

IMPORTANT QUESTIONS & ANSWERS ON STRATEGIC MANAGEMENT

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

- (a) "Profit may not be a universal objective but business efficiency is definitely an objective common to all business".
- (b) "Industry is a grouping of dissimilar firms".
- (c) "Resistance to change is an impediment in building of strategic supportive corporate culture".
- (d) "Changes of any type are always disquieting, sometimes they may be threatening."
- (e) "Efficiency and effectiveness mean the same in strategic management".

ANSWER

(a) **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.

(b) **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.

(c) **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.

(d) **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.

(e) **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.

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

- (a) Strategy is a substitute for Sound, Alert and Responsible management.
- (b) Strategic management is not needed in non-profit Organisations.
- (c) All strategies emerge from Corporate vision.
- (d) A company's strategy has always to be proactive in nature.
- (e) An Organisation's culture is always an obstacle to successful strategy implementation.

ANSWER

(a) **INCORRECT** – Strategy is not substitute for sound, alert and responsible management. Strategy can never be perfect, flawless and optimal. Strategies are goal-directed decision and actions in which capabilities and resources are matched with the opportunities and threats in the environment. A good

management at the top can steer the organizations by adjusting its path on the basis of the changes in the environment.

(b) INCORRECT – Strategic management applies equally to profit as well as non-profit organizations. Though non-profit organizations are not working for the profit, they have to have purpose, vision and mission. They also work within the environmental forces and need to manage strategically to stay afloat to accomplish their objectives.

(c) CORRECT – Vision explains where the organization is headed, so as to provide long-term direction, delineate what kind of enterprise the company is trying to become and infuse the organization with a sense of purpose. All strategies need to be drawn in the light of corporate vision, which is what the firm ultimately wants to become.

(d) INCORRECT – A company's strategy is a blend of proactive actions and reactive actions by the management. Reactive actions are required to address unanticipated developments and environmental conditions. Thus, not every strategic move is the result of proactive and deliberate management actions. At times, some kind of strategic reaction or adjustments are required.

(e) INCORRECT – A company's culture is manifested in the values and business principles that management preaches and practices. The beliefs, vision, objectives and business approaches and practices underpinning a company's strategy may be compatible with its culture or may not. When they are compatible the culture becomes a valuable ally in strategy implementation and execution.

3. State with reasons which of the following statements is correct or incorrect

(a) Strategic management is a bundle of tricks and magic.

(b) The purpose of SWOT analysis is to rank organisations.

(c) SBU concepts facilitate multi-business operations.

(d) PLC is an S shaped curve.

(e) The rate and magnitude of changes that can affect organisations are decreasing dramatically.

ANSWER

(a) INCORRECT: No, Strategic management is not a bundle of tricks and magic. It involves systematic and analytical thinking and action. Although, the success or failure of a strategy is dependent on several extraneous factors, it can not be stated that a strategy is a trick or magic. Formation of strategy requires careful planning and requires strong conceptual, analytical, and visionary skills.

(b) INCORRECT: SWOT analysis stands for the analysis of strengths, weaknesses opportunities, and threats. It is not used for ranking of organizations. It is a tool for organizational and environmental appraisal necessary for formulating effective strategies.

(c) CORRECT: Organizing business along SBU lines and creating strategic business units has become a common practice for multi-product/service and global organizations. It is a convenient and intelligent grouping of activities along distinct businesses and has replaced the conventional groupings. SBU facilitates strategic planning, gaining productrelated/ market-related specialization, gaining cost-economies and more rational organizational structure.

(d) CORRECT: Product Life cycle (PLC) which is a graphical depiction of sales over time is an 'S' shaped curve with four stages – introduction, growth, maturity and decline. The pattern is shared by all product group and families though the duration for each phase is different in each case. Identification of PLC stages for a product/service offers useful insights for marketing management.

(e) INCORRECT: No, the reality is just the other way round. Business environment especially after globalisation and liberalisation is witnessing changes that are fast paced and have far-reaching implications for businesses. This is true for economic, political, technological, legal, and socio-cultural

factors. This has created strong pressures on organization for proactive adaptation to environmental changes for survival growth and competitive edge.

4. Briefly answer any two of the following:
- (a) What is meant by retrenchment strategy?
 - (b) Growth phase of product life cycle.
 - (c) Strategic groups.

ANSWER

(a) **Retrenchment strategy** implies substantial reduction in the scope of organization's activity. A business organization can redefine its business by divesting a major product line or market. While retrenching organizations might set objectives below the past level of objectives. It is essentially a defensive strategy adopted as a reaction to operating problems stemming from either internal mismanagement, unanticipated actions by competitors or hostile and unfavourable changes in the business environmental conditions. With a retrenchment strategy the endeavour of management is to raise the level of enterprise achievements focusing on improvements in the functional performance and cutting down operations with negative cash flows.

(b) **Product life cycle (PLC)** is a concept that describes a product's four major life stages, i.e., introduction, growth, maturity and decline in terms of sales, profits, customers, competitors and marketing emphasis. As the product finds market acceptance in introduction stage, it gradually enters the 'Growth' stage. During growth stage there is an exponential rise of the volumes accepted by the market. Many new entrants join the industry and then fight for market share. In this stage consolidation and concentration begins. Profits increase and mass marketing is done with product differentiation.

(c) **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.

5. Briefly answer any two of the following:
- (a) Logistics Strategy
 - (b) Difference between Strategy formulation and Strategy implementation
 - (c) Components of a Value chain.

ANSWER

(a) **Logistics Strategy**: Management of logistics is a process which integrates the flow of materials into, through and out of an organization to achieve a level of service that the right materials are available at the right place at the right time, of right quality and at the right cost. For a business organization effective logistics strategy will involve raising and finding solutions to the questions relating to raw material, manufacturing locations, products, transportation and deployment of inventory. Improvement in logistics can result in saving in cost of doing business. When a company creates a logistics strategy it is defining the service levels at which its logistics systems are highly effective. A company may develop a number of

logistics strategies for specific product lines, specific countries or specific customers to address different categorical requirements.

(b) Distinction between strategy formulation and strategy implementation: Although inextricably linked, strategy implementation is fundamentally different from strategy formulation in the following ways:

- ➔ Strategy formulation is positioning forces before the action. Strategy implementation is managing forces during the action.
- ➔ Strategy formulation focuses on effectiveness whereas strategy implementation focuses on efficiency.
- ➔ Strategy formulation is primarily an intellectual process whereas implementation of strategy is primarily an operational process.
- ➔ Strategy formulation requires good intuitive and analytical skills while strategy implementation requires special motivation and leadership skills.
- ➔ Strategy formulation requires coordination among a few individuals while strategy implementation requires organization wide coordination.

(c) Value chain refers to separate activities which are necessary to underpin an organization's strategies and are linked together both inside and outside the organization. Organizations are much more than a random collection of machines, money and people. Value chain of a manufacturing organization comprises of primary and supportive activities. The primary ones are inclusive of inbound logistics, operations, outbound logistics, marketing and sales, and services. The supportive activities relate to procurement, human resource management, technology development and infrastructure. Value chain analysis helps in maintaining the long-term competitive position of an organization to sustain value for-money in its products or service. It can be helpful in identifying those activities which the organization must undertake at a threshold level of competence and those which represent the core competences of the organization.

6. Answer briefly any two of the following:

- (a)** Can a change in the elected government affect the business environment? Explain.
- (b)** Enlist the components of marketing mix.
- (c)** Differentiate clearly between forward and backward integration.

ANSWER

(a) The type of government running a country is a powerful influence on business. Businesses are highly guided and influenced by government actions. Change in the elected government relates to the change in political environment. To an extent, even legal environment may change with the changes in the Government. It has a strong bearing on the conduct of business as it leads to significant changes in the economic policies and the regulatory framework. It generally reflects the political ideology of the political party or alliances. The government's policy of promoting select sectors further impacts the functioning of business organizations. Businesses are affected by the factors such as political stability, the political ideology and practices of the ruling party, the purposefulness and efficiency of governmental agencies, the extent and nature of governmental intervention in the economy and the industry, Government policies (fiscal, monetary, industrial, labour and export-import policies), specific legal enactments and framework and so on.

(b) Marketing mix is a systematic way of classifying the key decision areas of marketing management. It is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The original framework of marketing mix comprises of 4Ps- product, price, place and promotion. These are subsequently expanded to highlight certain other key decision areas like people, processes, and physical evidence. The elements of original framework are:

- Product: It stands for the “goods-and-service” combination the company offers to the target market.
- Price: It stands for the amount of money customers have to pay to obtain the product.
- Place: It stands for company activities that make the product available to target consumers and include marketing channel, distribution policies and geographical availability.
- Promotion: It stands for activities that communicate the merits of the product and persuade target consumers to buy it.

(c) Forward and backward integration forms part of vertically integrated diversification. In vertically integrated diversification, firms opt to engage in businesses that are vertically related to the existing business of the firm. The firm remains vertically within the same process. While diversifying firms opt to engage in businesses that are linked forward or backward in the chain and enter specific product/process steps with the intention of making them into new businesses for the firm. Backward integration is a step towards, creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production. On the other hand forward integration is moving forward in the value chain and entering business lines that use existing products. Forward integration will also take place where organisations enter into businesses of distribution channels.

7. Define Business Process Re-engineering. Briefly outline the steps therein.

ANSWER

Business Process Reengineering (BPR) is an approach to unusual improvement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It is revolutionary redesign of key business processes that involves examination of the basic process itself. It looks at the minute details of the process, such as why the work is done, who does it, where is it done and when it is done. BPR refers to the analysis and redesign of workflows and processes both within the organization and between the organization and the external entities like suppliers, distributors, and service providers. The orientation of redesigning efforts is basically radical. In other words, it is a total deconstruction and rethinking of business process in its entirety, unconstrained by its existing structure and pattern. Its objective is to obtain quantum jump in process performance in terms of time, cost, output, quality, and responsiveness to customers. BPR is a revolutionary redesigning of key business processes. BPR involves the following steps:

1. Determining objectives and framework: Objectives are the desired end results of the redesign process which the management and organization attempts to achieve. This will provide the required focus, direction, and motivation for the redesign process. It helps in building a comprehensive foundation for the reengineering process.
2. Identify customers and determine their needs: The designers have to understand customers - their profile, their steps in acquiring, using and disposing a product. The purpose is to redesign business process that clearly provides added value to the customer.
3. Study the existing process: The existing processes will provide an important base for the redesigners. The purpose is to gain an understanding of the ‘what’, and ‘why’ of the targeted process. However, some companies go through the reengineering process with clean perspective without laying emphasis on the past processes.
4. Formulate a redesign process plan: The information gained through the earlier steps is translated into an ideal redesign process. Formulation of redesign plan is the real crux of the reengineering

efforts. Customer focussed redesign concepts are identified and formulated. In this step alternative processes are considered and the best is selected.

5. Implement the redesign: It is easier to formulate new process than to implement them. Implementation of the redesigned process and application of other knowledge gained from the previous steps is key to achieve dramatic improvements. It is the joint responsibility of the designers and management to operationalise the new process.

8. What do you mean by strategic leadership? What are two approaches to leadership style? To bring in strategic change which three steps may be initiated?

ANSWER

Strategic leadership is the ability of influencing others to voluntarily make decisions that enhance prospects for the organisation's long-term success while maintaining short-term financial stability. It includes determining the firm's strategic direction, aligning the firm's strategy with its culture, modelling and communicating high ethical standards, and initiating changes in the firm's strategy, when necessary. Strategic leadership sets the firm's direction by developing and communicating a vision of future and inspire organization members to move in that direction. Unlike strategic leadership, managerial leadership is generally concerned with the short-term, day-to-day activities. Two basic approaches to leadership can be transformational leadership style and transactional leadership style.

Transformational leadership style use charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leadership style may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

Whereas, **transactional leadership** style focus more on designing systems and controlling the organization's activities and are more likely to be associated with improving the current situation. Transactional leaders try to build on the existing culture and enhance current practices. Transactional leadership style uses the authority of its office to exchange rewards, such as pay and status. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement. Transactional leadership style may be appropriate in settled environment, in growing or mature industries, and in organizations that are performing well. The style is better suited in persuading people to work efficiently and run operations smoothly. For initiating strategic change, three steps can be identified as under:

1. Recognise the need for change: The first step is to diagnose which facets of the present corporate culture are strategy supportive and which are not. This basically means going for environmental scanning involving appraisal of both internal and external capabilities may it be through SWOT analysis and then determine where the lacuna lies and scope for change exists.
2. Create a shared vision to manage change: Objectives and vision of both individuals and organization should coincide. There should be no conflict between them. Senior managers need to constantly and consistently communicate the vision not only to inform but also to overcome resistance through proper communication. Strategy implementers have to convince all those concerned that the change in business culture is not superficial or cosmetic. The actions taken

have to be credible, highly visible and unmistakably indicative of management's seriousness to new strategic initiatives and associated changes.

3. Institutionalise the change: This is basically an action stage which requires implementation of changed strategy. Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of thinking or doing things. Capacity for self-renewal should be a fundamental anchor of the new culture of the firm. Besides, change process must be regularly monitored and reviewed to analyse the after-effects of change. Any discrepancy or deviation should be brought to the notice of persons concerned so that the necessary corrective actions are taken. It takes time for the changed culture to prevail.

9. Under what conditions would you recommend the use of Turnaround strategy in an organization? What could be a suitable work plan for this?

ANSWER

Rising competition, business cycles and economic volatility have created a climate where no business can take viability for granted. Turnaround strategy is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. Organizations those have faced a significant crisis that has negatively affected operations requires turnaround strategy. Turnaround strategy is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is a question. When organization is facing both internal and external pressures making things difficult then it has to find something which is entirely new, innovative and different. Being organization's first objective is to survive and then grow in the market; turnaround strategy is used when organization's survival is under threat. Once turnaround is successful the organization may turn to focus on growth. Conditions for turnaround strategies When firms are losing their grips over market, profits due to several internal and external factors, and if they have to survive under the competitive environment they have to identify danger signals as early as possible and undertake rectification steps immediately. These conditions may be, inter alia cash flow problems, lower profit margins, high employee turnover and decline in market share, capacity underutilization, low morale of employees, recessionary conditions, mismanagement, raw material supply problems and so on. Action plan for turnaround strategy

- **Stage One** – Assessment of current problems: The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused. Once the problems are identified, the resources should be focused toward those areas essential to efficiently work on correcting and repairing any immediate issues.
- **Stage Two** – Analyze the situation and develop a strategic plan: Before you make any major changes; determine the chances of the business's survival. Identify appropriate strategies and develop a preliminary action plan. For this one should look for the viable core businesses, adequate bridge financing and available organizational resources. Analyze the strengths and weaknesses in the areas of competitive position. Once major problems and opportunities are identified, develop a strategic plan with specific goals and detailed functional actions.
- **Stage Three** – Implementing an emergency action plan: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, improve budgeting practices, prune product lines and accelerate high potential products. A positive operating cash flow must be established as quickly as possible and enough funds to implement the turnaround strategies must be raised.

- **Stage Four** – Restructuring the business: The financial state of the organization's core business is particularly important. If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Prepare cash forecasts, analyze assets and debts, review profits and analyze other key financial functions to position the organization for rapid improvement. During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. Core products neglected over time may require immediate attention to remain competitive. Some facilities might be closed; the organization may even withdraw from certain markets to make organization leaner or target its products toward a different niche. The 'people mix' is another important ingredient in the organization's competitive effectiveness. Reward and compensation systems that encourage dedication and creativity encourage employees to think profits and return on investments.
- **Stage Five** – Returning to normal: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added. Emphasis is placed on a number of strategic efforts such as carefully adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.

10. What is meant by a Global Company? Explain briefly different strategic approaches for Globalisation by a Company.

ANSWER

In simple economic terms globalization refers to the process of integration of world into one huge market. At the company level globalization means two things:

- a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries and
- b) it also means ability to compete in domestic markets with foreign competitors.

A company which goes global is also called a Multinational Company (MNC). The global company views the world as one market minimizes the importance of national boundaries. A global company has three attributes:

- (i) It is a conglomerate of multiple units located in different parts of the globe but all linked with common ownership.
- (ii) Multiple units draw a common pool of resources such as money, credit, patents, trade name, etc.
- (iii) The units respond to common strategy.

Strategic approaches:

International economic dynamics accompanied by geographical changes have changed the paradigm of global business. A firm / company which wishes to go global will be guided by the following four types of strategies:

(i) Multi-domestic strategy: A multi-domestic strategy focuses on competition within each country in which the firm operates. This Strategy is adopted when a company tries to achieve a high level of local responsiveness by matching their products and services offerings to national conditions prevailing in the countries they operate in. The organization attempts to extensively customize their products and services according to the local conditions of different countries.

(ii) Global strategy: A global strategy assumes more standardization of products across country boundaries. Under this strategy, the company tries to focus on a low cost structure by leveraging their expertise in providing certain products and services and concentrating the production of these standard products and services at a few favourable locations around the world. Competitive strategy is centralized and controlled by the home office.

(iii) **Transnational strategy:** Many large multinational firms, particularly those with many diverse products, may use a multi-domestic strategy with some product lines and a global strategy with others. A transnational strategy seeks to combine aspects of both multi-domestic and global strategies. Thus there is emphasis on both local responsiveness and global integration and coordination. Although the transnational strategy is difficult to implement, environmental trends are causing multinational firms to consider the needs for both global efficiencies and local responsiveness.

When a firm adopts one or more of the above strategies, the firm would have to take decisions on the manner in which it would commence international operations. The decision as to how to enter a foreign market can have a significant impact on the results. Expansion into foreign markets can be achieved through following options:

- Exporting.
- Licensing/ Franchising.
- Joint Venture.
- Foreign Direct Investment.

11. What is Benchmarking? Explain briefly the elements involved in Benchmarking process.

ANSWER

Benchmarking is an approach of setting goals and measuring productivity based on best industry practices. It developed out of need to have information against which performance can be measured. Benchmarking helps businesses in improving performance by learning from the best practices and the processes by which they are achieved. Thus, benchmarking is a process of continuous improvement in search for competitive advantage. It measures company's products, services and practices against those of its competitors or other acknowledged leaders in the industry.

The Benchmarking Process: Some of the common elements of benchmarking process are as under:

1. Identifying the need for benchmarking: This step will define the objectives of the benchmarking exercise. It will also involve selecting the type of benchmarking. Organizations identify realistic opportunities for improvements.
2. Clearly understanding existing decisions processes: The step will involve compiling information and data on performance.
3. Identify best processes: Within the selected framework best processes are identified. These may be within the same organization or external to them.
4. Comparison of own process and performance with that of others: Benchmarking process also involves comparison of performance of the organization with performance of other organization. Any deviation between the two is analysed to make further improvements.
5. Prepare a report and implement the steps necessary to close the performance gap: A report on benchmarking initiatives containing recommendations is prepared. Such a report also contains the action plans for implementation.
6. Evaluation: Business organizations evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. It also periodically evaluates and reset the benchmarks in the light of changes in the conditions that impact the performance.

12. Briefly answer any two of the following question in 2-3 sentences each:

- (a) What is a mission statement?
- (b) In B.C.G. matrix for what the metaphors like stars, cows and dogs are used?
- (c) What are forward and backward integration?

ANSWER

(a) 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 organisation.

(b) 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.

(c) 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.

13. What do you understand by ‘Strategy’? Explain the four generic strategies as discussed by Glueck and Jauch.

ANSWER

Businesses have to respond to a dynamic and often hostile environment for pursuit of their mission. Strategies provide an integral framework for management and negotiate their way through a complex and turbulent external environment. Strategy seeks to relate the goals of the organisation to the means of achieving them. A company’s strategy is the game plan management is using to stake out market position and conduct its operations. A company’s strategy consists of the combination of competitive moves and business approaches that managers employ to please customers compete successfully and achieve organisational objectives. Strategy may be defined as a long range blueprint of an organisation's desired image, direction and destination what it wants to be, what it wants to do and where it wants to go. Strategy is meant to fill in the need of organisations for a sense of dynamic direction, focus and cohesiveness.

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 optimize 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 includes 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.

14. Define each of the following and analyse its role in strategic implementation:

- (a) B.P.R.
- (b) ERP
- (c) Benchmarking
- (d) Value chain.

ANSWER

(a) BPR: BPR stands for business process reengineering. It refers to the analysis and redesign of workflows both within and between the organisation and the external entities. Its objective is to improve performance in terms of time, cost, quality, and responsiveness to customers. It implies giving up old practices and adopting the improved ones. It is an effective tool of realising new strategies. Improving business processes is paramount for businesses to stay competitive in today's marketplace. New technologies are rapidly bringing new capabilities to businesses, thereby raising the strategical options and the need to improve business processes dramatically. Even the competition has become harder. In today's market place, major changes are required to just stay even.

(b) 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.

(c) Benchmarking: It is a process of finding the best practices within and outside the industry to which an organisation belongs. Knowledge of the best helps in standards setting and finding ways to match or even surpass own performances with the best performances. Benchmarking is a process of continuous improvement in search for competitive advantage. Firms can use benchmarking process to achieve improvement in diverse range of management function like maintenance operations, assessment of total manufacturing costs, product development, product distribution, customer services, plant utilisation levels and human resource management

(d) Value Chain: Value chains facilitates procurement of whole range of inputs that are required to produce a product or service so that the process can be performed in an integrated and optimum manner. Vendors, transporters, and buyers are the components of the value chain and share the benefits of such

chains. Value chain recognises organisations as more than a random collection of machines, money and people. These resources are of no value unless deployed into activities and organised into routines and systems which ensure that products or services are produced which are of value to the final consumer/user.

15. Read the following case and answer the question given at the end:

In 2010-11 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 and 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 alongwith 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?
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:

1. PTC has an existing distribution network that is used to its advantage.
2. The company has strengths in the area of procurement of potato, raw material to make the wafers.
3. Financially the company is very strong as they are spending 50 crores on advertising in a market worth 250 crores.
4. The company has diverse flavours of wafers in its portfolio that are according to the different tastes of the target group.
5. PTC has done good bargaining deals with food bazaars and food chains.
6. 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.

16. Read the following case study and answer the questions given at the end:

Meters Limited is a company engaged in the designing, manufacturing, and marketing of instruments like speed meters, oil pressure gauges, and so on, that are fitted into two and four wheelers. Their current investment in assets is around Rs. 5 crores and their last year turnover was Rs. 15 crores, just adequate enough to breakeven. The company has been witnessing over the last couple of years, a fall in their market share prices since many customers are switching over to a new range of electronic instruments from the range of

mechanical instruments that have been the mainstay of Meters Limited.

The company has received a firm offer of cooperation from a competitor who is similarly placed in respect of product range. The offer implies the following:

- a. transfer of the manufacturing line from the competitor to Meters Limited;
- b. manufacture of mechanical instruments by Meters Limited for the competitor to the latter's specifications and brand name; and
- c. marketing by the competitor.

The benefits that will accrue to Meters Limited will be better utilization of its installed capacity and appropriate financial compensation for the manufacturing effort. The production manager of Meters Limited has welcomed the proposal and points out that it will enable the company to make profits. The sales manager is doubtful about the same since the demand for mechanical instruments is shrinking. The Chief Executive is studying the offer.

- (a) What is divestment strategy? Do you see it being practised in the given case? Explain.
- (b) What is stability strategy? Should Meters Limited adopt it?
- (c) What is expansion strategy? What are the implications for Meters Limited in case it is adopted?
- (d) What is your suggestion to the Chief Executive?

ANSWER

(a) Divestment strategy implies exiting from one or more of existing business activities or lines due to strategic reasons. 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. In the given case study, technological obsolescence appears to be a major reason leading to divestment. The competitor firm making offer to Meters Limited seems to be interested in divesting in manufacturing activities and concentrate on marketing.

(b) 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.

A stability strategy is pursued by a firm when:

- It continues to serve in the same or similar markets and deals in same products and services.
- The strategic decisions focus on incremental improvement of functional performance.

Stability strategy doesn't seem to be the appropriate strategy for Meters Limited. In view of fast approaching product obsolescence, Meters Limited should look for such strategy that would help in gaining market share in the new segment rather than battling in a segment that is declining. They cannot afford to maintain the same market posture and maintain same level of effort. As there are significant changes in their external

environment, they need to make adjustments for their sustenance.

(c) Expansion Strategy is a proactive strategy implying making new investments and venturing into new business, products and/or markets. It is true growth strategy, having lot of business risk but nevertheless resulting in good rewards. 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. The markets for products of Meters Ltd with their existing technology are in the state of decline. They are being replaced by newer electronic technology. It would be a good idea to acquire the electronic technology and move out of the market that is reducing and has little scope. They may also consider expanding through diversification in other related and unrelated products.

(d) A combination Strategy is recommended for Meters Limited. The competitor is trying to adopt divestment. They are outsourcing manufacturing and retaining marketing with them. It would be very convenient for them to get out of the market in future. If Meters Limited accepts this preposition, they run the risk of continuing manufacturing in dwindling market followed by product obsolescence. At the same time, they have a medium-term objective of utilizing their installed capacity and making some profits.

The Following package is recommended:

1. Invest in new product development to facilitate quick switchover to the new technology.
2. Meters Ltd also need time to invest in emerging new technology and pursue expansion strategy. The offer of competitor may be considered for acceptance, in case there is clear buy-back arrangement for bringing in sales revenue and profits with less competition.
3. In longer run, they should divest the existing products.
4. They should identify other areas for expansion. This will enable Meters Ltd to spread their risks.

17. 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 do you think that the proposed alternative is the best?

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 home by C & S.
- ❖ More than 20,000 employees.

W – Weakness

- ❖ Rigid pricing strategy.
- ❖ Low credibility with certain sections of society.
- ❖ Quality of program's 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.

18. Read the following case and answer the questions at the end:

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 pathologists 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.

Questions:

- (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 organisational 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.