Mock Test Paper - Series II: August, 2025

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INTERMEDIATE: GROUP – II

PAPER – 6: FINANCIAL MANAGEMENT & STRATEGIC MANAGEMENT

PAPER 6A : FINANCIAL MANAGEMENT

Suggested Answers/ Hints

DIVISION A

1. (d) Sonex: ₹ 76,800; EchoMed: ₹ 68,400

(a) Scrap Value of Machine of Brand Sonex

= ₹ 7,20,000 – ₹ 2,40,000 – (₹ 7,20,000 × 0.04 × 14)

= ₹ 7,20,000 – ₹ 2,40,000 – ₹ 4,03,200 = **₹ 76,800**

(b) Scrap Value of Machine of Brand EchoMed

= ₹ 5,40,000 – ₹ 1,80,000 – (₹ 5,40,000 × 0.06 × 9)

= ₹ 5,40,000 – ₹ 1,80,000 – ₹ 2,91,600 = **₹ 68,400**

2. (d) ₹ 1,34,230

Present Value (PV) of Cost if Machine of Brand Sonex is Purchased

Period	Cash Outflow (₹)	PVF @ 12%	Present Value (₹)
0	7,20,000	1	7,20,000
1 – 5	24,000	3.605	86,520
6 – 10	34,000	2.045	69,530
11 – 15	45,000	1.161	52,245
15	(76,800)	0.183	(14,054)
			9,14,241

PVAF for 1-15 years 6.811

Equivalent Annual Cost $= \frac{₹9,14,241}{6.811}$ = **₹ 1,34,230**

3. (b) ₹ 1,35,640

Present Value (PV) of Cost if Machine of Brand EchoMed is Purchased

Period	Cash Outflow (₹)	PVF @ 12%	Present Value (₹)
0	5,40,000	1	5,40,000
1 – 5	36,000	3.605	1,29,780
6 – 10	58,000	2.045	1,18,610
10	(68,400)	0.322	(22,025)
			7,66,365

PVAF for 1-10 years 5.65

Equivalent Annual Cost $= \frac{₹7,66,365}{5.65}$ = **₹ 1,35,640**

4. (b) ₹ 1,35,977

Present Value (PV) of Cost if Machine of Brand EchoMed is Taken on Rent

Period	Cash Outflow (₹)	PVF @ 12%	Present Value (₹)
0	1,18,000	1.000	1,18,000
1 – 4	1,18,500	3.037	3,59,880
5 – 9	1,26,750	2.291	2,90,389
			7,68,269

PVAF for 1-10 years 5.65

Equivalent Annual Cost $= \frac{₹7,68,269}{5.65}$ = **₹ 1,35,977**

5. (b) Purchase EchoMed

If Machine is Used for 5 Years

(a) Scrap Value of Machine of Brand Sonex

= ₹ 7,20,000 – ₹ 2,40,000 – (₹ 7,20,000 × 0.04 × 4)

= ₹ 7,20,000 – ₹ 2,40,000 – ₹ 1,15,200 = ₹ 3,64,800

(b) Scrap Value of Machine of Brand EchoMed

= ₹ 5,40,000 – ₹ 1,80,000 – (₹ 5,40,000 × 0.06 × 4)

= ₹ 5,40,000 – ₹ 1,80,000 – ₹ 1,29,600 = ₹ 3,09,600

Present Value (PV) of Cost if Machine of Brand Sonex is Purchased

Period	Cash Outflow (₹)	PVF @ 12%	Present Value (₹)
0	7,20,000	1	7,20,000
1 – 5	24,000	3.605	86,520
5 (Scrap)	(3,64,800)	0.567	(2,06,842)
			₹ 5,99,678

Present Value (PV) of Cost if Machine of Brand EchoMed is Purchased

Period	Cash Outflow (₹)	PVF @ 12%	Present Value (₹)
0	5,40,000	1	5,40,000
1 – 5	36,000	3.605	1,29,780
5 (Scrap)	(3,09,600)	0.567	(1,75,543)
			₹ 4,94,237

Present Value (PV) of Cost if Machine of Brand EchoMed is Taken on Rent

Period	Cash Outflow (₹)	PVF @ 12%	Present Value (₹)
0	1,18,000	1	1,18,000
1 – 4	1,18,500	3.037	3,59,885
5 (Penalty)	55,000	0.567	31,185
			₹ 5,09,070

Since the Present Value of total cost is least in case of purchase of EchoMed scanner, Medilab should purchase EchoMed if the machine is to be used for only 5 years.

6. (a) WACC will increase to 11.8%

Initial WACC (using retained earnings):

$$= \frac{60}{60+40} \times 14\% + \frac{40}{60+40} \times 10\% \times (1 - 0.30)$$

= 0.6 × 14% + 0.4 × 7%

= 8.4% + 2.8% = 11.2%

WACC with new equity (15% cost of equity due to flotation cost):

= 0.6 × 15% + 0.4 × 7%

= 9% + 2.8% = 11.8%

7. (d) 40%

Calculation of Degree of Operating Leverage (DOL)

Contribution = Sales - Variable Costs

= ₹ 50,00,000 - ₹30,00,000 = ₹ 20,00,000

EBIT = Contribution - Fixed Costs

= ₹ 20,00,000 - ₹ 10,00,000 = ₹ 10,00,000

Calculation of Degree of Combined Leverage (DCL)

$$DCL = \frac{\text{Contribution}}{\text{EBT}}$$

= ₹ 20,00,000 / ₹ 5,00,000 = 2

Applying DCL to % change in sales

If sales increase by 10%, EPS will increase by:

DCL × % change in sales = 4 × 10% = 40%

8. (b) Market price per share will decrease

According to Gordon's Model:

$P = [E \times (1 - b)] / (ke - b \times r)$

Where:

E = EPS = ₹10

b = Retention ratio = 1 – Dividend payout ratio

r = ROE = 18%

ke = Cost of equity = 15%

If payout ratio increases from 60% to 80%, then:

Retention ratio b falls from 40% to 20%

Hence, b × r i.e. growth rate becomes smaller (i.e., 0.2 × 18% = 3.6% instead of 7.2%)

Denominator (ke – b×r) becomes larger so price decreases.

So, increasing payout leads to a decrease in market price, since the firm is reducing investment in high-return (18%) projects while the cost of capital is lower (15%).

Division B: Descriptive Question

1. (a) (i) Calculation of value of the share using Walter's Model

$$P = \frac{\left[D + \frac{r}{ke}(E - D)\right]}{Ke}$$

$$= \frac{\left[6 + \frac{0.15}{0.12}(10 - 6)\right]}{0.12}$$

$$= \frac{[6 + 1.25 \times 4]}{0.12} = \frac{[6 + 5]}{0.12} = ₹\ 91.67$$

Since the market price is ₹100, and Walter's model gives ₹91.67, the current dividend policy is not optimal.

(ii) Calculation of value of the share using Gordon's Model

$$P = \frac{[E(1 - b)]}{(Ke - br)}$$

$g = br = 0.4 \times 0.15 = 0.06$

$$\text{So, } P = \frac{[10 \times 0.6]}{(0.12 - 0.06)} = ₹100$$

This supports the current market price. Since the model gives the same value as the market, the current retention and dividend policy appears acceptable.

(iii) MM's Dividend Irrelevance Theory

$$P0 = \frac{[D1 + P1]}{(1 + Ke)}$$

Situation 1:

D = ₹6, P1 = ₹100, Ke = 12%

$$\text{So, } P0 = \frac{[6 + 100]}{(1.12)} = ₹94.64$$

Situation 2:

D = ₹7, P1 = ₹104, Ke = 12%

$$P0 = \frac{[7 + 104]}{(1.12)} = ₹99.11$$

Situation 3:

D = ₹4, P1 = ₹95, Ke = 12%

$$P0 = \frac{[4 + 95]}{(1.12)} = ₹88.39$$

So, a change in dividend payout has indeed impacted the firm's valuation.

(b) (i) Change in Reserve & Surplus = ₹ 40,00,000 – ₹ 30,00,000 = ₹ 10,00,000

So, Net profit = ₹ 10,00,000

Net Profit Ratio = 8%

$\therefore$ Sales $= \frac{10,00,000}{8\%} =$ ₹ 1,25,00,000

(ii) Cost of Goods sold

= Sales – Gross profit Margin

= ₹ 1,25,000,000 – 20% of ₹ 1,25,00,000

= ₹ 1,00,00,000

(iii) Fixed Assets $= \frac{₹\ 40,00,000}{40\%} =$ ₹ 1,00,00,000

(iv) Stock $= \frac{\text{Cost of Goods Sold}}{\text{Stock Turnover ratio}} = \frac{1,00,00,000}{4} =$ ₹ 25,00,000

(v) Debtors $= \frac{1,25,00,000}{360} \times 90 =$ ₹ 31,25,000

(vi) Cash Equivalent $= \frac{1,00,00,000}{12} \times 1.5 =$ ₹ 12,50,000

Balance Sheet as on 31st March 2025

Liabilities	(₹)	Assets	(₹)
Share Capital	60,00,000	Fixed Assets	1,00,00,000
Reserve and Surplus	40,00,000	Sundry Debtors	31,25,000

Long-term loan	40,00,000	Closing Stock	25,00,000
Sundry Creditors (Balancing Figure)	28,75,000	Cash in hand	12,50,000
	1,68,75,000		1,68,75,000

(c) **(A)** (i) Cost of new debt

$$K_d = \frac{I(1-t)}{P_0}$$

$$= \frac{₹16\,(1-0.5)}{₹96} = 0.0833$$

(ii) Cost of new preference shares

$$K_p = \frac{PD}{P_0} = \frac{₹\ 1.1}{₹\ 9.2} = 0.12$$

(iii) Cost of new equity shares

$$K_e = \frac{D_1}{P_0} + g$$

$$= \frac{₹\ 1.18}{₹\ 19.67} + 0.10 = 0.06 + 0.10 = 0.16$$

Calculation of g when there is a uniform trend (on the basis of EPS)

$$= \frac{EPS\,(2016) - EPS\,(2015)}{EPS\,(2015)}$$

$$= \frac{₹\ 1.10 - ₹\ 1.00}{₹\ 1.00} = 0.10 \text{ or } 10\%$$

Calculation of D_1

D_1 = 50% of 2024EPS = 50% of 2.36 = ₹ 1.18

(B) Calculation of marginal cost of capital

Type of Capital	Proportion	Specific Cost	Product
(1)	(2)	(3)	(2) × (3) = (4)
Debenture	0.15	0.0833	0.0125
Preference Share	0.05	0.1200	0.0060
Equity Share	0.80	0.1600	0.1280
Marginal cost of capital			**0.1465**

(C) The company can spend the following amount without increasing marginal cost of capital and without selling the new shares:

Retained earnings = 50% of EPS of 2024 × outstanding equity shares

= 0.50 × ₹2.36 × 10,000 shares = ₹ 11,800

The ordinary equity (Retained earnings in this case) is 80% of total capital

So, ₹11,800 = 80% of Total Capital

$\therefore$ Capital investment before issuing equity shares = $\frac{₹\ 11,800}{0.80}$ = ₹ 14,750

(D) If the company spends in excess of ₹ 14,750, it will have to issue new equity shares at ₹25 per share.

$\therefore$ The cost of new issue of equity shares will be = $\frac{D_1}{P_0} + g$

= $\frac{₹\ 1.18}{₹\ 25}$ + 0.10 = 0.1472

The marginal cost of capital will be:

Type of Capital	Proportion	Specific Cost	Product
(1)	(2)	(3)	(2) × (3) = (4)
Debentures	0.15	0.0833	0.0125
Preference Shares	0.05	0.1200	0.0060
Equity Shares (New)	0.80	0.1472	0.1178
			0.1363

2. (a) (i) Current Scenario at 75% Capacity

(a) Calculation of EBIT, EBT, Profit after tax and Earning Per Share

Particulars	Amount (₹)
Sales Revenue	7,50,00,000
Less: Variable Cost	4,50,00,000
Contribution	3,00,00,000
Less: Fixed Cost	1,20,00,000
EBIT	1,80,00,000
Less: Interest (1,50,00,000 x 12%)	18,00,000
EBT	1,62,00,000

Less: Tax@30%	48,60,000
Profit after tax	1,13,40,000
No. of Equity Shares	20,00,000
Earnings Per Share	5.67

(b) Calculation of Various Leverages

Degree of Operating Leverage (DOL):

$$DOL = \frac{\text{Contribution}}{\text{EBIT}} = 3,00,00,000 / 1,80,00,000 = 1.67$$

Degree of Financial Leverage (DFL):

$$DFL = \frac{\text{EBIT}}{\text{EBT}} = 1,80,00,000 / 1,62,00,000 = 1.11$$

Degree of Combined Leverage (DCL):

DCL = DOL × DFL = 1.67 × 1.11 = 1.85

(ii) New Scenario at 90% Capacity

(a) Revised calculation of EBIT, EBT, Profit after tax and Earning Per Share:

Particulars	**Amount (₹)**
Sales Revenue [7,50,00,000 × (90/75)]	9,00,00,000
Less: Variable Cost [4,50,00,000 × (90/75)]	5,40,00,000
Contribution	3,60,00,000
Less: Fixed Cost (1,20,00,000 + 10,00,000)	1,30,00,000
EBIT	2,30,00,000
Less: Interest (1,50,00,000 × 12%) + (50,00,000 × 13%)	24,50,000
EBT	2,05,50,000
Less: Tax@30%	61,65,000
Profit after tax	1,43,85,000
No. of Equity Shares	20,00,000
Earning Per Share (1,43,85,000 / 20,00,000)	7.19

(b) Revised Calculation of Various Leverages

DOL = 3,60,00,000 / 2,30,00,000 = 1.57

DFL = 2,30,00,000 / 2,05,50,000 = 1.12

DCL = 1.57 × 1.12 = 1.76

(c) At higher capacity utilization, the company is able to generate higher EBIT and EPS. However, it takes on slightly more financial risk by issuing 13% debentures. The company should go ahead with the capacity expansion and new financing plan, as the overall risk has been slightly reduced as indicated in the combined leverage while shareholder return by way of EPS has significantly increased.

(b) In this question, EBIT after proposed extension is not given. Therefore, we can assume that existing return on capital employed will be maintained.

Working notes:

1. Return on Capital Employed = $\frac{\text{EBIT}}{\text{Capital Employed}} = \frac{78,00,000}{4,50,00,000} = 17.33\%$

   Capital Employed = Debt + Equity

   = ₹ 1,50,00,000 + (₹ 1,20,00,000 + ₹ 1,80,00,000)

   = ₹ 4,50,00,000

2. Proposed EBIT = Proposed Capital Employed x Return on capital employed

   = (₹ 4,50,00,000 + ₹ 60,00,000) x 17.33%

   = ₹ 88,38,300

3. Debt Equity Ratio = $\frac{\text{Debt}}{\text{Debt} + \text{Equity}}$

<u>Option1: Loan option</u>

Debt = ₹ 1,50,00,000 + ₹ 60,00,000 = ₹ 2,10,00,000

Equity = ₹ 3,00,00,000

Debt Equity ratio = $\frac{2.1 \text{ cr.}}{2.1 \text{ cr.} + 3 \text{ cr.}} = 41.18\%$

Debt equity ratio has crossed the limit of 35%, hence, PE ratio in this case will be 8 times and additional borrowing will be at the rate of 14%.

Option2: Equity option

Debt = ₹ 1,50,00,000

Equity = ₹ 3,00,00,000 + ₹ 60,00,000 = ₹ 3,60,00,000

Debt Equity Ratio $= \frac{₹\ 1.5\ cr.}{₹\ 1.5\ cr\ .+\ ₹\ 3.6\ cr.} = 29.41\%$

Debt equity ratio has not crossed the limit of 35% hence PE ratio in this case will remain at 10 times.

4. Number of equity shares to be issued in case of equity option @ ₹ 25 per share = ₹ 60,00,000 / ₹ 25 = 2,40,000

Calculation of EPS and MPS under two financial options

Particulars	**Financial Options**	
	Option I **14% additional loan of 60,00,000 (₹)**	**Option II** **12,00,000 equity shares @ ₹ 10 and 2,40,000 equity shares @ ₹ 25 (₹)**
Profit before interest and Tax (PBIT)	88,38,300	88,38,300
Less: Interest on old debentures @ 12%	18,00,000	18,00,000
Less: Interest on additional loan (new) @ 14% on ₹ 60,00,000	8,40,000	Nil
Profit before tax	61,98,300	70,38,300
Less: Taxes @ 50%	30,99,150	35,19,150
Earnings for equity shareholders (EAT/Profit after tax)	30,99,150	35,19,150
Number of Equity Shares	12,00,000	14,40,000
Earnings per Share (EPS)	2.58	2.44
Price/ Earnings ratio	8	10
Market price per share (MPS)	20.64	24.40

3. (a) Advise to Oggy Limited regarding Change in Credit Policy

Particulars	(₹)
Current Credit Sales	7,20,000
Increase in Credit Sales	20,000
New Level of Credit Sales	7,40,000
Current Average Collection Period (Days)	30
New Average Collection Period (Days)	20
Current Level of Receivables $\left(₹\ 7,20,000 \times \frac{30}{360}\right)$	60,000
New Level of Receivables $\left(₹\ 7,40,000 \times \frac{20}{360}\right)$	41,111
Cash Discount	2%
Discount Period (Days)	10
Percentage of Customers Taking Discount	50%
Bad Debt Losses	2%
Variable Cost	70%
Corporate Tax Rate	50%
Opportunity Cost of Capital	10%
(A) Increased Credit Sales	20,000
(B) Contribution from Increased Credit Sales [A x (1-0.70)]	6,000
(C) Bad Debt Loss [A x 2%]	400
(D) Cost of Cash Discount [₹ 740,000 x 0.02 x 0.5]	7,400
(E) After-tax Profit [(B - C - D) x (1-0.5)]	(900)
(F) Decrease in Receivable Investment [₹ 41,111 - ₹ 60,000]	(18,889)
(G) Expected Return (E/F)	4.8%
(H) Net Gain % [10% -G]	5.2%

Therefore, Oggy Limited should change the credit policy because it results in net gain of 5.2%.

(b) Objective of financial management is to **maximize wealth**. Therefore, one should choose a capital structure which maximizes wealth. For this purpose, following analysis should be done:

(1) EBIT-EPS-MPS analysis: Chose a capital structure which maximizes market price per share. For that, start with same EBIT for all capital structures and calculate EPS. Thereafter, either multiply EPS by price earning ratio or divide it by cost of equity to arrive at MPS.

(2) Indifference Point analysis: In above analysis, we have considered value at a given EBIT only. What will happen if EBIT changes? Will it change your decision also? To answer this question, you can do indifference point analysis.

(3) Financial Break-Even Point (BEP) analysis: With change in capital structure, financial risk also changes. Though this risk has already been considered in PE ratio or in cost of equity in point one above, but one may calculate and consider it separately also by calculating Financial BEP.

4. (a) Project Y should be chosen by the financial manager to ensure long-term value creation.

Profit maximization focuses on increasing short-term profits, often ignoring risk, sustainability, and timing of returns. Project X aligns with this approach by maximizing current profits, but may harm the firm's reputation, employee morale, and customer satisfaction.

Wealth maximization, on the other hand, is concerned with increasing the net present value of shareholders' wealth over the long run. It considers cash flows, risk, and time value of money. Project Y, despite lower immediate profits, enhances long-term cash flows and strengthens brand equity, which contributes to shareholder wealth.

Value creation refers to making strategic decisions that generate sustainable returns exceeding the cost of capital. Project Y builds intangible assets like customer loyalty and goodwill, which leads to long-term competitive advantage and value creation.

Therefore, based on wealth maximization and value creation principles, Project Y is the strategically sound choice.

(b) Difference between Crowd funding and Peer-to-Peer (P2P) lending

Crowd funding: In simple terms, crowdfunding means raising money for an individual or organisation from a group of people to fund a project, typically via internet (social media and crowdfunding websites). It generally involves collecting funds from family, friends, strangers, corporates and many more in exchange of equity (known as Equity funding), loans (known as P2P lending) or nothing at all (i.e. donation). This source of funding also helps start-up to substantiate demand for their product before entering into production.

Peer-to-Peer (P2P) lending: It is that category of crowdfunding where lenders match with the borrowers in order to provide unsecured loans through online platform. The fund raised are paid back by the borrowers with interest, though this kind of lending involves certain risk of defaults (just as the banks bear in the case of conventional method of lending). Anyone interested in investing money under P2P lending can visit the P2P lending platforms and choose amongst borrowers considering risk & returns. Some of the platforms offering P2P lending are i2iFunding, Lendbox, Faircent, Rupee Circle, etc.

Hence, we can say that the crowd funding is a broader concept and P2P lending is basically a part of crowd funding.

(c) Before deciding the capital structure, one should evaluate:

(i) **Cost of capital** – Debt is cheaper due to tax shield, but excessive debt increases financial risk.

(ii) **Control considerations** – Equity dilutes ownership; debt doesn't.

(iii) **Current interest rate and market conditions** – Favorable debt terms or bullish equity market can guide the choice.

(iv) **Cash flow stability** – If the company has stable cash flows, it can safely take on debt.

If the company has stable earnings and wants to retain control, a mix with a reasonable portion of debt to optimize cost is favourable.

OR

(c) Benefits of sale and leaseback arrangement:

(i) Immediate cash inflow to ease the cash crunch.

(ii) Continued use of the asset without ownership, avoiding disruption.

(iii) Off-balance sheet financing improves capital structure ratios.

Risks of sale and leaseback arrangement:

(i) Loss of ownership may mean higher long-term costs.

(ii) Lease obligations add to fixed costs and reduce flexibility.

Hence, sale and leaseback decision can be applied only if the lease terms are favorable and the company lacks better financing options.

PAPER 6B: STRATEGIC MANAGEMENT

ANSWERS

PART I

1. (A) (i) (d) (ii) (b) (iii) (c) (iv) (a) (v) (a)

(B) (i) (c) (ii) (d) (iii) (d)

PART II

1. (a) The PESTLE framework can help ABC Corp assess the external factors affecting its decision to expand into a new country by considering the following aspects:

- **Political Factors**: These include the stability of the government, government policies on foreign investment, trade agreements, and regulatory frameworks. By analyzing these factors, ABC Corp can assess the political risks associated with entering the new market.
- **Economic Factors**: Economic factors such as GDP growth rate, inflation rate, exchange rates, and economic stability can impact ABC Corp's decision. By analyzing these factors, the company can understand the economic environment of the new market and its potential impact on business operations.
- **Social Factors**: Social factors such as cultural norms, demographics, and lifestyle trends can influence consumer behavior and demand for ABC Corp's products. Understanding these factors can help the company tailor its marketing strategies to the new market.
- **Technological Factors**: Technological factors such as infrastructure, technological advancements, and the level of technology adoption in the new market can impact ABC Corp's operations. By assessing these factors, the company can determine the technological requirements for entering the new market.
- **Legal Factors**: Legal factors such as laws and regulations related to foreign investment, intellectual property rights, and labor laws can impact ABC Corp's decision. By analyzing these factors, the company can ensure compliance with legal requirements in the new market.

- **Environmental Factors**: Environmental factors such as climate change, environmental regulations, and sustainability practices can impact ABC Corp's operations and reputation. By considering these factors, the company can assess the environmental risks and opportunities in the new market.

Overall, the PESTLE framework can provide ABC Corp with a comprehensive analysis of the external factors that could impact its decision to expand into a new country, helping the company make informed and strategic decisions.

(b) The form of cooperative strategy in this scenario is a **Strategic Alliance**. 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 remain independent entities, share the benefits and control of the partnership and contribute resources until the alliance is terminated.

In this case, the smartphone manufacturer brings hardware design expertise, manufacturing capacity and an established distribution network, while the software firm contributes AI capabilities, software development skills and technological innovation. By collaborating on the AI-enabled operating system, both companies benefit from:

- **Organizational advantages** – Learning new skills, combining complementary strengths and enhancing credibility in the market.
- **Economic advantages** – Sharing costs and risks of development, achieving economies of scale and improving efficiency.
- **Strategic advantages** – Pooling resources to accelerate innovation, create a competitive advantage and potentially enter new markets.

(c) Strategic Performance Measures (SPM) are metrics organizations use to evaluate and track the effectiveness of their strategies in achieving their goals and objectives. SPM provides a framework for monitoring key areas critical to the organization’s success, ensuring progress toward desired outcomes and enabling timely adjustments to improve performance.

For GreenEdge Solutions, various types of SPM can be utilized:

- **Financial Measures:** Metrics like revenue growth, return on investment (ROI), and profit margins help evaluate the company's financial health and profitability.
- **Customer Satisfaction Measures:** Assessments of customer satisfaction, retention, and loyalty indicate how well the company meets customer needs.
- **Market Measures:** Market share, customer acquisition, and referral rates reflect competitiveness and market position.
- **Employee Measures:** Employee satisfaction, engagement, and turnover rate help track workplace culture and talent retention.
- **Innovation Measures:** R&D spending, patent filings, and new product launches gauge the company's innovation capabilities.
- **Environmental Measures:** Monitoring energy consumption, waste reduction, and carbon emissions ensures the company aligns with sustainability goals.

Using these measures, GreenEdge Solutions can systematically assess its strategy and make informed decisions to drive sustainable growth and success.

2. (a) The retail company can develop a strategic approach that is both proactive and reactive to address the challenge of increasing competition from online retailers. To achieve this, the company can:

- **Proactive Strategy:** The company can proactively analyze market trends and customer preferences to identify opportunities for growth. For example, it can invest in market research to understand what customers value in a retail experience and tailor its offerings to meet those needs. This proactive approach can help the company stay ahead of competitors and attract new customers.
- **Reactive Strategy:** In addition to proactive measures, the company should also be prepared to react to changes in the market environment. For example, if a competitor launches a new online shopping platform, the company should quickly assess the impact on its business and develop a response. This reactive strategy can help the company adapt to changing market conditions and maintain its competitiveness.

By combining proactive and reactive strategies, the retail company can develop a comprehensive approach to addressing the challenge of increasing competition from online retailers. This approach will allow the company to capitalize on opportunities for growth while also mitigating risks and responding to threats in the market.

(b) The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. **Strategic change is a complex process that involves a corporate strategy focused on new markets, products, services and new ways of doing business.**

For initiating strategic change, three steps can be identified as under:

(i) ***Recognize the need for change***: The first step is to diagnose facets of the corporate culture that are strategy supportive or not. The idea is to determine where the lacuna lies and scope for change exists.

(ii) ***Create a shared vision to manage change***: Objectives and vision of both individuals and organization should coincide. Senior managers need to constantly and consistently communicate the vision not only to inform but also to overcome resistance.

(iii) ***Institutionalize the change***: 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. All these changes should be set up as practice to be followed by the organization and be able to transfer from one level to another as a well-settled practice.

3. **(a)** The Chief Executive Officer (CEO) position within CDE Holdings operates at the **Corporate Level.** This executive level is key in leading the overall direction, performance, and success of the entire organization. The CEO assumes a central role in shaping the company's strategic vision, overseeing diverse business sectors, and ensuring alignment with organizational goals.

Key Duties and Responsibilities of the CEO:

The CEO's role encompasses various strategic responsibilities at the Corporate Level, involving:

1. **oversee the development** of strategies for the whole organization;
2. **defining the mission and goals** of the organization;

3. **determining what businesses**, it should be in;

4. **allocating resources** among the different businesses;

5. **formulating and implementing** strategies that span individual businesses;

6. **providing leadership** for the organization;

7. ensuring that the corporate and business level strategies which company pursues are consistent with **maximizing shareholders wealth**; and

8. managing the **divestment and acquisition** process.

Given the diverse nature of CDE Holdings, spanning manufacturing, organic foods, eco-friendly products, and children's educational tools, the CEO's responsibilities are tailored to navigate the unique challenges and opportunities presented by each sector. In conclusion, the CEO at the Corporate Level plays a critical role in guiding CDE Holdings strategically, ensuring cohesive leadership and driving sustainable success across its diverse business domains.

(b) Experience curve akin to a learning curve which explains the efficiency increase gained by workers through repetitive productive work. Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production. It is based on the concept, “we learn as we grow”.

The implication is that larger firms in an industry tend to have lower unit costs compared to those for smaller companies, thereby gaining a competitive cost advantage.

Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production.

Experience curve has following features:

- As business organisation grow, they gain experience.
- Experience may provide an advantage over the competition. Experience is a key barrier to entry.
- Large and successful organisation possess stronger “experience effect”.

A typical experience curve may be depicted as follows:

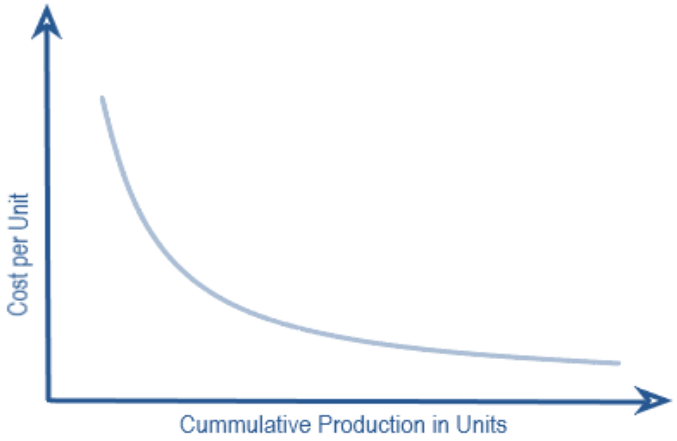


Figure: Experience curve

As a business grows, it understands the complexities and benefits from its experiences.

The concept of experience curve is relevant for a number of areas in strategic management. For instance, the experience curve is considered a barrier for new firms contemplating entry into an industry. It is also used to build market share and discourage competition.

4. (a) The following are the principal points of distinction between concentric diversification and conglomerate diversification:

(i) Concentric diversification occurs when a firm adds related products or markets. On the other hand, conglomerate diversification occurs when a firm diversifies into areas that are unrelated to its current line of business.

(ii) In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. In conglomerate diversification, no such linkages exist; the new business/product is disjointed from the existing businesses/ products.

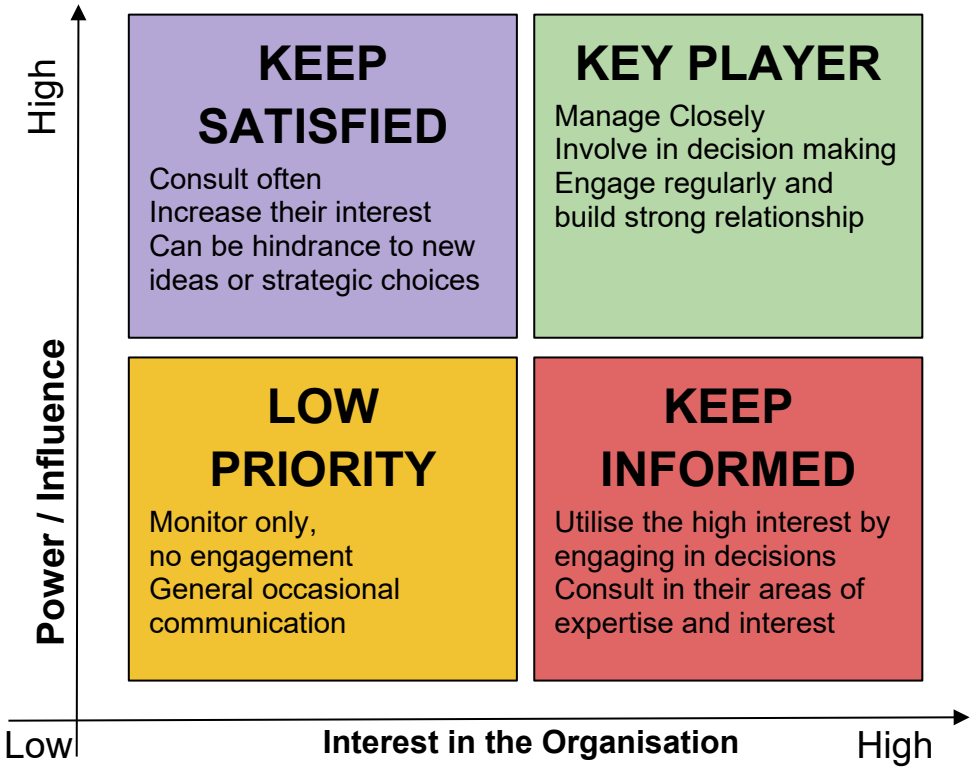
(iii) The most common reasons for pursuing concentric diversification are that opportunities in a firm's existing line of business are available. However, common reasons for pursuing a conglomerate growth strategy are that opportunities in a firm's current line of business are limited or opportunities outside are highly lucrative.

(b) Mendelow's Matrix can be used effectively to analyze and manage stakeholders through a grid-based approach by the following steps:

1. **Identify Stakeholders:** Begin by identifying all relevant stakeholders for your project or organization. This includes individuals, groups, or organizations that may be impacted by or have an impact on your activities.

2. **Assess Power and Interest:** For each stakeholder, assess their power to influence your project or organization and their level of interest in its success. Power can be assessed based on factors such as authority, resources, and expertise, while interest can be gauged by their level of involvement, expectations, and potential benefits or risks.

3. **Plot Stakeholders on the Grid:** Create a grid with Power on one axis and Interest on the other. Plot each stakeholder on the grid based on your assessment. Stakeholders with high power and high interest are placed in the "Key Players" quadrant, those with high power but low interest are in the "Keep Satisfied" quadrant, those with low power but high interest are in the "Keep Informed" quadrant, and those with low power and low interest are in the "Low Priority" quadrant.



4. **Develop Strategies for each Quadrant:** Based on the placement of stakeholders in the grid, develop specific strategies for managing each quadrant:

   - **Key Players:** Fully engage with these stakeholders, seek their input, and keep them informed. They are crucial for the success of your project, so their needs and expectations should be a top priority.
   - **Keep Satisfied:** These stakeholders have significant power but may not be as interested in your project. Keep them satisfied by providing regular updates and addressing any concerns they may have to prevent them from becoming detractors.
   - **Keep Informed:** While these stakeholders may not have much power, they are highly interested in your project. Keep them informed to ensure they remain supportive and to leverage their insights and feedback.

- **Low Priority:** These stakeholders have low power and interest. Monitor them for any changes but allocate minimal resources to managing their expectations.

5. **Monitor and Adapt:** Continuously monitor the power and interest of stakeholders and adjust your strategies accordingly. Stakeholders may move between quadrants based on changing circumstances, so it's important to remain flexible and responsive.

By using Mendelow's Matrix as a grid-based tool, you can effectively analyze and manage stakeholders by tailoring your engagement strategies to their specific needs and expectations, ultimately increasing the likelihood of project success.

OR

To study the market position of rival companies in the energy drink segment, the strategic manager can use **strategic group mapping.** This tool helps identify strategic groups, which consist of rival firms with similar competitive approaches and positions in the market. The procedure for implementing strategic group mapping effectively is 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.

By following these steps, the strategic manager can gain valuable insights into the competitive landscape of the energy drink segment and identify potential positioning strategies for the new line of energy drinks targeted at health-conscious consumers.