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**SUGGESTED SOLUTION**

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**SUBJECT- SM**

**Test Code – CIM 8273**

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

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**Answer 1:**

**(A)**

It 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 change a lower price for its products than its competitors** and still make satisfactory profits. For example, McDonald's fast food restaurants have successfully followed low cost leadership strategy.

A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. But cost leadership generally must be pursued in conjunction with differentiation. A **number of cost elements affect the relative attractiveness of generic strategies, including economies or diseconomies of scale achieved**, learning and experience curve effects, the percentage of capacity utilization achieved, and linkages with suppliers and distributors.

Other cost elements to consider in choosing among alternative strategies include the potential for sharing costs and knowledge within the organization, R&D costs associated with new product development or modification of existing products, labour costs, tax rates, energy costs, and shipping costs.

Striving to be the low-cost producer in an industry can be especially effective when the **market is composed of many price-sensitive buyers**, when there are few ways to achieve product differentiation, when buyers do not care much about differences from brand to brand, or when there are a large number of buyers with significant bargaining power. The basic idea is to under-price competitors and thereby gain market share and sales, driving some competitors out of the market entirely.

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, thus driving overall industry profits down; that technological breakthroughs in the industry may make the strategy ineffective; or that buyer interest may swing to other differentiating features besides price. **(6 marks)**

**(B)**

Social Marketing and Service Marketing are marketing strategies primarily with different orientations. **Social Marketing refers to the design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group.** For instance, the publicity campaign for prohibition of smoking or encouraging girl child, etc.

On the other hand, service marketing is applying the concepts, tools, and techniques, of marketing to services. **Service is any activity or benefit that one party can offer to another that is essentially intangible and non-perishing.** These may be from business to consumer and from business to business. **(4 marks)**

**Answer 2:**

**(A)**

SBU is any part of a business organization which is **treated separately for strategic management purposes.** The concept of SBU is helpful in **creating an SBU organizational structure.** It is discrete element of the business serving product markets with readily

identifiable competitors and for which strategic planning can be concluded. It is created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority based on the common strategic interests.

Its Advantages are:

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

(5 marks)

(B)

The changes in the environmental forces often require businesses to make **modifications in their existing strategies and bring out new strategies**. For initiating strategic change, three steps can be identified as under:

- (i) **Recognize the need for change**: The first step is to diagnose which parts 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 and then identify the problems/improvement areas and determine scope for change.
- (ii) **Create a shared vision to manage change**: Objectives and vision of individuals and organization should coincide. 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 fully indicative of management's seriousness to new strategic initiatives and associated changes.
- (iii) **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. Besides, change process must be regularly monitored and reviewed to analyse the after-effects of change. Any discrepancy or deviation should be appropriately addressed. (5 marks)

Answer 3:

(A)

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. **(2 marks)**

### **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. **(4 marks)**

**(B)**

**Strong cultures promote good strategy execution** when there's fit and hurt execution when there's negligible fit. A culture grounded in values, practices, and behavioral norms that match what is needed for good strategy execution helps energize people throughout the organization to do their jobs in a strategy-supportive manner. **A culture built around such business principles as listening to customers, encouraging employees to take pride in their work**, and giving employees a high degree of decision-making responsibility. This is very conducive to successful execution of a strategy of delivering superior customer service.

A work environment where the culture matches the conditions for good strategy execution provides a system of informal rules and peer pressure regarding how to conduct business internally and how to go about doing one's job.

A strong strategy-supportive culture **makes employees feel genuinely better about their jobs and work environment** and the merits of what the company is trying to accomplish.

Employees are stimulated to take on the challenge of realizing the organizational vision, do their jobs competently and with enthusiasm, and collaborate with others. **(4 marks)**

**Answer 4:**

**(A)**

Five forces model of Michael Porter is a powerful and widely used tool for systematically diagnosing the significant competitive pressures in the market and assessing their strength and importance. The model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the over all market. These five forces are:

**(1 mark)**

1. **Threat of new entrants:** New entrants are always a powerful source of competition. The new capacity and product range they bring in throw up new competitive pressure. And the bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players.
2. **Bargaining power of customers:** This is another force that influences the competitive condition of the industry. This force will become heavier depending on the possibilities of the buyers forming groups or cartels. Mostly, this is a phenomenon seen in industrial products. Quite often, users of industrial products come together formally or informally and exert pressure on the producer. The bargaining power of the buyers influences not only the prices that the producer can charge but also influences in many cases, costs and investments of the producer because powerful buyers usually bargain for better services which involve costs and investment on the part of the producer.
3. **Bargaining power of suppliers:** Quite often suppliers, too, exercise considerable bargaining power over companies. The more specialised the offering from the supplier, greater is his clout. And, if the suppliers are also limited in number they stand a still better chance to exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, industry attractiveness and profitability.
4. **Rivalry among current players:** The rivalry among existing players is quite obvious. This is what is normally understood as competition. For any player, the competitors influence strategic decisions at different strategic levels. The impact is evident more at functional level in the prices being changed, advertising, and pressures on costs, product and so on.
5. **Threats from substitutes:** Substitute products are a latent source of competition in an industry. In many cases they become a major constituent of competition. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry. And they can bring it about all of a sudden. For example, coir suffered at the hands of synthetic fibre. Wherever substantial investment in R&D is taking place, threats from substitute products can be expected. Substitutes, too, usually limit the prices and profits in an industry.

The five forces together determine industry attractiveness/profitability. This is so because these forces influence the causes that underlie industry attractiveness/profitability. For example, elements such as cost and investment needed for being a player in the industry decide industry profitability, and all such elements are governed by these forces. The

collective strength of these five competitive forces determines the scope to earn attractive profits. The strength of the forces may vary from industry to industry.

**(1 mark x 5 = 5 marks)**

**(B)**

**Expanded Marketing Mix:** Typically, all organizations use a combination of 4 Ps in some form or the other. However, the above elements of marketing mix are not exhaustive. There are a few more elements that may form part of an organizational marketing mix strategy as follows:

- **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.

**(4 marks)**

**Answer 5: Objective Answers**

**(1 mark x 10 = 10 marks)**

- 1) C
- 2) A
- 3) C
- 4) C
- 5) B
- 6) C
- 7) A
- 8) A
- 9) A
- 10) A