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CA INTERMEDIATE

SUBJECT- Strategic Management

Test Code – CIM 8439

**BRANCH - () (Date :)**

Head Office : Shraddha, 3<sup>rd</sup> Floor, Near Chinai College, Andheri (E), Mumbai – 69.

Tel : (022) 26836666

**ANSWER 1    MULTIPLE CHOICE QUESTIONS****(1\*10 = 10 MARKS)**

Q	ANSWER
1.1	B
1.2	A
1.3	C
1.4	D
1.5	D
1.6	C
1.7	C
1.8	A
1.9	B
1.10.	A

**ANSWER 2(A)**

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. Modern marketing is highly promotional oriented.

Ronit needs to cover four major direct promotional methods or tools – personal selling, advertising, publicity and sales promotion. They are briefly explained as follows:

- (i) **Personal selling:** Personal Selling involves face-to-face interaction of sales force with the prospective customers and provides a high degree of personal attention to them. In personal selling, oral communication is made with potential buyers of a product with the intention of making a sale.

Ronit may engage a sales team to reach potential customers, explain the benefits of the product and make a sale.

While personal selling is highly effective it suffers from very high costs as sales personnel are expensive. Considering the product is a new launch in a competitive environment having a sales team would be essential.

- (ii) **Advertising:** Advertising is a non-personal, highly flexible and dynamic promotional method.

Ronit needs to advertise washing powder through hoardings, display boards particularly near the point of sale. He may also consider having advertisements through handouts, newspapers, magazines and internet. Television and radio are costly alternatives that may be considered according to his budget.

- (iii) **Publicity:** Publicity is also a non-personal form of promotion similar to advertising. He may organize a launch party where journalists are invited. It is way of reaching customers with negligible cost. Basic tools for publicity are press releases, press conferences, reports, stories, and internet releases. These releases must be of interest to the public.

- (iv) **Sales promotion:** Sales promotion is an omnibus term that includes all activities that are undertaken to promote the business but are not specifically included under personal

selling, advertising or publicity. Ronit may offer free trial packs to generate interest in the product. Activities like discounts, contests, money refunds, installments, kiosks, exhibitions and fairs constitute sales promotion. All these are meant to give a boost to the sales. Sales promotion done periodically may help in getting a larger market share.

**(5 MARKS)**

### **ANSWER 2(B)**

Vastralok Ltd. is currently manufacturing silk cloth and its top management has decided to expand its business by manufacturing cotton cloth. Both the products are similar in nature within the same industry. The strategic diversification that the top management of Vastralok Ltd. has opted is concentric in nature. They were in business of manufacturing silk and now they will manufacture cotton as well. They will be able to use existing infrastructure and distribution channel. Concentric diversification amounts to related diversification.

In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. This means that in concentric diversification too, there are benefits of synergy with the current operations.

**(4 MARKS)**

### **ANSWER 2(C)**

Cost leadership is a low cost competitive strategy that aims at broad mass market. It requires vigorous pursuit of cost reduction in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs. Because of its lower costs, the cost leader is able to charge a lower price for its products than its competitors and still make satisfactory profits. A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits.

A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overhead, limited perks, intolerance of waste, intensive screening of budget requests, wide spans of control, rewards linked to cost containment, and broad employee participation in cost control efforts. Some risks of pursuing cost leadership are that competitors may imitate the strategy.

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

- (a) Forecast the demand of a product or service promptly.
- (b) Optimum utilization of the resources to get cost advantages.
- (c) Achieving economies of scale leads to lower per unit cost of product/service.
- (d) Standardization of products for mass production to yield lower cost per unit.
- (e) Invest in cost saving technologies and try using advance technology for smart working.
- (f) Resistance to differentiation till it becomes essential.

**(5 MARKS)**

### ANSWER 3(A)

Successful implementing supply management systems requires a change from managing individual functions to integrating activities into key supply chain processes. It involves collaborative work between buyers and suppliers, joint product development, common systems and shared information. A key requirement for successfully implementing supply chain will be network of information sharing and management. Implementing and successfully running supply chain management system will involve:

- (i) **Product development:** Customers and suppliers must work together in the product development process. Right from the start the partners will have knowledge of all. Involving all partners will help in shortening the life cycles.
- (ii) **Procurement:** Procurement requires careful resource planning, quality issues, identifying sources, negotiation, order placement, inbound transportation and storage. Organizations have to coordinate with suppliers in scheduling without interruptions.
- (iii) **Manufacturing:** Flexible manufacturing processes must be in place to respond to market changes. They should be adaptive to accommodate customization and changes in the taste and preferences.
- (iv) **Physical distribution:** Delivery of final products to customers is the last position in a marketing channel. Availability of the products at the right place at right time is important for each channel participant.
- (v) **Outsourcing:** Outsourcing is not limited to the procurement of materials and components, but also include outsourcing of services so that the company is able to focus on those activities where it has competency.
- (vi) **Customer services:** Organizations, through interfaces with the company's production and distribution operations, develop customer relationships so as to satisfy them.
- (vii) **Performance measurement:** Supplier capabilities and customer relationships can be correlated with a firm performance. Performance is measured in different parameters such as costs, customer service, productivity and quality.

(6 MARKS)

### ANSWER 3(B)

Soft Cloth Ltd. is facing internal as well as external challenges. The external environment is in economic recession and the organization is facing cash crunch. The company needs to work on retrenchment / turnaround strategy. The strategy is suitable in case of issues such as:

- ◆ Persistent negative cash flow.
- ◆ Uncompetitive products or services
- ◆ Declining market share
- ◆ Deterioration in physical facilities
- ◆ Overstaffing, high turnover of employees, and low morale
- ◆ Mismanagement

The company may consider to substantially reduce 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 a 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 strategy. If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy.

**(6 MARKS)**

#### **ANSWER 4(A)**

Mota shoes is trying to use differentiation. This strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, the business can charge a premium for its product.

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

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

**(6 MARKS)**

#### **ANSWER 4(B)**

A strategic alliance is a relationship between two or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own. The strategic partners maintain their status as independent and separate entities, share the benefits and control over the partnership, and continue to make contributions to the alliance until it is terminated. The advantages of strategic alliance can be broadly categorised as follows:

- (a) **Organizational:** Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners. Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain.
- (b) **Economic:** There can be reduction in costs and risks by distributing them across the members of the alliance. Greater economies of scale can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline.
- (c) **Strategic:** Rivals can join together to cooperate instead of compete. Strategic alliances may also be useful to create a competitive advantage by the pooling of resources and skills. This may also help with future business opportunities and the development of new products and technologies. Strategic alliances may also be used to get access to new technologies or to pursue joint research and

development.

- (d) **Political:** Sometimes strategic alliances are formed with a local foreign business to gain entry into a foreign market either because of local prejudices or legal barriers to entry.

**(4 MARKS)**

#### **ANSWER 4(C)**

Rohit Bhargava needs to break higher level strategies into functional strategies for implementation. These functional strategies, in form of Marketing, Finance, Human Resource, Production, Research and Development help in achieving the organisational objective. The reasons why functional strategies are needed can be enumerated as follows:

- Functional strategies lay down clearly what is to be done at the functional level. They provide a sense of direction to the functional staff.
- They are aimed at facilitating the implementation of corporate strategies and the business strategies formulation at the business level.
- They act as basis for controlling activities in the different functional areas of business.
- They help in bringing harmony and coordination as they are formulated to achieve major strategies.
- Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

**(4 MARKS)**