

# SM Suggested Answers by CA Ashish Kalra Sir

(CA Inter May 2024)

## SECTION - B: STRATEGIC MANAGEMENT

**Q5(a):** BOYA Ltd. is a venture in the market present for a decade. Till, 2023, it was working on the values and vision of its founder while operating in limited area of operations.

Growth opportunities exist for BOYA Ltd. Considering the changing environment, company is interested to leverage new skills in marketing, technology, product development and financial management. As a known fact, modifying one aspect might have a ripple effect on other elements. The company wants to understand various hard and soft elements interrelated with each other in the company and having a bearing on effective operational results.

As a strategist, you intend to prepare a questionnaire based on both types of elements by analysing the Organisational design. The response to the same will help in finding an answer to ensure effectiveness through the interaction of such elements.

Briefly discuss the strategic model you will use in the given situation. State the limitations of the model as well.

(2 + 3 = 5 Marks)

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**Solution 5(a):** In addressing the strategic needs of BOYA Ltd., the **McKinsey 7S Model** is an effective tool to consider. This model focuses on the interaction of hard and soft elements within an Organisation, suggesting that modifying one aspect might have a ripple effect on the other elements to maintain an effective balance. The McKinsey 7S Model helps analyse the company's Organisational design to achieve effectiveness through these interactions. The model categorises the elements into 'hard' and 'soft' components:

The **Hard elements** are directly **controlled by the management**. The following elements are the hard elements in an Organisation.

- **Strategy:** the direction of the Organisation, a blueprint to build on a core competency and achieve competitive advantage to drive margins and lead the industry.
- **Structure:** depending on the availability of resources and the degree of centralisation or decentralisation that the management desires, it chooses from the available alternatives of Organisational structures.
- **Systems:** the development of daily tasks, operations and teams to execute the goals and objectives in the most efficient and effective manner.

The **Soft elements** are difficult to define as they are more **governed by culture**. But these soft elements are equally important in determining an Organisation's success as well as growth in the industry. The following are the soft elements in this model.

- **Shared Values:** The core values which get reflected within the Organisational culture or influence the code of ethics of the management.
- **Style:** This depicts the leadership style and how it influences the strategic decisions of the organisation. It also revolves around people motivation and Organisational delivery of goals.
- **Staff:** The talent pool of the organisation.
- **Skills:** The core competencies or the key skills of the employees play a vital role in defining the Organisational success.

While the McKinsey 7S Model provides a structured approach to analysing Organisational effectiveness, it has certain limitations:

- It ignores the importance of the external environment and depicts only the most crucial elements within the Organisation.
- The model does not clearly explain the concept of Organisational effectiveness or performance.
- The model is considered to be more static and less flexible for decision making.
- It is generally criticized for missing out the real gaps in conceptualisation and execution of strategy.

By applying the McKinsey 7S Model, BOYA Ltd. can gain a comprehensive understanding of how different elements within the Organisation interact and influence overall performance. The insights gathered from the questionnaire can guide strategic decisions to enhance growth and operational effectiveness.

**Q5(b):** Elvis Global is a famous OTT platform facing fierce competition from its competitors amid changing consumer preferences. This has made it difficult to retain customers as the existing television channels are also launching their own platforms. The company has appointed Raghav to lead the company forward as the sales & marketing manager. Raghav needs to design creative and innovative advertising campaigns to gain a competitive edge, engage the public and capture the market.

Identify the strategic level that represents Raghav's role at Elvis Global. As a strategic advisor, highlight the various benefits of strategic management in overcoming different challenges to Raghav.

(1 + 4 = 5 Marks)  
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**Solution 5(b):** Raghav's role at Elvis Global represents the **Functional level** of strategy. As the sales and marketing manager, his responsibilities are focused on specific areas within the company, particularly on crafting and executing marketing and sales strategies that drive customer engagement and competitive positioning.

**Benefits of Strategic Management for Raghav at Elvis Global**

Strategic management can provide several benefits to Raghav in addressing the competitive and consumer challenges faced by Elvis Global:

- Strategic management helps Elvis Global define its goals and mission, providing clear **direction for future initiatives**. This ensures that all marketing efforts are aligned with the company's overall vision. It allows Raghav to **set realistic** and achievable **objectives** that support the company's **long-term goals**, ensuring that marketing strategies are both ambitious and attainable.
- Through strategic management, Raghav can **proactively shape the future** of Elvis Global rather than merely reacting to market changes. This allows the company to **anticipate trends and act accordingly**. A proactive approach enables Elvis Global to better manage environmental uncertainties and stay ahead of competitors, ensuring a more controlled and predictable business environment.
- Strategic management provides a robust **framework for making critical decisions** regarding marketing strategies, target markets, and resource allocation. This ensures that all major decisions are well-informed and strategically sound. It ensures **coherence and consistency in decision-making** across the Organisation, aligning marketing strategies with overall business objectives.
- Strategic management helps **identify and exploit new business opportunities**, allowing Raghav to craft **campaigns** that resonate with emerging **consumer preferences and market trends**. By recognising and capitalising on these opportunities, Elvis Global can differentiate itself from competitors and capture a larger market share.
- Strategic management **acts as a defence mechanism** against potential mistakes and pitfalls, helping Raghav avoid costly errors in marketing decisions and campaign execution. It provides a structured approach to identifying and mitigating risks, ensuring **more informed and safer decision-making**.
- Strategic management **enhances the longevity and sustainability** of Elvis Global by ensuring that marketing strategies are adaptable and resilient in a dynamic market. It helps the company **establish a clear and deliberate position** within the industry, ensuring sustained relevance and competitiveness.
- Strategic management enables the **development of core competencies** and competitive advantages that are crucial for the company's success. This includes building strong brand identity, innovative content offerings, and superior customer service. By focusing on these strengths, Raghav can ensure that **Elvis Global achieves sustainable growth and maintains its competitive edge** in the OTT market.

Through strategic management, Raghav can effectively navigate the competitive challenges faced by Elvis Global. By providing clear direction, encouragement a proactive approach, guiding critical decisions, identifying new opportunities, defending against pitfalls, ensuring longevity, and developing core competencies, strategic management enables the company to achieve and sustain a competitive edge. This comprehensive approach will allow Raghav to design innovative advertising campaigns that engage the public, capture the market, and drive the company forward.

**Q5(c):** Yash is planning to launch his new tech start-up. He is exploring different locations across the country to establish his company in the right business environment. One option is the city of Bengaluru, the silicon valley of India, with an engaging network of entrepreneurs, investors, advisors and mentors. Coupled with various subsidies for new ventures and tax benefits, Bengaluru might be an ideal choice for Yash to establish his company and increase the chances of success.

Define the term Business Environment with respect to the above scenario. Explain the different ways in which the interaction of a business with its environment can be helpful in developing a successful strategy.

(1 + 4 = 5 Marks)  
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**Solution 5(c):** Business Environment refers to all **external factors**, influences, or situations **that affect business decisions**, plans, and operations. In Yash's case, these factors include the dynamic and evolving conditions in Bengaluru, which impact the strategic decisions for his tech start-up.

### Benefits of Interaction with the Business Environment

- **Determine Opportunities and Threats:** Interaction with the environment helps Yash **identify new consumer needs, emerging trends, and potential market opportunities**. This insight can guide the development of innovative products and services that meet market demands. Understanding changes in laws, social behaviors, and competitor actions enables Yash to anticipate and mitigate potential threats, ensuring the start-up remains resilient and adaptive.
- **Give Direction for Growth:** By analysing the external environment, Yash can pinpoint areas for expansion and growth. Recognising market trends and technological advancements allows him to **strategise effectively, ensuring the start-up scales successfully**. Awareness of the changes around the business environment facilitates better planning and strategic decisions, aligning the start-up's goals with the market dynamics.
- **Continuous Learning:** Continuous interaction with the environment motivates Yash and his team to update their knowledge, understanding, and skills. Staying **informed about industry trends and advancements ensures the start-up remains competitive**. This ongoing learning process enhances the start-up's ability to adapt to changes, promoting innovation and responsiveness to market shifts.
- **Image Building:** Understanding and responding to environmental needs help the start-up build a positive image. For instance, adopting sustainable practices or **contributing to local initiatives can enhance the company's reputation**. Demonstrating sensitivity to the business environment shows that the start-up is responsible and community-focused, attracting customers and partners who value corporate social responsibility.
- **Meeting Competition:** Interaction with the environment allows Yash to analyse competitors' strategies and adapt accordingly. **Understanding competitors' strengths and weaknesses helps in crafting strategies that provide a competitive edge**. By leveraging insights from the environment, the start-up can position itself uniquely in the market, differentiating its offerings from those of competitors.

**Q6(a):** 'Innovation leads to unnecessary expenses that do not give as many returns.' Do you agree with the statement? Give reasons in support of your answer.

(1 + 4 = 5 Marks)

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**Solution 6(a):** The statement "Innovation leads to unnecessary expenses that do not give as many returns" is often debated, but evidence strongly suggests that innovation is crucial for long-term business growth and success. I

**disagree** with the statement for several reasons:

**Innovation offers the following for a business to grow long term:**

**Helps to solve complex problems:** A business strives to find opportunities in existing problems of the society, and it does so through planned innovation in areas of expertise. This guided innovation helps solve complex problems by developing customer centric sustainable solutions.

**Increases productivity:** Innovation leads to simplification and in most cases automation of existing tasks. Companies are willing to spend millions on increasing their productivity. Innovation, by automating repetitive tasks and simplifying the long chain of processes, adds to productivity of teams and thereby the Organisation as a whole.

**Gives competitive advantage:** Being ahead of competition is a need and businesses spend majority of their strategic time building solutions to achieve this advantage. The faster a business innovates, the farther it goes from its competitors reach. Innovative products need less marketing as they aim to provide added satisfaction to consumers, thus, creating a competitive advantage. Innovation not only helps retain its existing customers but helps acquire new ones with ease too.

**Q6(b):** Explain how Organisations can effectively manage strategic uncertainties in a rapidly changing business environment.

(5 Marks)

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**Solution 6(b):** In managing strategic uncertainties in a rapidly changing business environment, Organisations need to adopt proactive strategies to navigate unpredictability effectively. Here are several key approaches:

**Flexibility:** Organisations should build flexibility into their strategies to enable quick adaptation to change in the environment.

**Diversification:** Diversifying the Organisation's product portfolio, markets, and customer base can help reduce the impact of strategic uncertainty.

**Monitoring and Scenario Planning:** Regularly monitoring key indicators of change and conducting scenario planning exercises can help Organisations anticipate and prepare for different future scenarios.

**Building Resilience:** Investing in building internal resilience is essential for weathering uncertainty. This includes strengthening operational processes, increasing financial flexibility, and improving risk management capabilities.

**Collaboration and Partnerships:** Collaborating with other Organisations, suppliers, customers, and partners can provide access to additional resources, expertise, and market opportunities. Strategic partnerships enable Organisations to pool resources, share risk, and leverage each other's strengths to navigate uncertainty more effectively.

**Q7(a):** What are the key characteristics of business products that contribute to the overall competitiveness and dynamics of the market?

(5 Marks)

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**Solution 7(a):** Businesses sell products. A product can be either a good or a service. It might be physical good or a service, an experience.

Following are the key characteristics of business products:

- (1) **Products are either tangible or intangible.** A tangible product can be handled, seen, and physically felt, such as a car, book, pen, table, mobile handset and so on. Alternatively, an intangible product is not a physical good, such as telecom services, banking, insurance, or repair services.
- (2) **Product has a price.** Businesses determine the cost of their products and charge a price for them. The dynamics of supply and demand influence the market price of an item or service. The market price is the price at which quantity provided equals quantity desired. The price that may be paid is determined by the market, the quality, the marketing, and the targeted group. In the present competitive world price is often given by the market and businesses have to work on costs to maintain profitability.
- (3) **Products have certain features that deliver satisfaction.** A product feature is a component of a product that satisfies a consumer need. Features determine product pricing, and businesses alter features during the development process to optimise the user experience. Products should be able to provide value satisfaction to the customers for whom they are meant. Features of the product will distinguish it in terms of its function, design, quality and experience. A customer's cumulative experience with a product from its purchase to the end of its useful life is an important component of a product feature.
- (4) **Product is pivotal for business.** The product is at the centre of business around which all strategic activities revolve. The product enables production, quality, sales, marketing, logistics and other business processes. Product is the driving force behind business activities.
- (5) **A product has a useful life.** Every product has a usable life after which it must be replaced, as well as a life cycle after which it is to be reinvented or may cease to exist. We have observed that fixed line telephone instruments have largely been replaced by mobile phones.

**Q7(b):** 'A company's mission statement is typically focused on its present business scope.' Explain the significance of a mission statement.

(5 Marks)

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**Solution 7(b):** 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 capability, customer focus, activities, and business make up. Mission for an Organisation is significant for the following reasons:

- It ensures **unanimity of purpose** within the Organisation.
- It develops a basis, or standard, for **allocating Organisational resources**.
- It provides a basis for **innovating the use of the organisation's resources**
- It **establishes** a general tone or **Organisational climate**, to suggest a business like operation.
- It serves as a **focal point** for those who can identify with the **organisation's purpose and direction**.
- It facilitates the **translation of objectives and goals into a work structure** involving the assignment of tasks to responsible elements within the Organisation.
- It specifies Organisational purposes and the **translation of these purposes into goals** in such a way that cost, time, and performance parameters can be assessed and controlled.

**Q8(a):** What are channels? Why is channel analysis important? Explain the different types of channels?

(1 + 1 + 3 = 5 Marks)

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**Solution 8(a):** Channels represent the **distribution system** through which Organisations distribute their products or provide services to customers. They play a pivotal role in reaching target markets, maximising sales, and establishing competitive advantages.



Channel analysis is important when the business strategy is to scale up and expand beyond the current geographies and markets. When a business plans to grow to newer markets, they need to develop or leverage existing channels to get to new customers. Thus, analysis of channels that suit one's products and customers is of utmost importance.

There are typically three channels that should be considered: sales channel, product channel and service channel.

- **The sales channel:** These are the intermediaries involved in selling the product through each channel and ultimately to the end user. The key question is: Who needs to sell to whom for your product to be sold to your end user? For example, many fashion designers use agencies to sell their products to retail Organisations, so that consumers can access them.
- **The product channel:** The product channel focuses on the series of intermediaries who physically handle the product on its path from its producer to the end user. This is true of Australia Post, who delivers and distributes many online purchases between the seller and purchaser when using eBay and other online stores.
- **The service channel:** The service channel refers to the entities that provide necessary services to support the product, as it moves through the sales channel and after purchase by the end user. The service channel is an important consideration for products that are complex in terms of installation or customer assistance. For example, a Bosch dishwasher may be sold in a Bosch showroom, and then once sold it is installed by a Bosch contracted plumber.

**Q8(b):** Explain the concept of vertically integrated diversification. How is forward integration different from backward integration?

(5 Marks)

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**Solution 8(b):** Vertically integrated diversification is a strategic approach in which a company expands its business operations into different stages of the production or distribution process within the same industry. This involves either forward integration or backward integration.

The key difference between forward and backward integration lies in the direction of expansion within the supply chain. **Forward integration moves towards the end consumer**, while **backward integration moves towards the source of raw materials or components**.

**Forward integration** allows companies to have **more control over distribution channels**, improve customer relationships, and capture a larger share of the value chain. In contrast, **backward integration helps** companies **secure a stable supply of inputs**, reduce dependency on suppliers, and potentially lower production costs.

Forward integration is often associated with activities such as retailing, marketing, and after-sales services, while backward integration is associated with activities such as manufacturing, sourcing, and procurement.

Both types of integration offer strategic advantages such as increased market power, cost efficiencies, and greater control over critical business processes. However, the decision to pursue forward or backward integration depends on factors such as industry dynamics, competitive landscape, and the company's core competencies and resources.

(OR)

**Or 8(b):** Recommend a tool to analyse the competitive position of various rival companies in the market and outline the step by step procedure for using the identified tool.

(5 Marks)

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**Or Solution 8(b):** A tool to identify the market positions of rival companies by grouping them into like positions is **Strategic Group Mapping**. A strategic group consists of those rival firms which have similar competitive approaches and positions in the market.

The procedure for constructing a strategic group map and deciding which firms belong in which strategic group are as follows:

- (1) Identify the competitive characteristics that differentiate firms in the industry typical variables that are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full).
- (2) Plot the firms on a two-variable map using pairs of these differentiating characteristics.
- (3) Assign firms that fall in about the same strategy space to the same strategic group.
- (4) Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.