

STRATEGIC ANALYSES

Question 1

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

- (a) *"Industry is a grouping of dissimilar firms".* (May, 2008)
 - (b) *The purpose of SWOT analysis is to rank organizations* (June, 2009)
- (2 Marks each)

Answer

- (a) **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.
- (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.

Question 2

Briefly answer the following questions in 2-3 sentences each:

- (a) *In B.C.G. matrix for what the metaphors like stars, cows and dogs are used?* (May, 2007)
 - (b) *What are forward and backward integration?* (May, 2007)
 - (c) *Explain the term star in the context of BCG matrix.* (Nov., 2007)
 - (d) *Growth phase of product life cycle.* (May, 2008)
 - (e) *Strategic groups.* (May, 2008)
 - (f) *Differentiate clearly between forward and backward integration.* (June, 2008)
 - (g) *Discuss the relevance of Tows Matrix in strategic planning process.* (Nov., 2009)
- (2 Marks each)

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Answer

(a) 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.

(b) 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.

(c) **Star in BCG Matrix:** BCG growth-share matrix is a simple way to portray an organisation's portfolio of investments. Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company. The matrix is based on combinations of relative market share of the products or SBUs and their market growth rate.

Stars, a position in the matrix, are characterised by high market share and high growth rate. They are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. Business organisations that enjoy star positions have best opportunities for expansion and growth.

(d) 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.

(e) 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.

(f) 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

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backward in the chain and enters 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.

- (g) The TOWS matrix illustrates how the external opportunities and threats facing a particular corporation can be matched with company's internal strengths and weaknesses to result in possible strategic alternatives to be competitive. It is a good way to use brainstorming and to create alternative strategies that might not otherwise be considered. It forces strategic managers to design various growth, stability or retrenchment strategies. It can be used to generate corporate as well as business strategies.

Moreover, TOWS Matrix is very useful for generating a series of alternatives that the decision makers of a company or business unit might not otherwise have considered. Nevertheless, the TOWS Matrix is only one of the many ways to generate alternative strategies.

In a way TOWS is considered to be an improvement over the SWOT. However, it is not undermining the SWOT analysis.

Question 3

Describe the construction of BCG matrix and discuss its utility in strategic management.

(5 + 5 = 10 Marks) (June, 2009)

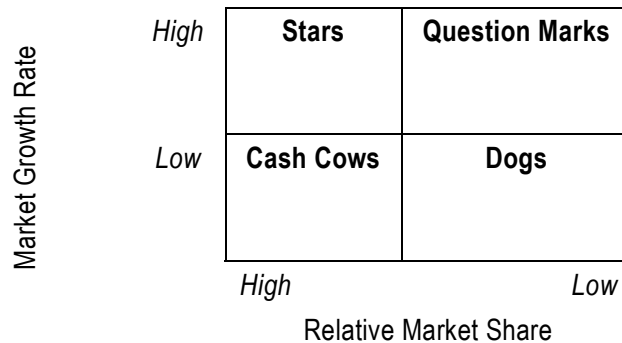
Companies that are large enough to be organized into strategic business units face the challenge of allocating resources among those units. In the early 1970's the Boston Consulting Group developed a model for managing a portfolio of different business units or major product lines. The BCG growth-share matrix named after its developer facilitates portfolio analysis of a company having invested in diverse businesses with varying scope of profits and growth.

The BCG matrix can be used to determine what priorities should be given in the product portfolio of a business unit. Using the BCG approach, a company classifies its different businesses on a two-dimensional growth share matrix. Two dimensions are market share and market growth rate. In the matrix:

- The vertical axis represents market growth rate and provides a measure of market attractiveness.
- The horizontal axis represents relative market share and serves as a measure of company strength in the market.

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Thus the BCG matrix depicts four quadrants as per following:



Different types of business represented by either products or SBUs can be classified for portfolio analyses through BCG matrix. They have been depicted by meaningful metaphors, namely:

- (a) **Stars** are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. They represent best opportunities for expansion.
- (b) **Cash Cows** are low-growth, high market share businesses or products. They generate cash and have low costs. They are established, successful, and need less investment to maintain their market share. In long run when the growth rate slows down, stars become cash cows.
- (c) **Question Marks**, sometimes called problem children or wildcats, are low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash. Question marks if left unattended are capable of becoming cash traps. Since growth rate is high, increasing it should be relatively easier. It is for business organisations to turn them stars and then to cash cows when the growth rate reduces.
- (d) **Dogs** are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimised by means of divestment or liquidation.

The BCG matrix is useful for classification of products, SBUs, or businesses, and for selecting appropriate strategies for each type as follows.

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

Thus BCG matrix is a powerful tool for strategic planning analysis and choice.