumar has not gone for mergers and acquisition as he does not find many prospective laboratories meeting the quality standards. Thus its biggest weakness is its inability to capitalise the opportunities through mergers and acquisitions. Acquisitions and partnerships can help in leveraging the existing goodwill.

Many of these labs must be enjoying a lot of goodwill in their region. In fact, a business in the medical field such as a pathological laboratory, trust and faith are important. On account of its size and available resources Dey's Lab could have easily acquired some of these labs and built upon their names. With resources it should be feasible to modernize them to make them compatible with the business ideology and quality systems of the Dey's Lab. However, it appears that the company lacked capability to modernise an existing laboratory.

Case 3:

BB Ltd., is a business organized as three divisions and head office. The divisions are based on market groupings, which are retail, wholesale and Government. The divisions do not trade with each other.

The main method of control of the divisions has been the requirement to earn a return on investment (ROI) of 15% p.a. The definition of return and capital employed is provided by head office, at the criterion ROI rate of 15%.

The recent experience of BB Ltd., is that the group as a whole has been able to earn the 15% but there have been wide variations between the results obtained by different division. This infringes another group policy that forbids cross-subsidization, i.e. each and every division must earn the criterion ROI.

BB Ltd. Is now considering divestment strategies and this could include the closure of one or more of its divisions.

The head office is aware that the Boston Product Market Portfolio Matrix (BPMPM) is widely used within the divisions in the formulation and review of marketing strategies. As it is so widely known within the group and is generally regarded by the divisions as being useful, the head office is considering employing this approach to assist in the divestment decision.

You are required to:

(i) Evaluate the use by BB Ltd. Of the concept of ROI and its policy that forbids cross-subsidization.

(ii) Describe the extent to which the BPMPM could be applied by BB Ltd. In its divestment decision. Evaluate the appropriateness of the use of the BPMPM for this purpose.

(iii) Recommend, and justify, two other models that could be used in making a divestment decision. Demonstrate how BB Ltd. Could utilize these models to make this decision.

Answer

(i) <u>Evaluation of the use of the concept of ROI by BB Ltd.</u>

ROI is an accounting measure that estimates the level of profits as a proportion of the capital employed over the year. The concept of ROI is widely used by different companies to measures its performance. Therefore BB Ltd. Is not unusual in using this concept of ROI as a means of performance monitoring of its different divisions.

Perhaps on division of BB Ltd., may have failed to meet its ROI because it might have recently purchased new fixed assets. Perhaps another division might be using old assets that have been written off. Further one division might be riskier than another division.

<u>ROI and cross subsidization:</u>

There could be a lot of problems with cross subsidy. This issue of cross subsidies is more complex than it first appears.

We do not know how the investment funds have been allocated if the head office allocates them, and the divisions cannot take their own investment decisions, there is a cross subsidization by the back door as it were.

Further one division's hard earned cash might be used to buy another division's assets. Arguably, cross-subsidization is the advantage of a business like BB Ltd.

Further, if the businesses have different business cycle, they are able to bail each other out when appropriate, whilst ensuring that the shareholders receive a fairly constant return.

(ii) Application of BPMPM by BB Ltd. In its divestment decision:

BPMPM aims to link the overall growth of the market for a product, the growth in the market share of a product, with the product's cash-generative activities.

BPMPM classifies a company's products in terms of potential cash generation and cash expenditure requirements into cash cows, dogs, stars and question marks.

- Stars are products with a high share of a high growth market. In short term, term require capital expenditure, in excess of the cash they generate, in order to maintain their market position, but promise high returns in the future. In due course, however, stars will become cash cows, which are characterized by a high market share, but low sales growth.

- Cash cows need very little capital expenditure and generate high level of cash income. The important strategic feature of cash cows is that they are already generating high cash returns that can be used to finance the stars.

- Question marks are products in a high-growth market, but where they have a low market share. A decision needs to be taken about whether the products justify considerable capital expenditure in the hope of increasing their market share, or whether they should be allowed dying quietly.

- Dogs products with a low share of a low growth market. Dogs should be allowed to die, or should be killed off.

Appropriateness of use of BPMPM:

BPMP is conventionally assumed to apply to products and it is perhaps unusual to see it applied to businesses and divisions.

The problem is that we do not know enough about the firm's product range to suggest how the matrix could be applied.

Rather than assuming that a whole division is a dog and divesting it, is possible that a through review of the product range of each division could be examined to see whether certain products can be pruned from the range.

BPMPM should not be used in isolation. Further it needs to be modified from time to time.

(iii) Models for making a divestment decision:

A no. of models is available, which could be used by the co. in making a divestment decision.

Two such models could be:
- Porter's five forces model and
- The product life cycle.

Porter's five forces model:

This model can be used to place each division in the competitive context. The five forces model suggests that the competitive environment is determined by five factors viz.

- The threat of new entrants.
- The threat of substitute products,
- The bargaining power of customers,
- The bargaining power of suppliers and
- The state of competitive rivalry within the industry.

The value of this model is that it examines each division's strengths in a competitive context. If the trend is for entry barriers to get lower, or if a major new entrant is no the horizon, this must influence the divestment decision, if the business is a marginal player in the market or if the resources required to fight off such a challenge are too expensive.

Similarly, if the customers are powerful or suppliers are powerful, then the margins would get eroded steadily and firm's business would become less attractive. Similarly if the threat of substitute products becomes serious, then divestment might become a sensible choice.

The product Life cycle:

This model bears similarities to the BCG matrix. This model suggests that a firm's products have a natural life cycle that can be analyzed into the phases of **introduction, growth, maturity and decline.**

In the **introduction phase**, the product still has to make money.
In the **growth phase**, it starts to make profit.

Maturity occurs when the demand is no longer growing. The demand and the profit are at its peak.

In the **decline phase**, demand falls off, profits fall and eventually no profits are made.
Thus BB Ltd. Can use this model to examine the condition of the products in each of the divisions.

Case 4:

In 2006-07 PTC Food division decided to enter the fast growing (20-30% annually) snacks segment, an altogether new to it. It had only one national competitor- Trepsico's Trito. After a year its wafer snack brand – Ringo, fetched 20% market share across the country. Ringo's introduction was coincided with the cricket world Cup. The wafer snacks market is estimated to be around Rs. 250 crores.

The company could take the advantage of its existing distributing network and also source potatoes from farmers easily. Before the PTC could enter the market a cross- functional team made a customer survey through a marketing research group in 14 cities of the country to know about the snacks of eating habits of people. The result showed that the customers within the age-group 15-24 years were the most promising for the product as they were quite enthusiastic about experimenting new snack taste. The company reported to its chefs and the chefs came out with 16 flavours with varying tastes suiting to the targeted age-group.
The company decided to target the youngsters as primary target on the assumption that once they are lured in, it was easier to reach the whole family.

Advertising in this category was extremely crowded. Every week two-three local products in new names were launched, sometimes with similar names. To break through this clutter the company decided to bank upon humour appeal.

The Industry sources reveal that PTC spent about Rs. 50 crores on advertisement and used all possible media– print & electronic, both including the creation of its own website, Ringoringoyoungo.com with offers of online games, contest etc. Mobile phone tone downloading was also planned which proved very effective among teenagers. The site was advertised on all dotcom networks. Em TV, Shine TV, Bee TV and other important channels were also used for its advertisement along with FM radio channels in about 60 cities with large hoardings at strategic places.

Analysts believe that Ringo's success story owes a lot to PTC's widespread distribution channels and aggressive advertisements. Humour appeal was a big success. The 'Ringo' was made visible by painting the Railways bogies passing across the States. It has also been successful to induce Lovely Brothers' Future Group to replace Trito in their Big- Bazaar and

chain of food Bazaars.PTC is paying 4% higher margin than Trepsico to Future group and other retailers. Ringo to giving Trepsico a run for its money. Trito's share has already been reduced considerably. Retail tie-ups, regional flavours, regional humour appeals have helped PTC. But PTC still wants a bigger share in the market and in foreign markets also, if possible.

(a) What is SWOT Analysis?

(b) What are the strength of PTC ?
(c) What are the weaknesses of PTC for entering into the branded snacks market?

(d) What kind of marketing strategy was formulated and implemented for Ringo?
(e) What else need to be done by Ringo so as to enlarge its market?

Answer

(a) SWOT analysis is a tool used by organizations for evolving strategic options for the future. The term SWOT refers to the analysis of strength, weaknesses, opportunities and threats facing a company. Strengths and weaknesses are identified in the internal environment, whereas opportunities and threats are located in the external environment.

Strength: Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitor.

Weakness: A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it.

Opportunity: An opportunity is a favourable condition in the external environment which enables it to strengthen its position.

Threat: An unfavourable condition in the external environment which causes a risk for, or damage to the organisation's position.

(b) The strengths of PTC are:

(a) PTC has an existing distribution network that is used to its advantage.

(b) The company has strengths in the area of procurement of potato, raw material to make the wafers.

(c) Financially the company is very strong as they are spending 50 crores on advertising in a market worth 250 crores.

(d) The company has diverse flavours of wafers in its portfolio that are according to the different tastes of the target group.

(e) PTC has done good bargaining deals with food bazaars and food chains.

(f) The cross-functional team of PTC made a virtuous marketing research.

(c) Weaknesses are inherent limiting factors of an organization. They are internal by nature to the working of the organization. The case study does not clearly mention the points that can conclusively be weaknesses of the company. However, a deeper analysis will bring out that the company is totally new to the snacks business and is highly aggressive in its approach.

The experience in the food business may not result in the required competencies in the business of chips. Seemingly, the company has also gone overboard in its advertisement expenditure. It may be that the margins justify expenditure of 20% in value of the total market size of Rs. 250 Crores. Otherwise, the company may come into financial difficulties. Creating market may also be difficult as already there are many players who are trying to get attention of existing and new customers.

The business is already cluttered with regional and national players and is highly competitive. Further, the company is overly relying on young segment of the population. This segment can be highly receptive to the new products and the company may lose them easily to the competitors.

(d) Formulation and Implementation of marketing strategy was as under:

The Product: To launch its snack product, an easy to remember brand name RINGO was decided upon. To understand the snacking habits of Indian customer a large survey was undertaken. Chefs on the basis of the market survey came out with sixteen flavours. The target group was identified as youngsters of 15 – 24 years.

The Promotion: The company spent about Rs.50 crore on marketing communication. Different Media including print, electronic and outdoor advertising were put to use. Appeal used was that of humour. A huge visibility through point-of-sale was also arranged. Promotion policy was very aggressive considering that 50 crores were spent in a market of 250 crores.

The Place: Getting Trito replaced by Ringo in Big-Bazaar and food Bazaar chain of stores was a great success for PTC. To motivate a higher margin than the Trepsico was provided for. PTC even otherwise has extensive distribution network.

A perfect blend of marketing mix has made it possible to go so far and so early. Since the marketing strategy has remained successful, they need to carry it forward. However, they also need to keep a restrain on promotion as spending huge amount of money on marketing for a share in the market of 250 crores seems to be too high. Such an expensive campaign is only suitable if the company is able to increase the market size itself and not merely its own in the existing market share. To achieve this it requires competencies. Otherwise, it might be difficult to sustain high expenditure over a very long period of time.

Case 5:

You have recently been appointed as the Management Accountant of APL. APL is a small engineering company. It manufactures precision parts. The market in which it sells is small. It faces severe competition. With its existing production facilities, it can undertake only small engineering jobs. Large-scale works are turned away. The volume of work so turned away is increasing. The company has achieved steady increase in profit over the past few years. The Board of the company feels that it can increase its profits further by having additional facilities to carry on large-scale works that are being turned away now.

Budgetary control and standard costing are the sole outputs of the current management accounting system. These reports are comprehensive and produced punctually. Jobs are priced by adding a percentage to the total cost calculated on the basis of standard costs. The annual budget is split into monthly parts and flexed to take into account the particular month's actual production. Monthly variance reports are produced to the concerned managers.

Required:

(a) In consideration of the need for the Board of APL to be provided with information that assists in strategic decision making, comment critically on the management accounting reports currently provided. 8

(b) State and justify the changes that you, as the management Accountant, would make in providing information that would facilitate strategic planning in the company. 8

Answer

(a) **Current Management accounting information:** Management accounting information should assist managers of business to exercise their functions of planning, decision-making and control. Criticisms of management accounting information are that it is not relevant for many of these tasks in that it lacks an external focus and it is not forward looking. Particular criticisms of the information currently provided are:

Backward looking: It is primarily historical, although the budget probably contains a forecasting element. Strategic plans are future oriented, with a longer time-scale. They also deal with uncertainties.

Not relevant to decision: It is more concerned with allocating costs than talking decisions. Presumably APL has an absorption costing system. This is fine for control purposes but not for strategic planning, where a knowledge for competitors' costs can be important.

It appears almost entirely financial: Other performance indicators provide a valuable insight into business, especially for long-term. For example, it might be useful to know the value of the business actually turned away.

Jobs appear to be priced on a cost-plus basis: The firm is turning away customers; perhaps it is pricing its work too cheaply. A small firm in a competitive industry, can price according to the market.

The existing standard costing system is not appropriate for the type of production: Different jobs require different machinery configurations, and the cost of setup times does not seem to be dealt within the accounting system. This indicates that an approach such as activity based costing would give a better idea as to real costs and real profits.

No competitor information: is offered.

Customer information: is skimpy. Customer now requires larger orders. The firm should ask why?

That said, the reports are timely, accurate and comprehensive.

(b) Following suggestions can be made to improve accounting information at APL.

New costing system: The current costing system should be reviewed, to ensure, it captures costs in any appropriate way. Some of the insights of ABC, in identifying the real costs of each job, may be useful here. Costs would include setup times for each order, administration costs and machine usage. Any product/job profitability analyses- would therefore be more accurate.

Non-financial information: relating to costs could include quality information (e.g. on a TQM basis) such as wastage, reject rates and so forth. Statistical process control measures can be incorporated in management report.

The Standard costing system can be used for strategic purpose: For example, it can show trade-offs between using higher quality materials or more labour. Rather than using standard costing only to reconcile actual with budgeted costs, it can be used for decision-making purposes (e.g. to take account of different material prices, different mixes of materials, future costs). Standard costing technique might be applied to competitor's costs.

Marketing information: At present, the firm has no marketing department. In an ideal world, marketing information would also be included in management reports.

- The firm's market share
- Customer profitability

- Customer value
- The cost of lost business

- Repeat business from satisfied customers
- Marketing reaches for identifying customers
- Competitor information- at least regarding their activity and pricing.

With these innovations, the accounting system will therefore provide information relevant to the SWOT analysis and position Audit.

Case 6

In the mid 2000's the upstart was ABC & Co. and it eventually won the right to compete in the long distance telephone business against Indian Telephone and Telegraph (ITT). In the process ABC & Co. become most successful and reaped high profits. Out in the late 2005's ABC & Co. last most of its price advantage over TTT, as ITT made massive expansion programme in the residential telephone market. This situation forced ABC & Co. to look elsewhere to expand.

ABC & Co. struggled to redefine its strategy and to regain its entrepreneurial instincts to compete in a world, in which the penalty for mistakes was much higher. Always aware of threat from hard charging No. 3- XYZ & Co. ABC & Co. , through to develop "three pronged" strategy in the areas of "cost" "Marketing" and "New Business"- to win being business customers from ITT, if it has to retain its No. 2 position.

You are required to draft a brief report highlighting the strategic issues suitable for ABC & Co. (Make suitable assumptions as required)

(b) Report on the strategic issues for ABC & Co.

The three-pronged strategy in the areas of cost, marketing and new business may be highlighted a below:

A. **Cost:** In the area of cost, the strategies should mainly aimed at cost cutting, cost reduction, asset reduction and replacement. Therefore, the company should-

- Enhance operational efficiencies;
- Reduction of its total work force by say 16% on an overall basis, in which middle management will be 3%, junior management 4% and general worker by 9%;
- Cutting down its internal operating budget by say, Rs. 15 crores;
- Cutting down its capital budget by 12%;
- Identification of unutilized assets by technical assessment to get rid of them either by way of selling out or replacement.
- Refinancing some loans to reduce interest payment by Rs. 2.3 crores per annum.

B. **Marketing:** For the improvement of marketing, the company should-

- Initiate marketing packages of computers, and allied areas e.g. mobile telephone sets, fax machine etc. along with different firms of repute as may be feasible;
- Providing long distance services, e.g. satellite communication, video conferencing etc. to big business houses;
- Boosting its advertisement strategy to target more corporate customers than residential ones.

C. **New business:** In order to attract business customers from ITT and others in India and abroad and staying ahead of No. 3 XYZ & Co., the company should:

- Introduce new computerized network services like mobile, video conferencing etc., satellite communication services and add digital transmission lives;
- Explore possibilities of:
  - (i) Voice communication services through citizen band radio to attract agro based industries of rural areas;
  - (ii) Information transmission services through electronic bulletin boards:
  - (iii) Toll-free phone business for reputed firms;
  - (iv) Provision of services to neighboring countries like Bangladesh, Nepal, Srilanka etc.

Case 7

Reputed Public Ltd. Company, M/s XYZ & Co. with a strong brand image and goodwill in the market, manufactures Refrigerators. Last year it decided to take over an ailing public sector Enterprise, located at Hyderabad named M/S ABC & Co. which is also manufacturing branded Refrigerators. The ailing unit had accumulated losses to the tune of Rs. 90 crores and was having a huge work force of 5,000, with production virtually coming to a grinding halt/ stand-still status at the time of take-over.

The management of M/S XYZ & Co. prepared a 'Turnaround Strategy' and adopted a multi-pronged strategy for its taken over company viz., ABC & Co. As a result, over a period of one year.

- Wasteful expenditure got curtailed considerably
- Production increased
- Product range got augmented
- Investment in HRD had been stepped up
- Customer and Dealer interaction had improved.

Each of the above steps were taken up on a "war-footing".

-- An analysis of Job & Personality profiles of all personal from 'workmen' to 'Managers', was undertaken by an outside consultant. This study revealed a lot of startling things including the fact that about 400 workers with union influence, were mostly on outdoor duty, where they could not be supervised all the time.

-- A Voluntary Retirement Scheme (VRS) was introduced, which helped to reduce the workforce to 4,000. Those workers, not willing to be a part of the 'new work culture', where targets had to be met, left under VRS.

(i) Do you consider the Turnaround Strategy adopted by M/S XYZ & Co. satisfactory? Give reasons.

(ii) Discuss the nature of synergistic effects, if any, resulting from M/S XYZ's take over of M/S ABC & Co.

(iii) Prepare an Environmental Threat and opportunity profile (ETOP) and a Strategic advantage profile (SAP) for evaluation of the present strategy.

(iv) What were the key factors underlying successful implementation of the strategy? Explain.

You may taken suitable assumption, as may be required in this case study.

Answer

(i) Adopted multi-pronged strategy yielded different desired results like:

- Revenue generation of the company has increased due to the increase in production;
- Wasteful expenditure got curtailed considerably. The essence of any good 'turnaround strategy' is cost reduction and cutting down of redundant discretionary cost in manufacturing and manpower cost.
- Helped to boost up declining trend in performance and paved way for improved long run efficiency of operations.
- Augmentation of product range has helped to shot up of company's market share.
- The study by the consultant has yielded stupendous results to eliminate a lot of unproductive work practices.

- The VRS introduction has helped to reduce the workforce by 20%. As XYZ & Co. has been able to proclaim their seriousness about the change, those workers of erstwhile ABC & Co, not willing to be a part of the new work culture, where targets had to be met, left under VRS.

- By stepping up investment in HRD to train the remaining workforce has unheard in a new working system and philosophy.

- For the purpose of developing their market, the company is now drawing programme to enter into the growing export market.

(ii) Due to the all-around multi-pronged strategy of the company:

- Operation synergy is evident through the introduction of new product, leading to increased use of its facilities with a reduction in unit fixed cost.

- Sales synergy through the sale of additional product range with the existing marketing infrastructure and improved customer, dealer introduction.
- Management synergy by way of showing managerial competence to solve different problems of the erstwhile ABC & Co.

- The combined impact of all the above has jointly contributed to positive synergy for the company.

(iii) **Environmental Treat and opportunity profile (ETOP)**

Business	(+) New forms of competition (-) New entry of Global leader and MNC.
Government	(+) Globalization (-) Liberalization
Socio-economic	(-) Resource constraints (+) All round infrastructure development in the country including more power supply for the industry.
Technological	(+) High growth envisaged in industrial production & technological up gradation.

Strategic Advantage Profile (SAP)

Manufacturing	(-) Ageing plant facilities, requiring gradual replacement and up gradation. (+) Machinery with robust design and proper maintenance are able to withstand the increased production.
Marketing	(+) Capable sales force.
R & D	(+) Back up from XYZ & co.
Corporate resources	(+) Result oriented management team with positive attitude and abundant talents with initiative and zeal

(iv) key factors constitute the important significant factors in the success of particular business. In the instant case, some of the key factors are:

- New management team of XYZ & Co. with dedication.
- Implementation of multi-pronged strategies in its real earnest.
- Augmented product range.

State with reasons which of the following statements is correct/incorrect:

1. The basic objective of a business enterprise is to monitor the environment.

Answer

Incorrect: Monitoring environment is ancillary to basic objectives of a business enterprise. It is imperative for organisations to create and retain customers. Organisational objectives may include survival, stability, growth, profitability and like. Organisations monitor the changes in the environment, analyse their impact on their own goals and activities and translate their assessment in terms of specific strategies for survival, stability and strength.

2. The first step of strategy formulation in strategic management model is to undertake internal analysis.

Answer

Incorrect: Identifying an organisation's existing vision, mission, objectives, and strategies is the starting point for any strategic management process because an organisation's existing situation and condition may preclude certain strategies and may even dictate a particular course of action. Determining vision and mission provides longterm direction, delineate what kind of enterprise the company is trying to become and infuse the organisation with a sense of purposeful action.

3. The main focus of six sigma is on the shareholders.

Answer

Incorrect: Although any business action may result directly or indirectly in creation/erosion of shareholders wealth, the main focus of six sigma is on delivering value to the customers. Six sigma aims in improving customer satisfaction. Primarily, six sigma means maintenance of the desired quality in processes and end products. It also means taking systematic and integrated efforts toward improving quality and reducing cost.

4. Functional level constitutes the lowest hierarchical level of strategic management.

Answer

Correct: Functional-level managers and strategies operate at the lowest hierarchical level of strategic management. Functional level is responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions. Although they are not responsible for the overall performance of the organisation, functional managers nevertheless have a major strategic role to develop functional strategies in their area that help to fulfill the strategic objectives set by business and corporate-level managers.

5. Retrenchment implies downsizing of business.

Answer

Incorrect: In the context of strategic management, retrenchment implies giving up certain products and reducing the level of business as a compulsive measure to cope up with certain adverse developments on which the firm has little control. Downsizing (or rightsizing) is planned elimination of positions or jobs. Retrenchment does not imply downsizing, however, the latter is often used to implement a retrenchment strategy.

6. "Profit may not be a universal objective but business efficiency is definitely an objective common to all business".

Answer

CORRECT: It is generally asserted that business enterprises are primarily motivated by the objective of profit. Organizations pursue multiple objectives rather than a single objective in which business efficiency is a very useful operational objective. Many organizations, particularly charitable and non-government do not aim for making profits. But in general, all organizations aim for optimum utilization of resources and economy in operational costs.

7. "Industry is a grouping of dissimilar firms".

Answer

INCORRECT: Industry is a consortium of firms whose products or services have homogenous attributes or are close substitutes such that they compete for the same buyer. For example, all paper manufacturers constitute the paper industry.

8. "Resistance to change is an impediment in building of strategic supportive corporate culture".

Answer

CORRECT: Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating, and internal work environment. In an organizational effort to build strategic supportive corporate culture resistance can impede its successful implementation and execution.

9. "Changes of any type are always disquieting, sometimes they may be threatening."

Answer

INCORRECT: Favourable changes either in the external environment or internal environment are not threatening and/or disquieting. Changes that are initiated by the management to bring improvements in its working are not always disquieting. However, sometimes changes can be threatening especially for old and weak organizations with risk averse and stodgy managers.

10. "Efficiency and effectiveness mean the same in strategic management".

Answer

INCORRECT: Efficiency pertains to designing and achieving suitable input output ratios of funds, resources, facilities and efforts whereas effectiveness is concerned with the organization's attainment of goals including that of desired competitive position. While efficiency is essentially introspective, effectiveness highlights the links between the organization and its environment. In general terms, to be effective is to do the right things while to be efficient is to do things rightly.

11. Environmental constituents exist in isolation and do not interact with each other.

Answer

Incorrect: Environmental constituents such as economic, legal, society, technology and other macro and micro elements are interwoven through complex and haphazard linkages. These constituents comprise of multitude of forces that are inter-related and inter-dependent. They are termed as environment as they are outside the main periphery of business but may affect its functioning directly or indirectly.

12. Tele-shopping is an instance of direct marketing.

Answer

Correct: Direct marketing is done through various advertising media that interact directly with customer. Teleshopping is a form of direct marketing which operates without conventional intermediaries and employs television and other IT devices for reaching the customer. The communication between the marketer and the customer is direct through third party interfaces such as telecom or postal systems.

13. A core-competence is a unique opportunity of an organization not shared by other.

Answer
Incorrect: Core competencies are unique strengths rather than opportunities of an organization. They are resources and capabilities that serve as a source of competitive advantage over rivals. In comparison with competitors an organization is in better position to leverage and take advantage of the core competencies.

14. Acquisition is a strategy.

Answer
Correct: An acquisition is a strategy through which one firm buys a controlling or complete interest in another firm. Acquisition of an existing concern is an instant means of achieving growth through expansion and /or diversification. Ideally, acquisition strategy should be used when the acquiring firm is able to enhance its economic value through ownership and the use of the assets that are acquired.

15. Strategy follows structure.

Answer
Incorrect: Structures are designed to facilitate the strategic pursuit of a firm and, therefore, follows strategy. Without a strategy or reasons for being, it will be difficult to design an effective structure. Strategic developments may require allocation of resources and there may be a need for adapting the organization's structure to handle new activities as well as training personal and devising appropriate systems.

State whether the following statements are "True" or "False" with justification for your answer. If the given statement is false, you are required to give the correct statement is false, you are required to give the correct statement. No credit will be given for answer without justifications.

16. "Meta-Technology" is the science and study of sociology and technological developments, values and trends- with a view to planning for the future.

Answer
False. Meta-technology is a technology whose filed of action is the determination of reality. It proceeds by unbelief-by decease in credulity relative to the prevailing culture. The term was propounded by Henery A. Flynt, Jr. (1979).

17. "Loss Leader" is the leader, who is unable to conceptualize and analyze strategic problems.

Answer
False. In marketing, a loss leader is a type of pricing strategy where an item is sold below cost in an effort to stimulate other profitable sales. It is a kind of sales promotion.

18. "Management buy-in" refers to the purchase of all or part of a business firm from its owners by the managers.

Answer
False. A management buy-in (MBI) occurs when a manager or a management team from <u>outside the company</u> raises the necessary finance, buys it, and becomes the company's new management.

19. "Merger" is the purchase of controlling interest of another company.

Answer
False. Merger is the statutory combination of two or more corporations which one of the corporations survives and the other corporations cease to exist. A merger occurs when two companies combine to form a single company.

20. "Dogs" are the products in a high-growth market but where they have a low market share.

Answer
False. As per BCG Matrix, "Dog" are units with low market share in a mature, slow-growing industry.

21. 'Niche' means concentrating around a product and market. **Answer:** True

22. Offensive strategy is appropriate for small companies and requires that they concentrate on just one segment of market. **Answer:** False

23. The 'generic product' is the basic product in terms of what it is. **Answer** True.

24. A cost-plus policy can lead to inflexibility in a firm's pricing decisions. **Answer :** True

25. Performance measures for monitoring strategies cannot be mainly financial. **Answer:** True

26. Critical operating decisions cannot be made within SBUs. **Answer:** False

27. Economies of scale refers to the tendency of per-unit costs to decrease as production increases. **Answer:** True;

28. The value chain describes the process by which a firm processes goods and services to deliver what customers require. **Answer:** True;

29. Sales promotion involves stimulating customer buying in the long run. **Answer:** False;

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35. 'Strategic Planning' focuses on forecasting the future by using economic and technical tools.

Answer
False. The appropriate term is 'Long range planning' instead of the words 'Strategic Planning. In long range planning, we make more use of economic and technical tools. Thus the corrected statement is –'Long range planning' focuses on forecasting the future by using economic and technical tools.

36. 'Market forecast' by a company involves moving the product or brand into a different market segment.

Answer
False. The appropriate term is 'Market positioning' or 'Product Positing' or 'Target Marketing' instead of the words 'Market Forecast'. Market selection and target share of it are aimed in 'Market Positing' and not in 'Market Forecast'. Thus the corrected statement is –'Market Positing' by a company involves the selection of its market and setting as an objective a target share of each market segment.

37. ‘Repositioning’ involves moving the product or brand into a different market segment.

Answer
True. ‘Repositioning’ is a strategic marketing approach and involves moving the product into different market segment.

38. ‘Divestment’ means selling off a part of a firm’s operations, or putting out of certain product market operations.

Answer.
The term ‘divestment’ denotes getting rid of something.

39. ‘Debt recovery’ is an arrangement to have debts collected by a factory company, which advances a proportions of the money it is due to collect.

Answer
False. The appropriate term is ‘Factoring’ instead of the word ‘Debt recovery’. ‘Debt recovery’ is a recovery of debts from borrowers. Thus the corrected statement is

‘Factoring’ is an arrangement to have debts collected by a factory company, which advances a proportion of the money it is due to collect.

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45. A tax, payer converts his capital assets into stock in trade. There is "no transfer" since the person, who holds the asset before and after the act, is the same.

Answer

False. Normally, there can be no transfer if the ownership remains with the same person. However, the IT Act provides an exception for the purpose of Capital Gains. When a person converts any capital asset owned by him into stock in Trade of a business carried on by him, it is regarded as a transfer.

46. A client presents a computer to X, a Chartered Accountant, who represents his case before the Income Tax Authorizes. The value of the benefit is taxable in the hands of X.

Answer

True. It is taxable under Section 28 (iv).

47. An insurance company, which has taken possession of the damaged goods of the insured is a dealer, if such goods are sold by the insurance company, later on.

Answer

True. As selling of damaged/salvaged goods is incidental/ancillary business of insurance and hence the insurance company is a dealer.

48. S.T. is leviable on sale of stocks, shares and securities traded by a dealer in shares.

Answer

False. As per definition of goods under CST, the term does not include stocks, shares and securities.

49. Hides and skins are "declared goods".

Answer

True. These are declared goods under sec. 14.

50. Shares held by an individual are not to be included in computing his net wealth.

Answer

True. Shares do not fall within the definition of assets chargeable to wealth tax. Hence they are not to be included.